

# RIETI BBL Seminar Handout

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Italy in Turbulent Times.

Connecting Atlantic, Mediterranean and Europe:  
Politics, economy and foreign policy

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# Italy in Turbulent Times: Connecting Atlantic, Mediterranean, and Europe

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# Italy in turbulent times

## Connecting Atlantic, Mediterranean, and Europe

- **Strategic Position:** Italy acts as a crucial bridge between the Atlantic, Mediterranean, and Europe.
- **Global Role:** Analysis of Italy's evolving role in global politics and economy.
- **Key Focus:** Examining the intersections of foreign policy, European policy, trade, and domestic stability.
- **Timeframe:** Navigating the complexities of the 2022-2025 global landscape.

# The Political Environment of Meloni's rise

- **Polarization & Leadership Demand:** Italian voters favor strong, visible political figures
- **Demand for unity, consistency and credibility:** Meloni as leader of a coalition;
- **Electoral Victory (2022):** Fdl captured 26% + coalition majority despite 44% total vote
- **Consolidation (2024):** Fdl grew to 28.8%—highest vote share for post-fascist party in Italian history

# The Meloni government transition

- **Continuity and constraints in Italian politics:**
- **Policy Continuity:** Many Draghi-era policies were maintained due to EU constraints and international environment.
- **Key Constraint:** Fiscal discipline imposed by the EU and Next Generation EU program.
- **Market Impact:** Adherence to fiscal rules secured positive credit rating upgrades, reduced pressure on Italian State bonds;

# European Geopolitical Turning Points

- **Russia-Ukraine War:** Fundamental shift in EU energy security and defense priorities. Italy supported the EU Commission policies in this field.
- **Energy Crisis:** Skyrocketing energy prices negatively impacted the Italian trade balance (2022-2023). Italian governments undertook a diversification policy (ENI).
- **EU Recovery:** PNRR provided a critical nearly 200 billion euro to Italy for post-pandemic recovery;
- **Political stability:** 2024 EU elections confirmed Meloni's government consent strengthening stability and Italy's EU role.
- **European's shift:** Von der Leyen II pivoted to right: more on immigration security, softening the green deal targets;

# Economic recovery and fiscal discipline

- **Strengthening Italy's Macroeconomic Foundation**
- **GDP growth:** 0.7% (2023/2024) and 0.6% (2025);
- **Employment:** Unemployment reached record lows (6% in 2025);
- **Deficit reduction:** Fiscal deficit fell from 8.1% (2022) to 3% (2025).  
The government drastically reduced subsidies and tax credit policy;
- **Credit Confidence:** Creditworthiness upgraded by Fitch and other rating agencies.

# Trade balance reversal

- **From Energy-Driven Deficit to Record Surplus**
- **Dramatic turnaround:** moved from a 34 billion euro deficit (2022) to a surplus.
- **2023 result:** surplus achieved after the end of the energy crisis.
- **2024 performance:** 32 billion euro surplus.
- **Positive momentum:** 2025 projected on a high level (39.8 billion euro), strong export.
- **In 2025 Italy is the 4° largest exporter of the world (680 billion).**



# Global export resilience

- **Key Sectors:** Machinery, pharmaceuticals, luxury goods, and high-end agriculture.
- **SME Model:** Small-medium enterprises remain the backbone of Italian competitiveness.
- **Market Reach:** Exports outside the EU exceeded 305 billion euro (2024).

# Meloni's Italy in European Architecture

- **Strategic Fulcrum:** Mediterranean gateway; geopolitical bridge to Africa, Middle East; indispensable to EU stability
- **Economic Heavyweight:** €200bn Recovery Plan windfall; borrows at lower rates than France; fiscal credibility restored
- **Meloni's Stability Advantage:** Third-longest Italian government in Republic history—contrast with French-German fragility
- **Shifting Balance:** France weakened (Macron's political isolation); Germany economically strained—Italy fills leadership vacuum

# Italy's strategic leverage in Meloni's era

- **Indispensable Mediator:** Bridges Washington-Brussels divide; leverages Trump relationship while maintaining EU credibility
- **Institutional Trust:** Von der Leyen alignment; Brussels grants indulgence to Italy's policy autonomy—rare for EU member
- **Political Longevity Asset:** Stable government in fractured EU; Italy's durability contrasts sharply with French-German turbulence
- **Emerging Third Pillar:** Italy increasingly functions as autonomous power alongside Germany-France; decisive role in trade, defence, industrial policy

