

Drivers and Prospects for the Italian Economic Pivot in the Indo-Pacific

Alessandro Vesprini

PUSAN NATIONAL UNIVERSITY GSIS

Matteo Piasentini

UNIVERSITY OF THE PHILIPPINES DILIMAN

Abstract

What shapes Italy's approach to the Indo-Pacific? This study analyses Italy's current and emerging engagement with the Indo-Pacific region through the lens of trade, recognizing the area's growing geopolitical and geo-economic significance. While Italy has so far refrained from formulating an Indo-Pacific strategy, debates continue on the extent of the country's interest in the region. In order to contribute to such a debate, we argue that a closer look at the status of Italy's economic engagement with the Indo-Pacific may reveal the existence of incentives that are independent of Italy's traditional foreign policy interests, and much more connected to its status in regional trade. For this purpose, a mixed-methods approach is employed, combining a literature review with an original econometric analysis of Italy's 2022 trade flows with 34 Indo-Pacific countries. Using a hierarchical regression model estimating the impact of the EU's preferential trade regimes, including the Generalized Scheme of Preferences (GSP), the study introduces weighted measures for preference utilization by HS Section to reflect their export relevance. Our results show that higher weighted preference utilization significantly enhances Italian imports, suggesting preferences matter not only in scope but also in application. Such findings highlight the possibility of deepening Italy's engagement with the region through the deepening of cooperation and trade with GSP countries. Positioned within the broader context of Italian foreign policy as a second-tier power, our study aims to lay the foundation for further debates on 'friend-shoring' initiatives that seem to be increasingly viewed with favour by the European Union.

1. Introduction

The Indo-Pacific is crucial to the security and defence policies of an increasing number of states. While it is by no means a new term in strategic jargon, in recent times this geopolitical construct has served the purpose of describing a broad portion of the globe that spans from the Indian Ocean to the Pacific. Crucially, the region has seen the rise of China as a great economic and military power, and may include India, which may be set on a path towards this status, in spite of persistent challenges (Lak, 2008; Ng, 2023). Above all, this macro-region represents a space within which the economic and strategic interests of many emerging nations and established powers are entangled (Medcalf, 2017).

The Indo-Pacific is also conceived differently by different resident powers (Medcalf, 2017; Heiduk & Wacker, 2020). According to He (2018), the term may be used as a concept by powers for the purpose of balancing an emerging China through exclusive institutionalism embodied by mini-lateral arrangements (Beeson & Lee-Brown, 2019), as

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Contact Author: Alessandro Vesprini, Pusan National University GSIS.

E-mail address: alessandro.vesprini@pusan.ac.kr



a space in which to redesign the institutional setting of the region, or a deeper social re-conceptualization of such an enormous space as a result of the processes of globalization. While many of such conceptualizations can be true and can simultaneously coexist, as a matter of fact the Indo-Pacific has increasingly become an arena of complex and interconnected competition between a plethora of actors, occupying different ranks and relevance in the international hierarchy. Moreover, in current times, this also entails a rescaling from simple economic competition to a tighter entanglement of economic and strategic issues (Wilson, 2018).

Frictions in the macro-region extend beyond strict security concerns, both traditional military issues and non-traditional security challenges such as piracy, illegal trafficking and climate change are salient for many regional states, which are salient for many regional states. Moreover, economic initiatives and trade are being incrementally used as an instrument of power projection and economic statecraft by resident powers. Initiatives such as the Belt and Road may be initially driven by economic interests, but the presence of China as an alternative source of development for the growing developing countries in the region has prompted other states (like Japan, India and the US) to launch competitive initiatives in this field (Li, 2020), giving salience to the geoeconomic and competitive aspect as a driver of such initiatives.

Moreover, a large part of global manufacturing is located in the region, and the trade routes passing through it have long been the main arteries of supply of intermediate and final goods for the whole world. Given its extremely dynamic reality, such a geopolitical area must necessarily be the subject of strategic reflection also for extra regional states such as Italy. Specifically, pandemic shortages and the looming trade war between China and the United States indicate how it may be imperative for states to re-evaluate their choices related to the de-localization of production sites, as well as the overall structure of their supply chains. As a major European state, with a big stake in global economic and security matters, Italy might feel pressured to formulate an Indo-Pacific strategy, following the example set by other European partners (Natalizia & Termine, 2024) and the EU itself.

While the Italian foreign policy apparatuses do not appear to have followed the example of the EU and other European states, and have so far refrained from adopting a strategic document for the region, Italy issued a programmatic document in 2022, declaring its willingness to adhere to the EU Strategy and its intention to ‘work in the various components of economic and sectoral cooperation with the countries of the macro-region’ (Ministero degli Affari Esteri e della Cooperazione Internazionale, 2022). Italy seems thus to be increasingly paying attention to the region, and has shown its willingness to contribute and collaborate in the the seven pillars identified by the European Strategy: ‘sustainable development, green transition, global ocean governance, digital growth, connectivity – including through the recently launched EU Global Gateway – defence and security, and human development’ (Ministero degli Affari Esteri e della Cooperazione Internazionale, 2022). Moreover, Italy has already intensified its cooperation with multilateral regional organizations such as ASEAN (Association of South East Asian Nations), the IORA (Indian Ocean Rim Association) and the Pacific Island Forum. However, it is also true that the Indo-Pacific is not under Italy’s direct strategic radar, and it is unlikely to deepen its engagement in security and military affairs in a

similar vein to countries like France or the UK, given its security commitments in the ‘Enlarged Mediterranean’ and concerns over the risks of overstretching (Mazziotti di Celso et al., 2025).

Yet, Italy is already active in the region, and in recent times there has been a proliferation of interactions with regional actors, both international organizations like ASEAN and selected partners like Australia and Japan. With the latter, Italy shares military and technological interests also through GCAP, a mini-lateral partnership for technology acceleration through the development of a sixth generation fighter jet (Dell’Era and Piasentini, 2024). Moreover, following the non-renewal of the Memorandum of Understanding of the Belt and Road initiative with China, Italy is striving to maintain good relationships with Beijing.

However, what moves Italy’s overall engagement with the region? What are the possible priorities of an Italian Indo-Pacific strategy? A thorough assessment of the drivers of such an engagement is yet to be conducted, and in this article we argue that the main driver of Italy’s Indo-Pacific pivot remains deeply connected to trade. Specifically, we contend that Italy enjoys a burgeoning and expanding trade surplus with the region as a whole, and trade remains the main avenue for strengthening ties with the plethora of emerging actors in the region.

The purpose of this paper is to give an analytical and data-driven analysis of Italy’s current and prospective engagement with the Indo-Pacific region. For the analytical part, we will review the most relevant studies regarding Italian foreign policy related to its historical and strategic position as a second-tier power. The data-driven analysis will involve an exposition of Italy’s trade balance data with the region and a statistical examination of the effects of EU trade agreements, conducted by estimating a hierarchical regression model on a cross-sectional dataset of Italian imports and exports. Our analysis suggests that Italy’s economic pivot to the Indo-Pacific is deeply connected with trade interests, with preferential trade agreements playing a significant role in shaping these dynamics and offering opportunities for de-risking efforts.

The paper is structured as follows. The first section will review the most relevant literature regarding Italy’s participation in the Indo-Pacific region as a second-tier power, exploring the constraints and opportunities of its foreign policy. The second section will focus on the current geopolitical situation in the region and its connection to the global economic landscape, particularly examining the concepts of ‘de-risking’ and ‘friendshoring’ within the context of international trade. The third section will detail the data and methodology used for the statistical analysis of Italy’s trade with the Indo-Pacific, including the hierarchical regression model employed, and the construction of weighted preference measures. Finally, the fourth section will present the results and a discussion of the statistical model, offering policy recommendations for Italy’s economic cooperation and engagement within the volatile Indo-Pacific region.

