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CHINA'S BELT AND ROAD INITIATIVE AND THE NEW CENTRALITY OF THE MEDITERRANEAN

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In a world beset by economic and political insecurity, uncertainty looms large over which steps need to be taken to boost global development. In particular, Western countries appear as yet sceptical of the medium-to-long-term benefits that may derive from strengthening their economic ties with China, even at a time when it is one of the few global actors articulating a robust agenda for connectivity and growth. Diffuse mistrust of China's strategic intentions – nurtured by concern over the inner logic of its Leninist experiment of state capitalism, and magnified by Beijing's minimal progress in dispelling the political-institutional fog that renders its decision-making so opaque – are proving to be powerful constraints on the potential for more intense cooperation.

Nonetheless, what we currently know about China under Xi Jinping is that the connectivity-oriented Belt and Road Initiative (BRI), launched in 2013, is intended to increase the flows of goods, capital and people moving across the Eurasian landmass. Such flows are expected to proceed along two main corridors: the "Silk Road Economic Belt" – the overland trajectory reaching out from China to Europe through Central Asia – and the "21st-century Maritime Silk Road", which begins in China's main ports and extends to the Mediterranean via the Malacca Strait and the newly enlarged Suez Canal. In 2015, China's trade volume with countries along the latter corridor was equivalent to 1 trillion US dollars, while Chinese investments in the relevant regions reached 15 billion US dollars.

However, the broader significance of this initiative is mostly overlooked by the general public, especially in Europe. Western governments have not fully grasped the scope of opportunities and challenges that a new wave of Chinese investments may bring. Italy, for instance, is still in the process of formulating a coherent, long-term strategy for cooperation with China. Chinese acquisitions of Italian

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Last November, Beijing's Pangoal Institute hosted a delegation from the Torino World Affairs Institute in Beijing to discuss about the BRI and its broader implications for Sino-Italian relations.

companies over the past few years, in particular, seem to have caught the Italian government by surprise. At the same time, however, China has thus far struggled to couple its initiative with effective means of "soft power" – which could in fact further ease the promotion of China's cooperation initiatives with economic partners across Eurasia.

In such context, getting representatives from key Chinese and Italian government agencies and research institutes to engage in knowledge-sharing initiatives has become crucial to fostering mutual understanding. Last November, Beijing's Pangoal Institute (盘古智库) and the Torino World Affairs Institute (T.wai) jointly ran the "ChinaMed – BRI and the New Centrality of the Mediterranean" workshop in Beijing, as part of the "Pangoal Wisdom Talks" series. The workshop enabled Chinese experts from the National Development and Reform Commission (NDRC), the Ministry of Commerce, the People's Bank of China, the China Institute of International Studies and the COSCO Shipping Group to meet with T.wai's delegation, which included representatives from the Studi e Ricerche per il Mezzogiorno centre (SRM), Intesa Sanpaolo Bank and the Bank of Italy.

In keeping with Pangoal's mission – "applying knowledge for public policy solutions" – panellists joining the workshop went beyond merely addressing what the BRI is and how the principle of "mutual development" lies at its core. Rather, they moved on to examining growth trends across the maritime infrastructure, shipping and finance sectors, and their interplay within the Mediterranean region. Since the launch of the BRI in 2013, Chinese investments across Europe have been mostly directed towards infrastructure development. Some of the projects funded thus far have included not only railways from Wuhan, Chongqing and Zhengzhou connecting to hubs such as Duisburg, Hamburg and Lyon, but also key maritime routes leading to ports such as Rotterdam–Antwerp, Haifa, Istanbul, the Piraeus, Algeciras and Savona-Vado Ligure.

As SRM research points out, since the inauguration of the BRI, the shipping sector has been expanding globally. Key developments include (1) the expansion of the New Suez Canal, which has doubled the number of ships transiting daily and reduced transit times from 18 hours to less than 11 hours; (2) naval gigantism, which has seen the average capacity of transoceanic ships increasing to 20,000 TEUs; (3) the creation of new global shipping alliances such as the Ocean Alliance, led by China COSCO Holdings and three other international shipping companies; and (4) the expansion of the Panama Canal, which will allow larger vessels to move between US Atlantic and Pacific ports with greater ease.

> **Greater synergy between Italian and Chinese authorities is therefore crucial for Italy to tap its potential**

In light of all of these recent developments, the Mediterranean should be taking advantage of this newly reacquired centrality. Italy, for example, has the potential to become a pivotal logistics platform along the Far East–Europe and the Far East–Europe–USA routes, since the enlargement of the Suez Canal and the increase in the TEU capacity of new ships allow for more efficient freight transport from China to the USA. According to the Logistics Performance Index, Italy currently ranks 21st worldwide in terms of competitiveness in logistics, while the Liner Shipping Connectivity Index ranks Italy 16th worldwide. Greater synergy between Italian and Chinese authorities is thus crucial to releasing Italy's untapped potential.

Apart from investments in infrastructure and transportation, Chinese FDI has also been directed at the acquisition of high-tech know-how and renowned brands in a variety of sectors, including industrial machinery and equipment, information and communication technology, tourism, entertainment and fashion. This trend could be explained in light of the recent release of "Made in China 2025", a new industrial policy plan seeking to transform China into a world economic powerhouse, moving its production up the global value chain.

In 2016, for instance, Chinese FDI flows into Europe accounted for €35 billion. The situation remains unbalanced, however, as the value of EU FDI flows into China decreased for the fourth consecutive year to €8 billion. European countries have grown critical of this disequilibrium – that of having to deal with market access barriers when investing in China, while opening up to Chinese companies acquiring segments of key European industries. This "lack of reciprocity" has ignited national security suspicions, causing a number of European countries to adopt more defensive approaches to China. In the long term, however, such tactics have the potential to seriously damage the further strengthening of Sino–EU ties.

If the BRI has so far developed as a new and improved Going Out (走出去) strategy for Chinese companies, the time has come for the EU to evaluate how it could work as an entrance gate for European goods to what is projected to become one of the world's largest consumer markets. Cooperation between T.wai and the Pangoal Institute will continue throughout 2017 to further analyse the strategic implications of the BRI for Sino-Italian relations and China's footprint in the wider Mediterranean region.

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