

Research

Trade Relations Between China and Italy: Driving Factors

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Accepted: 10 November, 2019; Online: 14 November, 2019

DOI : <https://doi.org/10.5281/zenodo.3542287>



Abstract: *This paper attempts to provide a better comprehension of the trade relations between China and Italy with particular attention to the factors that strengthen this cooperation. This choice was not accidental. China is a country that has recently experienced an incredible economic growth and it is now regarded as one the driving forces of the global economy. On the contrary, following the economic crisis, the level of entrepreneurial activities in Italy has sharply decreased over the last decade. However, besides their economic differences a growing interdependence of Italy and China has reinforced over the last decade and it is predicted to become even tighter within the next ten years. To conduct this study, the available literature review concerning the economic relation between Italy and China was studied. At the same time, all the major sources regarding the Italian foreign trade were carefully analysed and all the most relevant data collected. The research produced several key findings regarding the pull factors of China and Italy's trade relations. The driving forces towards a strong and stable partnership between the two countries are mainly three: the revolutionary One Belt One Road project, the Italian government's policies to promote the awareness of 'Made in Italy' on foreign markets and the growing number of the Chinese direct investments in Italy. The information obtained with this research are significant in shaping the current Sino-Italian trade relations. Thus, this study might be a good starting point for all those Chinese and Italian companies who want to comprehend the nature of the relation with their oversea counterparts and elaborate effective strategies to penetrate each other markets.*

Keywords: *Italy- Trade Relations-Pull Factors-China*

I Introduction

Following the economic recession and the globalisation, trade partnerships have become crucial for the internal growth of the countries. Recent reports issued by the European commission and

OECD underlined the importance of small and medium- sized enterprises (SMEs) and trading partners as effective tools to overcome the current economic crisis and to support the growth of the business system in the medium and in the long run.

Considering the Italian context, Small and Medium- sized Enterprises represent the backbone of the economy and the major source of new job opportunities. However, the latest empirical surveys about entrepreneurial activity, showed that Italy has one of the lowest entrepreneurial rates among industrialized countries. On the other hand, due to its fast and considerable economic development over the last two decades, China is now considered as a powerful ally as well as an ideal trading partner.

Moreover, the fact that an increasing number of new Chinese industries are active in both the tradeable and non-tradeable sectors and the inclusion of China into an increasing number of global and regional value chains are great incentives for both China and all her major trading partners, including Italy, to further improve their cooperation.

The main objective of this study is to analyse the trade relations between Italy and China and the factors that strengthen this cooperation. After shaping the current status of the Sino-Italian partnership and the factors that encourage it, it will be possible to understand the future prospective of this cooperation and comprehend if it actually represents a threat or an opportunity for both countries.

II Literature Review

The trade relations between China and Italy have been object of several studies. According to the literature available, the two countries have been trading partners for a long time. Their economic partnership officially started in 1971 but their trade relations became significant when China entered the World Trade Organisation in 2001. With the entry into the WTO, bilateral trade between Italy and China jumped from 9.41 of Euro billion in 2000 to 39.57 billion of Euro in 2011. (Prodi, 2013). The majority of the authors consulted, agreed in saying that the shift in the relation between China and the rest of the world, including Italy, occurred after the economic recession, when China ended to be just an exporter of low-price products and became a major importer and a dynamic economic power.

Considering the main reasons of this partnerships, many authors believe that this tight relation between Italy and China is due to some ‘similarities’ and ‘complementarities’ between the two

economic models. Previous studies on the similarities, evidenced how both the countries are leader in the manufacturing and industrial sectors as well as nations characterized by a strong export-oriented system. In addition, they underlined how both Italy and China rely on an increasing share of foreign inputs in their exports (ITA, 2016)

On the other hand, several researchers focused on the complementarity between Chinese and Italian companies and on how China started to benefit from the collaboration with high-tech enterprises in highly industrialized countries, such as Italy. As a matter of fact, specialised industrial machinery, which is one of the most important flagship sectors for Italian exports, showed deep and rising complementarities with Chinese export capacities. (ITA, 2016)

To conclude it is clear that these previous studies inspired this paper and contributed to organise this research in a more complete and comprehensive way. Taking into account their findings, this study will attempt to focus on different aspects that have been neglected by prior researches.