2. Italy’s foreign policy: beyond the three circles?

As a second-tier power in the international system, Italy’s agency in the pursuit of autonomous strategies encounters several constraints. Seminal works on Italy’s foreign policy (Holsti, 1970) highlight how Italy’s role could be limited to being a faithful ally of the United States and subsystem mediator-collaborator. With the end of the Cold War,

studies on the role of Italy in a progressively multipolar world (Andreatta, 2001) hypothesized some spaces where the country could carve out an autonomous role in foreign policy, emphasizing how Italy's agency could find its best expression through active participation in multilateral initiatives at the European and international level. More recent reflections on the role of Italy in foreign policy theorized the presence of three 'circles' of foreign policy (Carbone, 2008), namely Italy's alliance with the U.S. (Atlanticism), its role in European integration (Europeanism), and its possible influence in the Mediterranean, seen as the 'designated space' where Italy could carve a more autonomous role, both military and economic. The notion of Italy's designated space of autonomy in the current global system being confined to the Mediterranean may be reinforced by historical evidence of a certain tendency of Italy to 'bandwagon' towards the US (Ratti, 2012). Indeed, such structural constraints may have important effects on Italy's ways of conducting foreign policy, such as an observed tendency to 'fence sit' and a lack of creativity, with the exception of selected foreign policy niches (Caffarena and Gabusi, 2017).

Nonetheless, with the changing of the international system and the emergence of new threats and opportunities in the twenty-first century, Italy has diversified its strategic initiatives. The country has tried to expand its role in strategic sectors such as space, technology and telecommunications, and has progressively adopted a larger strategic conceptualization of the Mediterranean as its natural area of influence. Such expansion is testified by the introduction of the 'enlarged Mediterranean' construct (Natalizia, Baldelli, and Ferrara, 2024) as an area for a natural expansion of reach and influence (Dentice and Donelli, 2021). Italy is active in the Sahel, and plays a crucial role in combatting piracy in the Indian Ocean, also through the potential establishment of a support base in Djibouti and a smaller presence in Qatar. Moreover, such attention to the 'Enlarged Mediterranean' seems to have held across several administrations, even if domestically at the opposite ends of the political spectrum (Hanau Santini and Baldaro, 2025). Finally, as highlighted above, Italy has extended its reach to Asia, deploying some of its naval assets in the Far East, participating in multilateral naval exercises like the Rim of the Pacific (RIMPAC) exercise in 2024. From a strategic standpoint, Italy's extended and sustained naval presence in the easternmost side of the Indo-Pacific is a response to US burden-sharing demands on the one hand, and its commitment on the other to contribute to regional stability by upholding the rules-based order (Natalizia and Mazziotti di Celso (2025). As a result, Italy is currently dealing with the twofold task of maintaining its presence in the Indo-Pacific while simultaneously investing in the security and economic stability of the Enlarged Mediterranean (Mazziotti di Celso et al., 2024).

While it has been shown how Italy's strategic engagement is evolving and expanding through its naval and military presence in the Indo-Pacific, its expanded economic engagement remains less explored. But the economic relevance of the Indo-Pacific is equally crucial: the region hosts states with growing material and productive capabilities and intangible assets. In fact, leaders in crucial sectors – such as Australia, South Korea, Japan, Taiwan and Singapore, the economic giants China and India, and a plethora of emerging countries with sustained growth rates – namely the countries of the Association of Southeast Asian Nations (ASEAN) – are located in the Indo-Pacific. Moreover, some African states facing the Indian ocean (Shoeman and Wu, 2022) and states of the

Gulf (Szalai, 2025) may decide to frame their identity as Indo-Pacific states based on their respective interests, and the incumbent risks and stakes related to this geographic expanse.

For the above, Western European states and the European Union (EU) explicitly recognized the necessity to strengthen economic cooperation with the region. After France released its regional strategy in 2019, and Germany its Indo-Pacific Guidelines in 2020, also the EU moved towards the adoption of its own document, with the 2021 European Strategy for Cooperation in the Indo-Pacific (European Commission, 2021a). This document aims to strengthen ties between regions, an objective that also involves strengthening economic relations, deemed necessary in order to protect the supply chains connecting Europe and the Indo-Pacific, and to manage their relationships with an increasingly assertive China (Mohan, 2020). Pugliese (2023), among others, ponders how Brussels can predominantly insert itself as an alternative source of trade and investment in a context of relations aimed at strengthening multilateralism and inclusion, compared to more antagonistic formulations that instead characterize the US conceptualization of the Indo-Pacific. According to this interpretation, a lynchpin of future European engagement will involve trade promotion and connectivity between regions. In fact, with strong economic and naval capabilities, Europe, particularly countries like France and Italy (in coordination with the UK), may pursue a hybrid approach that blends soft and hard power (Abbondanza and Wilkins, 2024). This approach, while still developing, may enhance regional stability through diverse economic, security, and normative partnerships. Moreover, the EU can leverage some of its members' participation into mini-lateral agreements (that seem to be taking over as the preferred form of cooperation in the Indo-Pacific) as a stepping stone to 'build a constituency of supporters internally' for broader regional engagement (Odgaard, 2024).

In this context, Italy's engagement with the Indo-Pacific has increased over the years. Abbondanza (2024) observes that Italy has steadily increased its role in security, norm promotion and economic cooperation, the latter being anchored to the country's consistent preference for multilateralism and inclusivity that characterize its approach in international affairs. The fact that Italy relies solely on the Programmatic Document of 2022 for the Indo-Pacific may hinder the effectiveness of such engagement, with the risk of being only 'reactive' to external factors and not essentially proactive. It has been claimed (Termini, 2025) that for Italy (and Europe in general), future disruptions on the horizon across different domains may force these states to proactively think about their Indo-Pacific engagement. Others (Abbondanza, 2024), however, contend that this may not necessarily be a negative factor, as this 'delay' or 'soft' approach in Indo-Pacific engagement may grant Italy a wider degree of flexibility and the opportunity to learn from peers' experiences, successes and (potentially) failures. As a matter of fact, Italy's policymakers are not neglecting the Indo Pacific: in 2025 the Italian Chamber of Deputies conducted an 'enquiry into issues related to the projection of Italy and European countries in the Indo-Pacific' (Camera dei Deputati, 2025), in order to monitor regional development and collect feedback and information from experts and foreign policymakers.

Indeed, many of the Italian interactions with the region are 'mercantile' in nature (Pugliese, 2023): as observed by Grare & Reuter, (2021), Italy remains focused on trade and connectivity as pillars of its regional engagement, in a similar vein to what is emphasized at the European level. Italy appears interested in playing a role in the

implementation of the EU Global Gateway (European Commission, 2021), the European infrastructure development assistance plan that aims to promote economic development through the creation of physical and digital communication routes between countries (railways, ports, energy networks, submarine cables and the like).

Obviously, such engagement showcases a strong orientation towards a preference for multilateralism and a respect for international norms and standards, though with a greater degree of flexibility compared to the past (Karjalainen, 2023), especially when dealing with strategic regions such as the Indo-Pacific. Aside from emerging policies such as the Global Gateway, it is possible to appreciate how Italy's preference for multilateralism is intimately connected to Italy's stake in global and regional trade. The vibrant economic growth of the Indo-Pacific represents a significant window of opportunity for Italy's national companies, which have so far benefitted from lowered tariffs and the progressive elimination of trade barriers, without encountering excessive difficulties in terms of trade coordination and execution.