# Foreign and migration policy

- **Foreign policy reorientation (2022-2025):** Shift from ideological sovereigntism to transatlantic pragmatism; consolidated bonds with EU conservatives; strengthening ties with African leaders (Piano Mattei).
- **Migration externalization model:** Novel Italy-Albania bilateral agreement (€200 million, November 2024) processes asylum-seekers in third country; modeled on Australia's offshore detention system; first EU experiment with this approach
- **Paradox of Meloni's migration policy:** Strict border rhetoric ("naval blockade," port closures) contrasts with economic pragmatism—500,000 work visas granted to non-EU nationals in 2024 to address labor shortages in northern industry and southern agriculture. Combining contrast of illegal migration with the growth of the legal one.
- **Results & judicial obstacles:** 60% reduction in illegal arrivals (2023-2024). Italy is working at EU-level to reform the regulation on migration making externalization more suitable.

# Defense policy and NATO

- **NATO pressure escalation:** Trump administration demands 5% defense spending by 2030; NATO Secretary General calls for 3.5% by 2035; Italy currently at 1.54% GDP (2024), far below European average of 2.4%.
- **Objective:** Italy committed to reach the 2% of defense expenditure on GDP in 2025.
- **Budget constraints & competing priorities:** Italy's fiscal space severely limited by high public debt (140% GDP); PNRR completion (expires 2026) drains resources; welfare and pensions consume 60% of budget, leaving minimal room for military modernization.

# Strategic dilemma, politics and public

- **Public opinion obstacle:** Only 17% of Italians support defense spending increases; strong pacifist tradition and left-wing opposition to NATO expansion complicate government's hand; Meloni cannot pursue austerity on welfare while dramatically raising military budgets.
- **Strategic dilemma ahead:** Italy must choose between honoring NATO commitments (requiring €40+ billion annual increase by 2030), maintaining fiscal discipline under EU rules, or risking transatlantic credibility—a trilemma with no easy solution in current geopolitical environment.

# Strategic partnership with USA

- **Italy's Primary Non-EU Trade Destination**
- **Trade Volume:** Exports to the USA reached 70 billion euro in 2025;
- **Trade surplus:** Italy has a surplus over 40 billion euro;
- **Strategic Ranking:** Second largest global destination after Germany.
- **Sector Dominance:** Machinery and pharmaceuticals are key export sectors.
- **Meloni considered as a political ally by Trump.** Strong relationship with the White House foreign policy. Italy is one of the closest Trump's European ally.

# Trump 2.0 challenge

- **Tariff threat:** proposed 15-25% US tariffs pose a potential 13 billion euro cost;
- **Diplomatic Response:** Meloni's April 2025 visit advocated for exemptions while maintaining EU unity.
- Meloni positioned **against strong protectionist retaliation** of the EU versus USA;
- **Export Surge:** Despite threats, Italian exports to the USA grew by 20% in early 2025.
- **Negotiation Success:** Successful negotiation on pasta's tariffs in December 2025.



# Strategic recalibration with China

- **BRI Exit:** Italy chose not to renew the BRI MoU in 2023, aligning with Western preferences.
- **New Framework:** Replaced BRI with a 3-year pragmatic action plan on trade and non-strategic infrastructure.
- **Economic Reality:** China remains Italy's second-largest non-EU trading partner.
- **Industrial Tension:** Balancing EU-mandated EV tariffs with efforts to attract Chinese factory investments.

# Italy-Japan strategic upgrade

- **Strategic Partnership:** Relations officially upgraded in 2023.
- **2024-2027 Action Plan** adopted on defense, economy, and technology.
- **Tech Resilience:** Joint focus on semiconductor supply chain security and R&D.
- **Defense Alignment:** Growing partnership in the Indo-Pacific and the GCAP program.
- **Recent developments:** partnership on raw materials, space, technology.

# Future outlook and challenges

- **Mattei Plan:** 7 billion euro strategy for energy and trade partnerships across Africa.
- **Structural Hurdles:** Low productivity and demographic decline remain long- term constraints.
- **Geopolitical Bridge:** Italy aims to mediate between US protectionism and EU regulatory ambitions. Meloni's government assumed a realist approach in the international relationship and pursuing national interest in the Mediterranean Sea.
- **Strategic Resilience:** Diversifying trade toward the Indo-Pacific and Middle East is essential.