III Methodology

To conduct this study, the available literature review concerning the economic relation between Italy and China was studied. At the same time, all the major reference concerning the Italian foreign trade were carefully analysed and all the most relevant data collected.

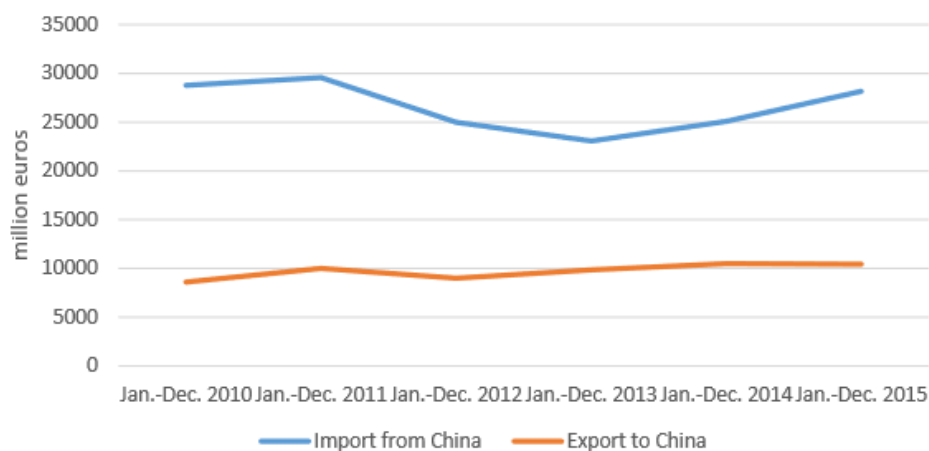
The research was undertaken using the data collected from the Italian Trade Agency (ITA), the government organisation which promotes the internationalisation of the *Italian* companies and that has been focusing on the activities of the Italian companies in the Chinese market for a very long time.

IV Topic- Centered Discussion

A Trade Relations between Italy and China

According to the latest statistics, the relation between the Italy and China increased in the last few years in terms of trade. Italian imports from and exports to China have been increasing over the last few years. Italian exports to China show a strongly increasing trend, with a 21.1% rise since 2010 (**Figure I**). Unlike exports, Italian imports from China are still 2.2% down compared to the 2010 level. However, imports have recovered since 2013, after a decline in Italian demand in the aftermaths of the global crisis (ITA, 2016)

I Aggregate Trade Flows between Italy and China from 2010-2015



Source: Eurostat

Regarding the sectors involved in the trade, Italian exports to China are mostly related to the furniture, vehicles and machinery segments while imports from China mainly involve mechanical appliances, iron, steel, optical, photo and measuring apparatus (**Figures II and III**).

II Italian top 10 export to China

Sector	2010	2011	2012	2013	2014	2015	% 2015
Machinery and mechanical appliances	4,105,037,686	4,513,398,155	3,508,713,879	3,609,158,196	3,695,218,147	3,400,576,917	32.6
Vehicles	241,809,330	379,906,545	401,357,051	654,447,868	952,705,319	638,925,466	6.1
Electrical machinery	586,290,472	513,971,729	378,469,566	467,111,716	498,424,941	503,702,986	4.8
Pharmaceutical products	106,475,674	185,748,011	186,723,807	298,408,379	357,459,297	491,885,672	4.7
Optical, photo and measuring apparatus	256,952,637	262,547,479	315,564,901	329,859,937	430,301,108	478,789,728	4.6
Apparel and clothing, not knitted	121,948,401	180,077,852	253,619,874	301,617,741	361,291,128	378,174,251	3.6
Plastics	280,234,051	266,647,231	252,948,675	254,489,331	302,428,392	363,286,434	3.5
Furniture	117,551,677	160,719,495	164,470,149	206,427,001	251,003,243	319,321,652	3.1
Raw hides and skins and leather	301,985,547	334,576,209	294,853,636	325,654,625	310,581,964	302,923,661	2.9
Leather articles	68,816,177	126,179,012	170,131,866	215,369,821	250,974,872	291,005,581	2.8