In other words, Italy's position is emblematic of the strategic dilemma faced by smaller states when deciding how to engage with the vast Indo-Pacific region. While the observed reactivity in security policy is clear and largely accounted for by structural explanations, the puzzle remains on how to make sense of Italy's participation in several multilateral and mini-lateral initiatives with countries of the Indo-Pacific. In fact, while a possible explanation may lie in the exclusive agency of the European Union, which sees Italy as a mere 'fence sitter' acquiescing to such processes, this may not be the case. As noted again by Abbondanza (2024) and other commentators (Piasentini and Iannone, 2025) Italy seems increasingly proactive in promoting multi-level cooperation and in playing a role in trans-continental economic governance, as testified for example in its role as an ASEAN development partner. What are the drivers behind such moves? Is Italy's participation in the Indo-Pacific 'noodle bowl' a sign of a shift in Italy's foreign policy? What shapes Italy's approach to the Indo-Pacific?

In order to answer such questions, we argue that a closer look at the status of Italy's economic engagement with the region may reveal the existence of incentives that are independent of Italy's Atlanticism, and much more connected to its status in regional trade. In this regard, pursuing Abbondanza's argument that states have to 'quietly' carve out an autonomous role in key issue areas may reveal the space for a broader Italian engagement with the region, moving beyond rigid 'encirclements' that risk 'reifying' the foreign policy possibilities for a country like Italy.

3. The nature of trade in the region: geopolitical and geo-economic issues

Multilateralism is preferred by the APEC countries, which represent a significant portion of the Indo-Pacific, but they share concerns about a structural factor affecting the region, namely the decoupling of China from the United States (Capie, Hamilton-Hart, & Young, 2020). The term refers to the progressive reduction of ties between the two countries, a process that involves trade, technology – particularly this aspect according to Wyne (2020) – and, following the second Trump administration, also socio-cultural aspects (Vesprini, 2022). This was the subject of discussion also during the years of the first Trump administration, following the unilateral imposition of aggravated tariff

regimes on some Chinese goods, as well as attempts to sanction Chinese companies operating in the US, a strong protectionist move that has been duplicated and reinforced by the imposition of reciprocal tariffs, not only towards Beijing, but also every country.

The protectionism of the two Trump administrations and the aspirations for decoupling have, however, been met with a certain degree of scepticism in Europe, in the shared awareness that a total break in trade relations between blocs could be more harmful than beneficial; despite the divergences in terms of approach, the doubts and fears of an excessive interdependence between the Western and Chinese economies appears to characterize, to various degrees, economic policies towards the latter. The awareness of the impossibility and extreme inconvenience of total decoupling has led the debate to focus on managing the risks associated with the interdependence of blocs, each characterized by divergent geopolitical agendas (Del Rosso, 2023).

Therefore, as the term ‘decoupling’ is gradually phased out, the EU, according to Commission President Von Der Leyen, seems more inclined to adopt an economic policy of de-risking in relation to certain states or economic blocs. The term indicates the need to implement policies aimed at reducing the risks of excessive interdependence, especially if the latter can be used as a means of coercion or pressure in foreign policy (Benson & Sicilia, 2023). But it does not translate into a total separation from the Chinese economy *stricto sensu*, only into a rebalancing of the relationships in order to avoid any potential weaponised interdependence (Farrell & Newman, 2019).

Moreover, the protection of Italian economic interests must also include a reevaluation of some economic relations and the protection of intangible assets, such as technological knowhow, and those of high strategic value. From the former point of view, it should be emphasized that Italy is dependent on Chinese imports in different economic sectors, at multiple levels of the supply chain, a condition not unique to Italy. As a matter of fact, every country, including for instance the United States, Germany, and Latin American countries (Termine, Catapano & Vesprini, 2022), are dependent on China, and its economic power has penetrated all the major countries in the world (Yao et al., 2020, p. 774).

The EU, through the European Strategy for Economic Security (European Commission, 2023), aims, among other objectives, to work together with other non-European partners to strengthen global supply chains and make them more resilient against possible shocks due to the above-mentioned characteristics of its relationship with Beijing. In this regard, the Indo-Pacific region, and in particular emerging economies such as India, Bangladesh and countries in the ASEAN region can constitute possible destinations for supplies and investments. Initiatives such as the Global Gateway can be considered as alternatives aimed at retaining some of these nations and offering them an alternative to the BRI, as well as an escape route from a future of excessive economic dependence on Beijing (Gerstl, 2023).

The idea of targeting certain countries considered ‘friends’ and not hostile, stems from the perception of China and Russia being hostile to the West, and therefore amiable foreign relations are to be preferred to mere commercial interests, a concept that according to Wolfe (2023) is encapsulated in the principle of the so-called ‘friend-shoring’. However, Reiter & Houg (2023) criticise this approach, considering it to be inefficient, and that companies would not just follow government decisions; moreover, they stress

that it should be reserved only for sensitive sectors. In this regard, specific partnerships in the energy sector, for instance, appear to be an integral part of Italy's participation in the region, both at regional and bilateral level. In this last aspect, it is worth mentioning that Italy is a Development Partner of ASEAN (2023) and is also active through the Italian Agency for Development Cooperation in Pakistan, Vietnam and the Philippines.

However, despite the fact that both de-risking and friend-shoring are policies to be pursued in the pursuit of national economic interests in the Indo-Pacific region, it is still premature to establish whether Italy is actively pursuing such a policy, especially from an oppositional perspective with respect to the PRC. It has been argued (Mariotti, 2024) that in a context of a return to industrial 'dirigism' as a hedge against the weaponization of economic relations among blocs, the active pursuit of economic autonomy risks back-firing, if not accompanied by adequate support for multilateralism and cooperation. While it is indisputable that keeping such a balance may be a hard task, Italian friend-shoring interests can coexist in a context of cooperation in trade and investment with other regional actors, in an effort that aims to maintain the current globalized economic system, in which interest in economic security is outlined as the presence of alternative sources of supply, rather than the total replacement of existing relationships.

3.1. How countries trade: from the WTO to regional preferential agreements

International trade is normally regulated by the World Trade Organization (WTO), of which Italy has been a member since 1995, which has imposed the use of the Most Favoured Nation (MFN) principle (Lavdari, 2021). However, Krugman (1991) highlights how the 80s marked a shift from global to regional trade and warned about the subsequent creation of blocs. Krishna (1998) concluded that rather than converging towards a multilateral structure of commerce, these regional trade agreements lead to more fragmentation, also given the political support that such initiatives benefit from. Nacewska-Twardowska (2020) reviews the characteristics of these blocs, which during the last few decades have converged into three main 'factories', the term used in the literature to identify these regional groups: America, Asia, and Europe. These are not strictly isolated, and the author estimates high intra-regional levels of intermediate goods trade, meaning that goods employed in the production of other goods are mainly traded between blocs. However, among them, Factory Asia is the regional bloc with the highest intra-regional trade regardless of the type of goods analysed.

The existence of FTAs is of considerable importance because the technical requirements specified within them play a crucial role in regulating the international trade of the countries involved, and because their mainly regional nature has contributed to shaping the structure of commerce in recent decades. In fact, Conconi et al. (2018) attribute the formation of the three factories mainly to the existence and the nature of the Rules of Origin (RoO) in FTAs. RoOs are technical requirements in the production of goods that confer the legal origin of the product in order to qualify for preferential treatment. Conconi et al. (2018) also demonstrate how NAFTA's RoO have shifted the procurement of intermediate goods by Mexican companies from third countries to Canada and the USA. Moreover, the effectiveness of these rules varies according to their specificity, influencing economic integration in different ways, sometimes favouring

centralization, other times incentivizing decentralization (Bombarda & Gamberoni, 2019).

According to the abovementioned document issued by the Ministry of Foreign Affairs (2022), Italy has already expressed its commitment to the implementation of the European Strategy through the strengthening of several areas of engagement, considered to be of economic interest for Italy in the region. These areas include the strengthening of pre-existing Free Trade Agreements (FTA)¹, the negotiation and subsequent signing of additional ones, the promotion of assistance aid and investment, and the building of partnerships between private companies and public actors. As far as trade treaties are concerned, signatory countries are granted access to preferential duties for national companies that meet certain technical requirements (Feenstra, 2015, pp. 186-7). Furthermore, the EU signs agreements leading Least Developed Countries (LDCs) to join the Generalized Scheme of Preferences (GSP), in which the tariffs are drastically reduced. The difference between GSP and FTAs is that the former is non-reciprocal, meaning that the beneficiary countries gain access to preferential treatment when their goods enter the EU, but European goods do not (European Commission). The latter refers to cases when this is reciprocal. However, the principles are the same: tariff reduction is based on the country of origin of the goods. There are three different schemes in which countries can be included: Standard GSP, GSP+, and EBA (Everything but Arms). The difference between these schemes is the amount of reduction in tariffs that they receive (and in the case of the EBA the specific goods). However, these categories are not fixed, and countries can move between them².

As we will show later, the country of origin and destination of Italy's imports and exports plays a role in determining the nature of trade volume to the Indo-Pacific. In 2022 Italy showed a trade deficit in general, not only with the region, and, according to the WITS dataset, 2023 recorded a surplus. Having shown different qualities, we argue that it is necessary to analyse imports and exports separately. Even if we were to identify the determinants of the latter, we are not sure to what extent Italy could exert some degree of influence on them. On the other hand, there is a characteristic of the imports over which Italy has a degree of agency: preferential trade.

4. Italy and the Indo-Pacific Noodle Bowl

Given this context, with regional trade agreements playing an enormous role in shaping world trade, Italy must face new global economic challenges given its role as an actor whose economy is necessarily connected to the Indo-Pacific and the huge economic hub constituted by the People's Republic of China (PRC). This issue also emerges from the analysis of the trade balance between Italy and the Indo-Pacific, carried out by volumes of trade in goods, identified by tariff item according to the Harmonized Commodity Description and Coding System of the World Customs Organization.

¹ We will use the terms Free Trade Agreements and Free Trade Areas interchangeably in the paper when using the acronym FTA. Furthermore, for the sake of simplicity, we will include Preferential Trade Agreements (PTA) in the definition.

² As a matter of fact, they can graduate from the scheme and no longer be eligible to receive GSP preferential tariffs, as in the case of Nauru (2021), Samoa (2019), Tonga (2021), and Vietnam (2023).

The Harmonized System (HS) is a product nomenclature created to harmonize commodity classification in order to achieve uniformity across the – more than 200 – countries that make use of it (World Custom Organization). Since January 2022, the current edition in force is the HS Nomenclature 2022 edition, which is divided into 21 Sections, enumerated by Roman numbers. Sections represent the highest hierarchical category, and each one is divided into a certain number of Chapters, which are 97 in total, and are enumerated by two-digit Arab numeral codes. Each Chapter is further divided into different Headings, in turn divided into Sub-headings, respectively enumerated by four- and six-digit Arab numeral codes. However, the data used in this paper contains a 22nd Section, including two additional Chapters, which refers to the Harmonized Tariff Schedule of the United States (United States International Trade Commission, 2024), a system based on the HS with the only exemption being the last section. The trade data is taken from the World Integrated Trade Solution (WITS) dataset and covers Italian imports from and exports to, in US dollars, 34 countries³ in the Indo-Pacific region in the year 2022.⁴ For a better understanding of what nations are involved, we can divide those countries into four groups.

Figure 1. Subregions division

Northeast Asia	Southeast Asia	Indian Subcontinent	Oceania and Pacific Islands
<ul style="list-style-type: none"> • China • Japan • Mongolia • South Korea 	<ul style="list-style-type: none"> • Brunei • Cambodia • Indonesia • Laos • Malaysia • Myanmar • Philippines • Singapore • Thailand • Vietnam 	<ul style="list-style-type: none"> • Bangladesh • Bhutan • India • Nepal • Pakistan • Sri Lanka 	<ul style="list-style-type: none"> • Australia • Fiji • Kiribati • Micronesia • Nauru • New Zealand • Palau • Papua New Guinea • Samoa • Solomon Islands • Tonga • Tuvalu • Vanuatu

Source: authors' elaboration.

Crucially, such geographical divisions overlap a web of intra-regional trade agreements, which include ASEAN for Southeast Asia, the South Asian Free Trade Area (SAFTA) for South Asia, and the Pacific Islands Forum (PIF) for Oceania and the Pacific Islands. While the SAFTA is effectively an FTA, ASEAN includes one among its member states, extended to outside nations such as Australia, China, South Korea, Japan, and New Zealand with the ratification of the Regional Comprehensive Economic

³ Specific and separated data on Taiwan is not included in the main dataset but is often included under different labels due to the complicated political nature of the international relations surrounding the island. Therefore, we opted for not including it in order to focus the analysis on the less ambiguous data.

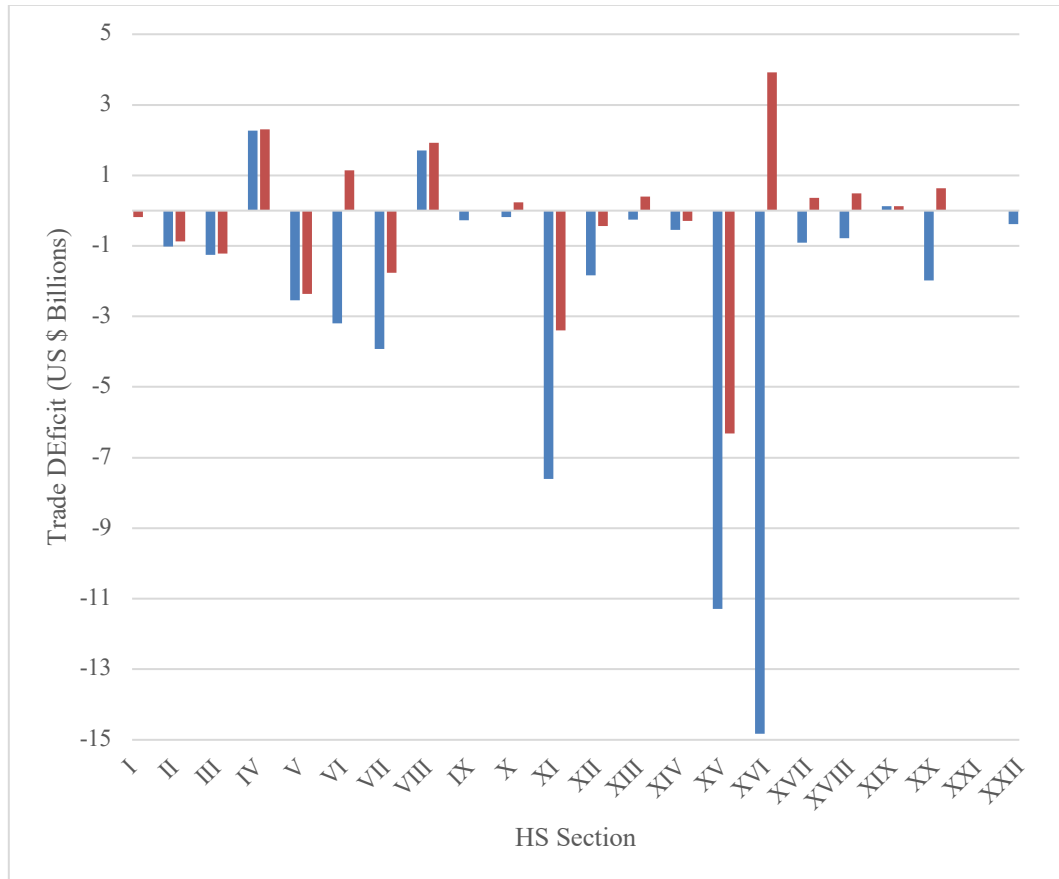
⁴ The choice of the year is relative to the latest availability of the observations across the datasets used when this paper was written.