Source: Eurostat

III Italian top 10 imports from China

Sector	2010	2011	2012	2013	2014	2015	% 2015
Electrical machinery	7,282,351,419	7,141,774,661	4,673,287,546	4,024,410,758	4,373,689,902	5,295,166,395	18.8
Machinery and mechanical appliances	3,802,723,438	4,455,679,010	4,563,368,096	4,241,926,331	4,456,754,480	4,522,054,212	16.1
Apparel and clothing (not knitted)	1,874,535,987	1,888,769,192	1,581,652,771	1,403,621,103	1,503,078,915	1,630,308,807	5.8
Iron and steel	789,165,279	958,703,971	563,723,483	613,136,382	1,003,071,369	1,430,175,978	5.1
Apparel and clothing	1,620,474,994	1,601,881,544	1,373,005,197	1,225,130,236	1,251,265,973	1,280,666,729	4.5
Optical, photo and measuring apparatus	752,280,472	789,283,950	839,044,879	844,988,820	944,714,065	1,151,443,901	4.1
Organic chemicals	663,161,577	774,296,011	812,231,843	775,980,005	808,397,642	1,012,254,127	3.6
Leather articles	980,338,336	988,494,713	956,531,673	847,631,532	913,526,762	1,006,944,926	3.6
64	819,289,205	849,725,139	823,263,459	799,743,075	848,688,609	966,426,087	3.4
Furniture	798,643,406	764,670,634	709,376,353	711,266,575	813,480,135	930,618,546	3.3

Source: Eurostat

B Pull factors of the Sino-Italian trade relations

One Belt One Road Initiative

One of the major factors that influence the partnership between Italy and China is the revolutionary project One Belt One Road. Due to its strategic location at the center of the Mediterranean Sea and therefore at the intersection of the "Silk Road Economic Belt" and the "21st Century Maritime Economic Belt", Italy is regarded as a key point in the implementation of the "One Belt One Road Initiative". After the launch of the project, the Italian government started focusing its attention on the ports and rail connections to easy access the markets in Central, Eastern and Northern Europe. On the other hand, the Chinese government became more and more interested in promoting the Maritime Silk road by exploiting the new opportunities in both the logistics and infrastructures sectors.

Considering the information collected, the general attitude of the Italian government towards OBOR is extremely positive. One particular project has attracted the attention of Chinese and Italian business leaders since 2015: the five-port initiative in the northern Adriatic Sea. It consists of a network of ports in the northern Adriatic Sea able to service the mega-ships coming from China and to cut down the shipping time to the markets in Central, Eastern and Northern

Europe¹. The five-port project involves the ports of Venice, Trieste and Ravenna (in Italy) Capodistria (in Slovenia) and Fiume (in Croatia), linked together in the North Adriatic Port Association (NAPA)². The project aims to attract Chinese huge cargo ships and provide them with an alternative route to the one running from Piraeus through the Balkans. In other words, through the One Belt One Road Initiative and the five-port alliance in particular, Italy hopes to regain some of the traffic that has been lost to the Greek port.

Besides the sea-based projects, the Italian route also include some land-based initiatives. For instance, in order to enhance the access to the markets in Central and Northern Europe, a new transalpine railway was inaugurated in 2016 and this reduced significantly the travel time between Italy and Germany.

Moreover, according to the OBOR projects, in the following years there **will be direct rail connections** from Milan to Genoa (in the western side of the Italian peninsula), and to the five-port alliance (in the eastern side). The completion of these infrastructural projects will challenge the South-East European ports of Piraeus and Istanbul, as well as the ports of Rotterdam, Antwerp and Hamburg in Northern Europe.

As expected, the OBOR initiative received high-level support from Italian and Chinese authorities in Italy and it was financed by the two governments and the Chinese state-owned companies. An additional positive feedback comes from the investors. Both Italian and Chinese investors have already shown interest in this project especially the port authorities, the China Communications Construction Group and the Industrial and Commercial Bank of China (ICBC). The ICBC has recently opened a few branches in Italy and has designed loan schemes to finance OBOR projects that are open to both Chinese and Italian firms.