Partnership (RCEP) in 2021. The PIF, though not primarily focused on the economy, includes countries that have signed the Pacific Island Countries Trade Agreement (PICTA), which excludes Australia and New Zealand. However, the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) is in existence. At the moment, there are no FTAs that exclusively involve China, South Korea and Japan.

We acknowledge that several major Indo-Pacific actors adopt a broader geographical definition of the region. For instance, Japan's Free and Open Indo-Pacific (FOIP) concept defines the area as stretching from the coast of East Africa to the Pacific-facing Americas, although North America is a more common inclusion than Central or South America (Ministry of Foreign Affairs of Japan, 2007). However, our approach focuses on countries that are clearly and consistently considered part of the region, rather than those included in varying strategic interpretations. It is, in fact, reasonable to assume that Africa is addressed through Italy's own dedicated strategy – namely, the Mattei Plan – while Latin America does not appear to be a particular focus for Italy (or Europe) in the context of the Indo-Pacific.

If we look at Figure 2, representing the Italian trade balance with all the countries analysed, in blue, and with China excluded in red, Beijing is mainly responsible for the negative connotation of the negative balance by Section. However, it is worth noting that some items are positive when PRC values are excluded from the computation. It is observed that several factors affect the resilience or at least the expansion of the global trade and investment system (Witt et al., 2021): shocks such as the Covid pandemic and the deterioration of political relations between China and the United States, have led to an increase in the risks associated with such operations (Çevik, 2021), often catching governments and decision-makers unprepared.

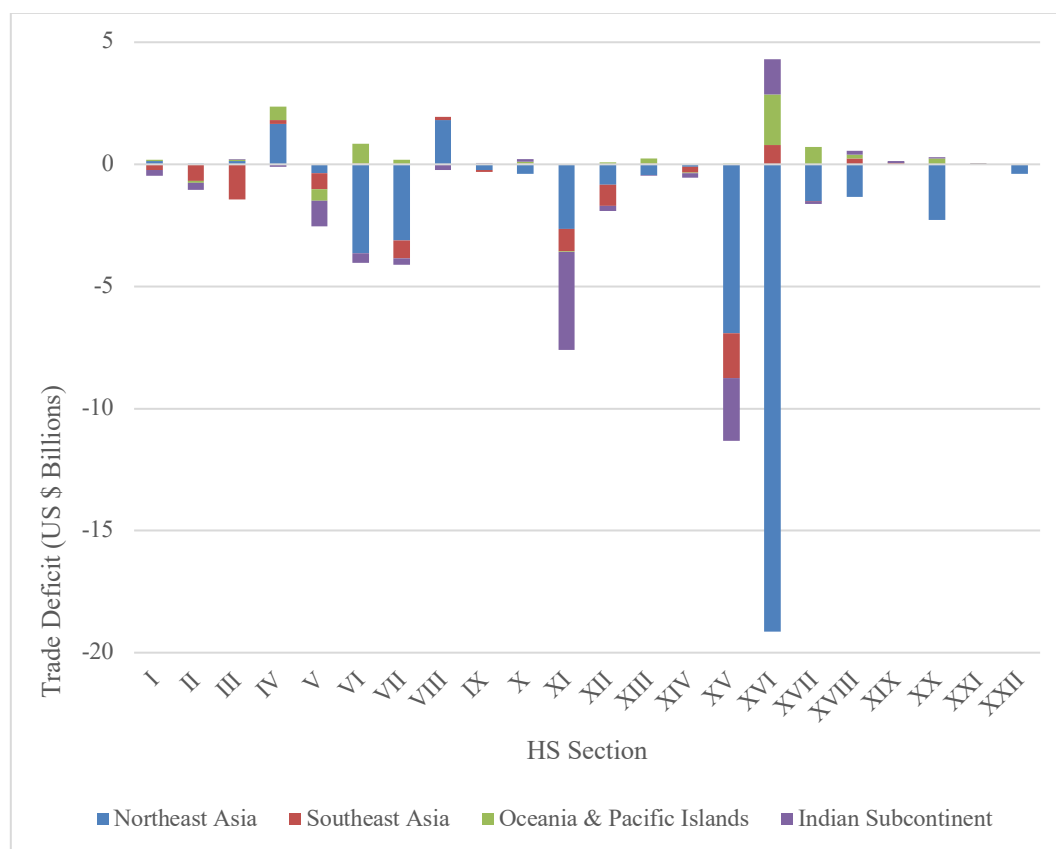
Figure 2. Trade balance with Indo-Pacific countries (2022). The bars compare the total trade balance (blue) with the balance calculated excluding China (red).



Source: authors' elaboration.

However, the chart in Figure 3 shows how the Indo-Pacific sub-regions can play a crucial role in Italy's strategies of de-risking and friend-shoring, in various areas, as valid alternatives to the PRC. The graph is designed so that the contribution of each sub-area is stacked over the other. The various sub-regions of the Indo-Pacific, Northeast Asia (NeA), Southeast Asia (SeA), Oceania and Pacific Islands (OaPI), Indian Subcontinent (IS), show how Italy does not engage with this macro-region in a uniform way, but the nature of the trade balance changes structurally from area to area. As a matter of fact, Italy has a trade deficit with these countries, even if we do not consider China in the calculation (Figure 2). However, in some sectors Italy is in deficit mainly with the SeA, in other cases with the IS.

Figure 3. Trade balance on a sub-regional basis. The bars are not clustered but stacked one on top of the other to represent the composition of the total. Reference year: 2022.



Source: authors' elaboration.

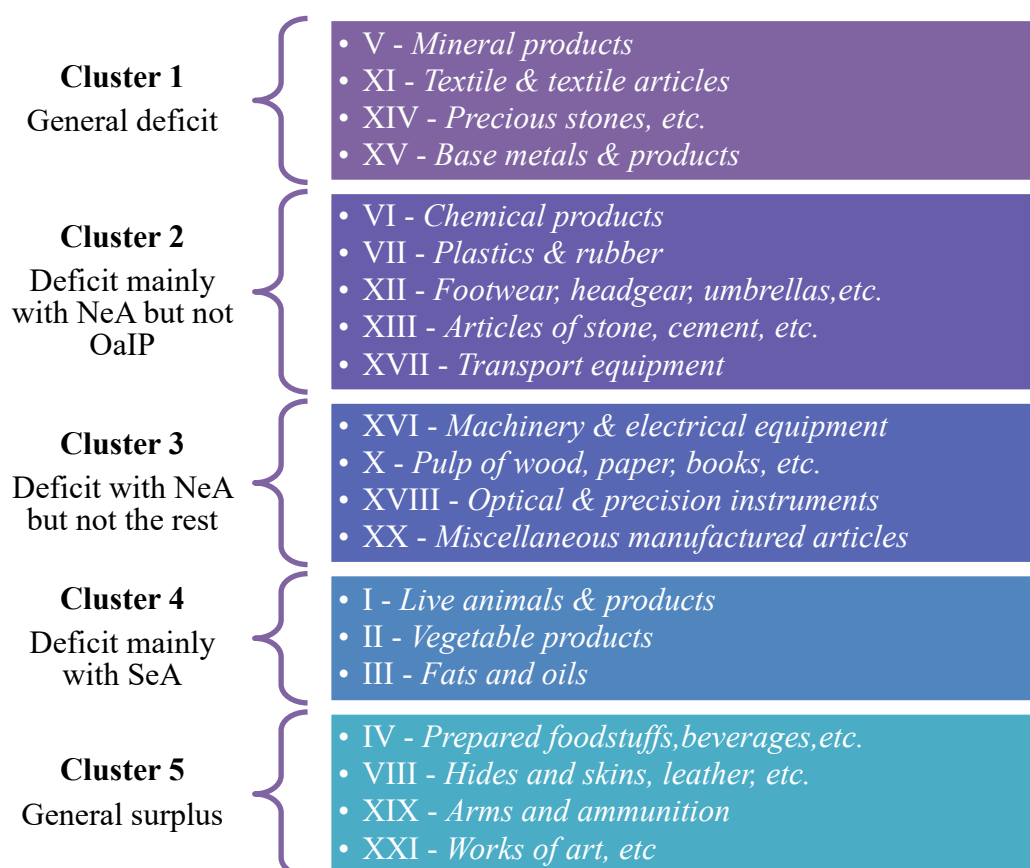
The benefit of dividing the data in such a detailed way, by Section and by region, is that this helps to capture the trade fluxes of such a broad region as the Indo-Pacific, encompassing areas of the world that are very different from each other, for national and geographical capabilities. If we look at Figure 3, the sections whose trade deficit is mainly in SeA are related to agriculture and animal products, while those mainly in IS are related to textile industry. The former is an area rich in these kinds of products. As a matter of fact, the South and Southeast Asian regions are the second largest contributor to the global value of global output in agriculture and fisheries (OECD/FAO, 2024, p. 70). The latter is a global leader in the textile industry⁵.