Relaunch of ‘Made in Italy’ at an international level

An additional factor that increase the interest of Italy in the relation with China is related to the government’s will of improving the awareness of ‘Made in Italy’ at an international level. In

¹ The journey from Shanghai to the northern Adriatic Sea is around 8,600 miles, compared to 11,000 miles from Shanghai to Hamburg – a route that requires eight more days of navigation.

² The North Adriatic Port Association (NAPA), supported by the Italian Ministry of Infrastructure and the Italian Ministry of Foreign Affairs

particular, China is considered by Italian authorities the perfect target market, because it guarantees the access to the Asian markets, but at the same time, it could help in facing the current economic crisis due to its high availability of liquid assets (Millardi, 2016).

The idea of promoting Italian high-quality products as a source of investments, has recently become object of the Italian governments' policies. Increasing the visibility of the brand 'Made in Italy' as well as improving the whole export system, seem to be the ideal solutions to overcome the Italian economic hurdles.

As a matter of fact, the Italian government started to support numerous initiatives to relaunch the Italian trade and competitiveness. For instance, in 2013, the project 'Destinazione Italia' entered into force, with the aim of attracting foreign capital and promoting the access of Italian SMEs into foreign markets. This plan was established 'to create new opportunities for Italian companies as a consequence of the growth of the global demand and the middleclass' (Carnazza,2014).

Moreover, in 2015, the prime Minister Renzi signed for the implementation of the 'Plan for the extraordinary promotion of Made in Italy and the attraction of investments in Italy". During the same year, the EXPO Initiative was launched in Milan, attracting the attention of the rest of the world.

Following these policies some improvements occurred: in 2014 for the first time in ten years, Italy re-entered in the "Foreign Direct Confidence Index"³and now it is ranked at the 10th place (2018).



Surging three spots this year, Italy rounds out the top 10. The government's "Industria 4.0" initiative could be spurring innovation and increased investment, despite the relatively weak economic growth forecast.

³ The Foreign Direct Investment Confidence (FDI) Index prepared by A.T. Kearney is an annual survey which tracks the impact of likely political, economic, and regulatory changes on the foreign direct investment intentions and preferences of CEOs, CFOs, and other top executives of Global 1000 companies. The report includes detailed commentary on the markets and the impact a variety of global trade issues have on their FDI attractiveness, as well as a ranking of the top 25 countries.

However, the Italian share of the total global investment is still lower than the country's economic potential, confirming a little capacity of Italian companies in attracting foreign capital

Growing interest of Chinese direct investments in Italy

Following the so called 'Go Global Strategy' launched in 1999 with the intention of promoting Chinese investments abroad, Chinese government started to help all those companies who were trying to expand in international markets. The main reason of investing overseas was related to their will of diversifying their assets and location of their portfolio. Since the last ten decade Chinese outbound foreign direct investments increased steadily reaching the pick in 2015.

According to the data collected, Italy is one of the top destination considering the number of investments of Chinese companies receiving 4.6% of total investments (57 deals) (**Figure IV**).

IV Top destinations of Chinese foreign investments

	<i>M&A</i> (%)	<i>GREENFIELD</i> (%)	<i>TOTAL</i> (%)
Germany	54 (26.3)	404 (39.3)	458 (37.1)
United Kingdom	41 (20)	161 (15.6)	202 (16.3)
France	27 (13.2)	77 (7.5)	104 (8.4)
Netherlands	24 (11.7)	42 (4.1)	66 (5.3)
Italy	16 (7.8)	41 (4)	57 (4.6)
Spain	6 (2.9)	43 (4.2)	49 (4)
Total above	168 (82)	768 (74.6)	936 (75.8)
Total EU-27	205 (100)	1029 (100)	1234 (100)

Source: Eurostat

Regarding the sectors of Chinese investments in Italy, one of most targeted is electronics (33.3%) (**Figure V**). In general Chinese investors in Europe look for high-quality products

and therefore most of the investments occur in the Automotive, Communication and Machinery sectors.