Regarding the specific dyad sub-region/Section, we identified five clusters of trends. The first includes those Sections that are in general deficit with the region; the second the ones that are in deficit with everyone, mainly with NeA, but not OaPI; the third, in deficit with NeA, but in surplus with the rest; the fourth, in deficit with SeA.

⁵ These trade patterns clearly reflect a high degree of economic complementarity. Italy's industrial structure and the resource and manufacturing specializations of various Indo-Pacific sub-regions (e.g., textiles in the Indian Subcontinent) create natural trade partnerships. While this concept is a useful lens, this paper focuses on the empirical trade data itself to avoid engaging in the broader theoretical debates surrounding comparative advantage and its critiques, which fall outside our primary scope.

Finally, the fifth comprises the Sections where Italy is in general surplus with the region. The table below divides the Sections according to the clusters above.

Figure 4. Clusters by Section trends. The descriptions are based on those included in the GSP Utilization Rates dataset.



Source: authors' elaboration.

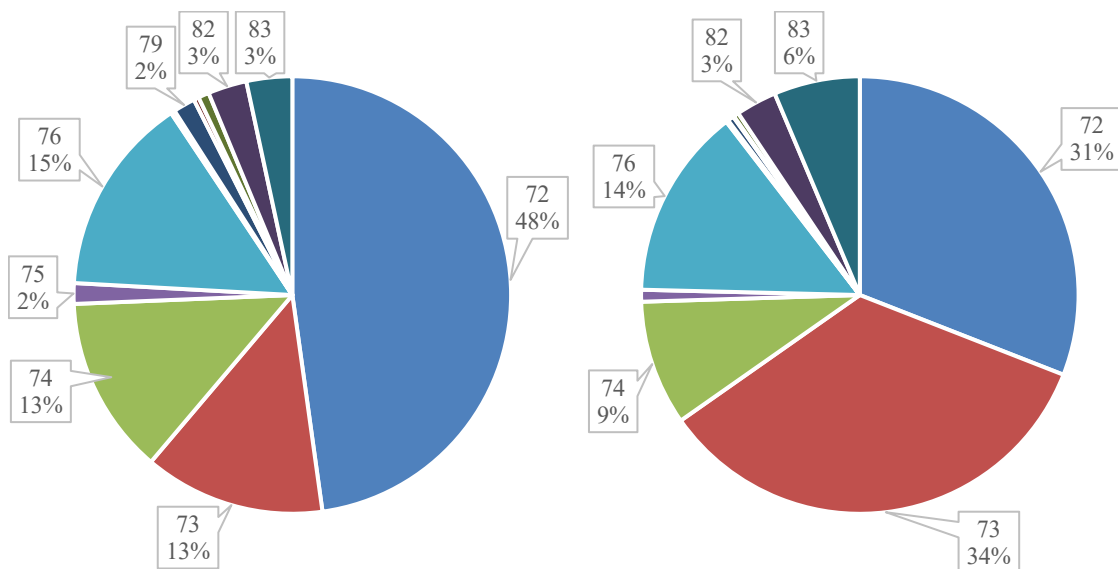
4.1. The Trade Matryoshka: the hierarchical nature of trade classification

As the analysis in the previous sections demonstrated, the nature of trade flows varies significantly between Italy and the different Indo-Pacific sub-regions. Now we turn our attention to the subcategories that constitute the HS Sections, namely the different Chapters. Weerth (2008) explains how the HS Nomenclature is built using the 'Production Principle', meaning that the classification is distributed according to their alleged participation in the manufacture of goods, with raw materials being located at the lower numbers, and, as the numbers progress, we can find intermediate goods, with consumption products last. However, the author also explains that some goods can be classified in different ways (p.62), resulting in appeals or court cases (p.66). Nonetheless, we argue that understanding the Section composition of their Chapters' share is fundamental in navigating through the complex regional trade dynamics.

Analysing all the 22 Sections, however, would go beyond the scope of this paper, thus requiring us to delimit the analysis only to two: XV and XVI. The reason is twofold. First,

they represent the biggest deficit Italy has with the region as a whole. Second, the sub-regional differentiation does present interesting characteristics, as previously shown. If we look at Figures 4 and 5, relative to the imports of, respectively, Sections XV and XVI by Chapters, we can see the first of the peculiarities that affect the HS Nomenclature, namely the fact that each Section is divided into a different number of Chapters. This does not mean anything in particular, *per se*, but shows the highly hierarchical structure of tariff classification. This will be relevant also to the statistical analysis conducted in the following sections of this paper.

Figure 5. Section XV Imports (Left) and Exports (Right), percentage shares by Chapter, included in the data callout of the pie charts as Arabic numbers.



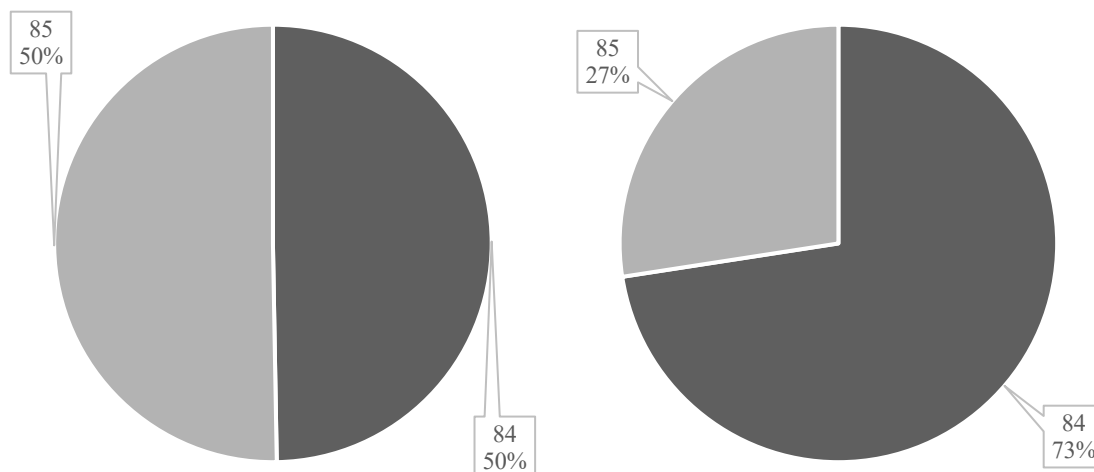
Source: authors' elaboration.

Figure 5 refers to the Section Base Metals & Products, which includes 12 Chapters,⁶ while Figure 6 is relative to the Section Machinery & Electronical Equipment, including only two Chapters.⁷ Lv & Munroe (2024) report on Reuters that Chinese steel has been rising rapidly since 2016, and is predicted to increase further in 2025, with steelmakers declaring to target more than 10 million tons annually by 2028.

⁶ Chapter 77, which is reserved for possible future use in the Harmonized System, is absent from both charts due to the fact that it is not currently in use. From the left chart, Chapters 78 and 80 have been omitted from the legend since their share is lower than 1%. Almost 90% of Section XV imports are constituted by Chapters 72 (which also represent 50% of the total), 73, 74, and 76. They are respectively Iron and Steel, Articles of Iron or Steel, Copper and articles thereof, and Aluminium and articles thereof. If we look at the right chart, we find that again the four Chapters represent 90% of the exports of Section XV. However, their composition is different from the imports, with Chapters 72 and 73 representing respectively a smaller and a bigger share of exports compared to imports.

⁷ Chapter 84 (Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof), and 85 (Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles).

Figure 6. Section XVI Imports (Left) and Exports (Right), percentage shares by Chapter, included in the data callout of the pie charts as Arabic numbers.



Source: authors' elaboration.

In the case of Section XVI, we can actually draw another conclusion: not only do imports and exports differ qualitatively, but also geographically. Figure 2 shows how the Italian trade deficit in the region in Section XVI is mainly driven by NeA, while the other sub-regions mainly constitute a destination market for these goods. The composition of the two analysed Sections suggests that, as hinted previously, Italian imports and exports *qualitatively* differ from and to the region. Therefore, Italy must carefully consider those differences when drawing its Indo-Pacific approach, understanding whether or not Italy depends on the region for procurement of raw materials in certain Sections, or the region depends on Italy for this. Furthermore, it is necessary to understand the degree of interconnection of intermediate goods and where Italy is connected not only to the regional but also the global value chain of certain Sections.

5. Data and Methodology

As mentioned earlier, this examination aims to delve deep into Italy's stake in the Indo-Pacific through the lens of trade. In order to do so, we draw our methodology from the field of public policy evaluation, or 'policy analysis', on the trend begun with Dunn (1981), and later continued by Fisher, Miller, and Sydney (2007). We adhere to its definition given by Dunn (2015, p. 2), as 'a process of multidisciplinary inquiry designed to create, critically assess, and communicate information that is useful in understanding and improving policies'. Thus, we bridge the literary debates on Italian and European Indo-Pacific foreign and trade policies with econometric approaches, such as the hierarchical linear model that we will describe later, so that we can evaluate Italian trade with the region. Furthermore, the importance of such an approach is confirmed by Høydal & Tøge (2021) who found that evidence-based policy-making is considered to be useful by public servants, although their dataset was restricted to Norwegian officials only.

The public policy evaluation methodology allows us a certain degree of autonomy when designing the research because we can tailor our model to the specific needs of the data available. In our case, such a detailed level of analysis, comprehending 22 HS Section divided among 34 countries, leaves us with little to no choice regarding variables. Furthermore, to the best of our knowledge, this specific statistical model, namely hierarchical linear, has not been applied in the literature of preferential trade before. This makes our model an original contribution to the scholarship.

As shown previously, the country of origin and destination of Italy's imports and exports plays a role in determining the nature of trade volumes to the Indo-Pacific. 2022 was a year in which Italy showed a trade deficit in general, not only with the region, and, according to the WITS dataset, 2023 recorded a surplus. Having shown different qualities, we argue that it is necessary to analyse imports and exports separately. Although the exogenous nature of export determinants means Italy has limited policy leverage over them, a separate analysis is crucial for understanding the country's trade vulnerabilities and strengths.

The Generalised System of Preferences utilisation dataset that we used refers only to the exports from these countries to the whole of the EU, not to Italy alone. Therefore, we cannot capture the effects of the GSP utilisation rate and other preferences on Italian imports directly but only indirectly. However, given the nature of the EU common commercial policy, the preferential treatment regime was created with the precise idea that no single European member state should negotiate preferential tariffs on their own, but as long as one non-EU country meets the requirement for GSP it will then qualify for preferential tariffs for all EU nations.

In order to analyse the impact of the EU's GSP and other preferences, we took the utilisation rates by country from the Database on GSP utilization of the UNCTAD. This is divided into the above-mentioned HS Nomenclature 22 Sections. However, the WITS dataset, the one used for the analysis conducted in the previous sections, is divided into more specific tariff codes, the 99 HS Chapters, which in the dataset are called ProductCodes, and which we have aggregated into HS Sections. Furthermore, we did not merge the utilization rate as it is, but created two weighted measures, which we called Weighted GSP and Weighted Other (respectively *Weighted_GSP* and *Weighted_Other* in the dataset), in order to account for the relative importance of each section on the overall national exports to the EU. There are 24 countries in the GSP dataset that are of interest for our analysis, that is with observations for the year 2022: Bangladesh, Bhutan, Cambodia, Fiji, India, Indonesia, Kiribati, Lao, Micronesia, Mongolia, Myanmar, Nauru, Nepal, Pakistan, Papua New Guinea, Philippines, Samoa, Solomon Islands, South Korea, Sri Lanka, Tonga, Tuvalu, Vanuatu, and Vietnam.

The nature of the data, as shown in previous sections, suggests a highly hierarchical structure, meaning that observations are grouped by certain criteria (Raudenbush & Bryk, 2002; pp.3-5), in our case, Country and HS Section. On Python, we used the *statsmodels* library to implement a mixed linear model, where both fixed and random effects are taken into account (Gujarati, 2002). However, the *mixedlm* function of this package, with the option *groups*, allows us to define only one cluster. Even though the tariff classification of a certain good can be arbitrarily attributed, as Weerth (2008) pointed out, the definition of the HS Section is almost universally accepted and does not differ from one nation to another.

Therefore, for the purpose of the statistical model, we can consider the Sections as the same across the countries included in the dataset. As goods traded in different countries belong to the same tariff classification, it is not obvious to consider Sections as a hierarchy below Countries. In fact, the opposite argument can be made, namely that Countries are hierarchically lower than Sections, and we assumed this to be the case. Therefore, we grouped the observations by Section and added a categorical variable to account for the Countries, to capture the idiosyncrasies associated with these. Our estimation model is as follows:

$$\log \log(\text{Imports}_{s,c}) = \beta_{0,s} + \beta_1 * \log \log(\text{Exports}_{s,c}) + \beta_2 * \text{Weighted_GSP}_{s,c} + \beta_3 * \text{Weighted_Other}_{s,c} + \text{Country}_{s,c} + r_{s,c}$$

where $\log(\text{Imports}_{s,c})$ is the logarithm of Italian imports from the country c , c belonging to the already mentioned groups of states (34 in total), relative to the HS Section s , plus $1 * e^{-8}$, or $1 * 10^{-8}$, an addition made necessary to avoid the logarithmic transformation of values equal to zero. The subscript s , thus, assumes a value comprised between 1 and 22, according to the HS system. Similarly, $\log(\text{Exports}_{s,c})$ represents the log transformation of Italian Exports to the country c for the Section s plus $1 * e^{-8}$, or $1 * 10^{-8}$. $\text{Country}_{s,c}$ is a categorical variable to identify the different countries. Please note that the subscript s in the intercept's coefficient denotes that we allowed for random effects relative to the Sections' groups. Finally, Weighted GSP and Weighted Other are calculated as follows:

$$\text{Weighted_GSP}_{s,c} = \frac{\text{TradeValue}_{s,c}}{\text{TotalTrade}_c} * \text{GSP}_{s,c}$$

$$\text{Weighted_Other}_{s,c} = \frac{\text{TradeValue}_{s,c}}{\text{TotalTrade}_c} * \text{Other}_{s,c}$$

where $\text{TradeValue}_{s,c}$ represents the exports of section s of a country c to the EU in US dollars, TotalTrade_c the total exports of the same country to the EU, $\text{GSP}_{s,c}$ the rate of utilization of preferential tariffs of this section from the same country, and $\text{Other}_{s,c}$ the rate of utilization of other non-reciprocal preferential regimes. The variable we constructed is a percentage multiplied by another percentage. The first refers to the weight that the section s exerts on total trade, while the second refers to the quantity of preferential tariffs accessed for the goods in that category. However, two sections might have the same utilization rate, but not the same weight in total trade. This is not *per se* a problem in this topic, but it is for the purpose of our analysis. We are interested not only in understanding if GSP or other preferences matter, but also if it quantitatively impacts the exports of a certain country to the EU.