V Chinese Investment Top sectors

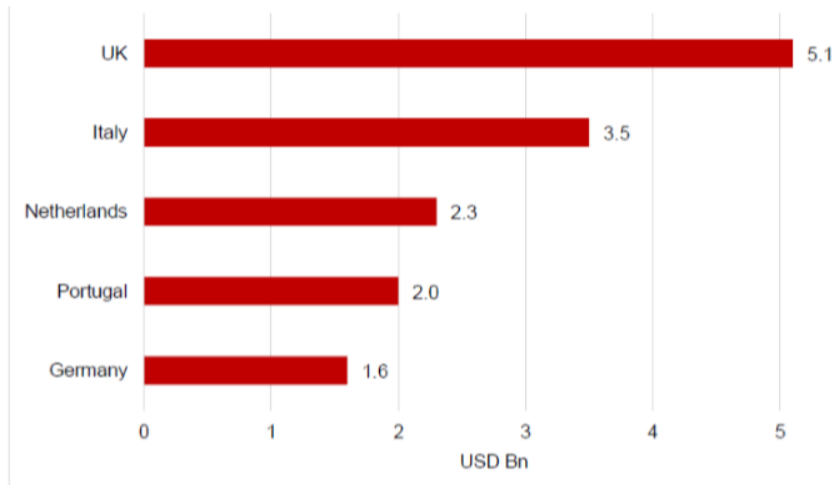
	France	Germany	Italy	Netherlands	Spain	UK	Total
Automotive	0 (0.0)	19 (12.7)	8 (29.6)	3 (21.4)	0 (0.0)	16 (34.8)	46 (16.7)
Communications	12 (48.0)	17 (11.4)	8 (29.6)	4 (28.6)	5 (35.7)	16 (34.8)	62 (22.6)
Electronics	4 (16.0)	45 (30.3)	9 (33.3)	4 (28.6)	9 (64.3)	5 (10.9)	76 (27.6)
Machinery & Engines	9 (36.0)	68 (45.6)	2 (7.5)	3 (21.4)	0 (0.0)	9 (19.5)	91 (33.1)
Total	25 (100)	149 (100)	27 (100)	14 (100)	14 (100)	46 (100)	275 (100)

Source: Eurostat

However, the field in which Chinese companies invest the most is fashion. The Pinco Pallino, Miss Sixty, Sergio Tacchini, Roberta di Camerino, Mariella Burani brand have been acquired by 100%, Salvatore Ferragamo by 6% and Caruso by 35%. The most famous case is Krizia, purchased in 2014 by Shenzhen Marisfrog Fashion co, one of the leading company of high price category ready to wear in Asia.

Figure VI shows that Italy has become a growing destination for China's outbound FDI, being the recipient of the largest investment in Europe in 2014. Other investments include the purchase of a 35% stake in CDP Reti by State Grid Corp. in November of the same year, and the acquisition of a 40% stake in Ansaldo Energia by Shanghai Electric Group Co. earlier in 2014 (Figure 7). People's Bank of China has also invested minority stakes in some of Italy's biggest companies, including Fiat Chrysler Automobiles, Telecom Italia, Assicurazioni Generali, Eni and Enel (ITA, 2016)

VI Top Countries in ‘EU’ Recipients of China OFDIs (2014)



Source: Rhodium Group

According to the data consulted, Milan Italy's financial hub, is the preferred city for Chinese investments. The list of Chinese investors in Milan is long and multi-faceted, from ChemChina's acquisition of premium tire-maker Pirelli in 2015 and Beijing Baofeng Technology taking control of MP & Silva, a sports media company holding rights to the National Football League, Formula 1 racing, and the English Premier League. And when it comes to free-floating bike-sharing, **Milan was the first European city offering services by both Mobike and Ofo.** (Adolfi, 2018)

VII Top destinations of Chinese Investments

Year	Month	Investor	Quantity in Millions	Share Size	Transaction Party	Sector	Subsector
2008	June	Zoomlion	\$250	60%	Compagnia Italiana Forme Acciaio	Real estate	Construction
2010	May	Jiangsu Zongyi	\$200			Energy	Alternative
2011	November	Huawei	\$130			Technology	Telecom
2012	January	Shandong Heavy	\$460	75%	Ferretti	Transport	Shipping
2012	December	Zoomlion	\$240	40%	Compagnia Italiana Forme Acciaio	Real estate	Construction
2014	March	SAFE	\$2.760	2%, 3%	Eri, Enel	Energy	
2014	May	China Power Investment	\$560	40%	Ansaldo Energia	Energy	
2014	July	SAFE	\$520	2%	Telecom Italia	Technology	Telecom
2014	July	SAFE	\$110	2%	Prysiam	Technology	Telecom
2014	July	SAFE	\$280	2%	Fiat	Transport	Autos
2014	August	SAFE	\$630	2%	Generali	Finance	
2014	October	SAFE	\$140	2%	Mediobanco	Finance	Banking
2014	November	State Grid	\$2.500	35%	CDP Reti	Energy	
2014	December	SAFE	\$100	2%	Saipem	Energy	Oil
2015	June	ChemChina	\$7.860	26%	Pirelli	Transport	Autos
2015	June	SAFE	\$1.220	2%	Intesa Sanpaolo	Finance	Banking
2015	July	Fosun	\$380			Real estate	Property

Source: China Investment Tracker

The Chinese investments often turn to be very positive, a real opportunity for Italian companies against bankrupt. For instance, the Ferretti Group after being acquired for 75% by Shig – Weichai in 2012, has managed to become one of the main brand in the boatyard fields. Another successful investment was Pirelli, that after been purchased by the Chinese colossus of ChemChina chemical industry, passed from the fourteenth place to the fourth place as a worldwide player in the Industrial field. (Millardi, 2016)

V Conclusion

The research produced several key findings regarding the factors that influence the current trade relations between China and Italy.

First of all, the data analysed showed that the partnership between China and Italy is becoming tighter and tighter and both the import and the exports of the countries are increasing steadily. Therefore, the potential of a bilateral relation between the two countries is stronger than ever.

According to the study conducted, this cooperation is strong and strategic in relation to three different factors: The One Belt One Road initiative, the new campaign launched by the Italian government to promote the brand ‘Made in Italy’ on foreign markets and the growing number of the Chinese direct investments in Italy.

It is clear that Italy has benefited greatly from the OBOR projects: an improved infrastructure connectivity and an enhanced economic and trade cooperation are concrete advantages derived from the One Belt One Road Initiative. If Italy will be able to update and expand its infrastructural system, economic gains might further increase. Italy should especially invest in the ports on the Adriatic Sea so that China could increase the volumes of goods shipped towards Western Europe. By doing so, the Chinese would be encouraged to distribute more evenly their trading flows to the Mediterranean Basin. Therefore, it is evident that the OBOR initiative is a powerful tool to maintain a stable peer-to-peer cooperation between Italy and China

Moreover, the campaign for promoting ‘Made in Italy’ in international markets is an additional factor that strengthen the ties between Italy and China. The Italian SMEs are looking for new opportunities to expand abroad and not surprisingly they found them in the prosperity of the Chinese market. China is seen as a way to access the Asian markets and, because of its resources and its high availability of liquid asset, as a tool to overcome the economic crisis.

Last but not least, Italy and China are also increasingly linked through direct investments. In 2015, Europe surpassed North America as the first destination for Chinese outbound direct

investments, and this is largely due to the large investment share in Italy, which has become the top destination in Europe, hosting the biggest Chinese deal in Europe so far. The potential complementarities between the two countries are on the rise in many food, manufacturing and services value chains

To conclude, it is evident that the partnership between Italy and China represent a great opportunity for both of the countries and that there are many different forces which improve this cooperation directly and indirectly. Italian and Chinese businesses can certainly collaborate more and more in a vast number of economic activities in both goods and services sectors.

Building new interdependencies and leveraging new and old complementarities will allow China and Italy to remain at the forefront of the global economy.

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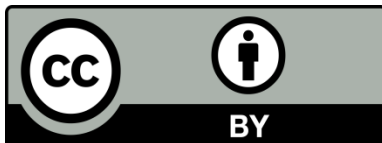
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