Therefore, the weighted measures inform us of two things, namely how much the utilization rate affects a particular section given, in turn, how much this section weighs on the total exports. Let's suppose that Section 2 for the Indian exports to the EU is equal to 1000 and the GSP utilization rate is equal to 0.970, while for Section 5 they are equal to 500 and 0.970. A direct comparison between the two GSP would tell us that both

sections qualify in almost their entirety for preferential tariffs, but we would lose the information relative to the different trade volume.

However, if we suppose that the Indian total exports to EU are 10000 and then build the Weighted GSP, we find this is equal to $\frac{1000}{10000} * 0.970 = 0.097$ and $\frac{500}{10000} * 0.970 = 0.049$ for Section 2 and 5 respectively. Now, the latter account for half the impact of the former on the total exports. If, for instance, Section 12 is equal to 1000 and its GSP is also equal to 0.970, in this case its Weighted GSP will be equal to the Weighted GSP of our hypothetical Section 2, meaning that GSP account for the same impact of the overall exports.

5.1. Results and discussion

If we look at Figure 7 below, our hypothesis is confirmed. The software uses the Restricted Maximum Likelihood (REML) method by default, but results do not change when using other optimization options provided by Python's library, thus providing us with efficient and consistent estimators (Raudenbush & Bryk, 2002; pp.408-411).

As a rule of thumb, the higher the Log-Likelihood, the better the model fits the data, but it is more important to test the significance of our variables compared to the null model, namely the one with only the intercept, by implementing a Likelihood Ratio Test (LRT). However, Chen et al. (2020) showed that in models with latent variables, such as the random effects model we implemented, the LRT is sometimes not distributed like a χ^2 , violating Wilks Theorem, and therefore not constituting a good model fitness assessment. However, given the nature of the data, that is the division of trade volumes by HS Sections, there are no other viable variables that can be considered either as explanatory or control. Furthermore, the large sample size, the fact that the majority of the estimated parameters' confidence intervals do not intercept the null value, and the existence of the Hessian matrix with positive eigenvalues⁸ suggests that our LRT is correctly estimated.

If we look at the figure above, we notice that, apart from our predictions on exports and weighted GSP, not all the dummy variables for the countries in our dataset are significant.⁹ However, the inclusion of the country's dummy variables is motivated primarily by the fact that we needed to account for their fixed effects, which the software does not do automatically when clustering for the Sections. We do also recognise that the difference in significance is also explained by the latent variables issue. Nonetheless, the impossibility of designing a model including variables with this level of detail – that could account for both Section and Country – led us to consider our specification the best possible considering the data available.

⁸ Omitted from the paper due to its length, a 37x37 matrix occupying 28 pages. Available at the repository https://osf.io/s62j7/?view_only=474fc4oddedd45de916f43a2d897efd6.

⁹ Please, keep in mind that the intercept, in this case, represents the value of the dummy variable associated with Australia. All the other dummy coefficients are to be interpreted as being relative to this.

Figure 7. Mixed Linear Model Regression Results.

Model:	MixedLM	Dependent Variable:	log_ImportValue
No. Observations:	748	Method:	REML
No. Groups:	22	Scale:	69.0927
Min. group size:	34	Log-Likelihood:	-2594.9409
Max. group size:	34	Converged:	Yes
Mean group size:	34		

	Coef.(Std.Err.)		Coef.(Std.Err.)		Coef.(Std.Err.)
<i>Intercept</i>	12.854(2.065)***				
		<i>Bangladesh</i>	-6.474(2.516)*	<i>Bhutan</i>	-29.272(2.620)***
<i>Brunei</i>	-28.715(2.532)***	<i>Cambodia</i>	-11.678(2.527)***	<i>China</i>	4.662(2.506)
<i>Fiji</i>	-27.616(2.581)***	<i>India</i>	0.725(2.509)	<i>Indonesia</i>	0.122(2.510)
<i>Japan</i>	-0.047(2.506)	<i>Kiribati</i>	-28.977(2.806)***	<i>Lao</i>	-25.696(2.573)***
<i>Malaysia</i>	-2.040(2.507)	<i>Maldives</i>	-24.876(2.526)***	<i>Micronesia</i>	-26.585(2.815)***
<i>Mongolia</i>	-15.515(2.526)***	<i>Myanmar</i>	-9.751(2.534)***	<i>Nauru</i>	-27.342(2.861)***
<i>Nepal</i>	-9.402(2.543)***	<i>New Zealand</i>	-3.545(2.508)	<i>Pakistan</i>	-2.174(2.518)
<i>Palau</i>	-28.959(2.808)***	<i>Papua N. Guinea</i>	-22.313(2.630)***	<i>Philippines</i>	-4.034(2.512)
<i>Samoa</i>	-28.050(2.814)***	<i>Singapore</i>	-3.254(2.506)	<i>Solomon Islands</i>	-28.177(2.698)***
<i>South Korea</i>	-1.527(2.541)	<i>Sri Lanka</i>	-5.303(2.520)*	<i>Thailand</i>	-1.447(2.507)
<i>Tonga</i>	-25.823(2.742)***	<i>Tuvalu</i>	-28.537(2.858)***	<i>Vanuatu</i>	-28.961(2.698)***
		<i>Viet Nam</i>	-1.429(2.512)		
<i>log_ExportValue</i>	0.161(0.041)***				
<i>Weighted_GSP</i>	24.769(4.120)***				
<i>Weighted_Other</i>	37.676(10.729)***				
<i>Group Var</i>	14.474(0.661)				

Source: authors' elaboration.

If we were to consider Countries as our first nested levels, the coefficient of our explanatory variables would not differ substantially, in the case of the weighted GSP, because when it comes to export, coefficient and standard error are the same. Moreover, the model allowing for the random and fixed effects in the Country clusters – rather than in the Section clusters, as we did in the previous section – show a higher degree of variability between groups, meaning that country differences also contribute to explaining the model.

Finally, there is also a temporal limitation to what we can say about Italian trade in the region from the model. In fact, it is important to consider that, even though trade can be considered a time-dependent variable (Anderson & van Wincopp, 2012; Hummels, & Schaur, 2013), and therefore some of the elements shown in this paper can be seen in later years, it can be subjected to year-specific shocks, like the increase in the price of energy due to the invasion of Ukraine and the subsequent rise in production costs, which in turn also affects the cost of importing goods.

The most important result for us is the significance of the weighted variables. They are both positive and statistically significant. As explained in the previous section, they have been created with the purpose of capturing not only the rates of utilization, but also the weight of the relative Section on total trade. Therefore, not only does the amount of preferences received by a country matter, but also the quantity of trade they refer to. This in turn means that the more a country exports to the EU under the non-reciprocal preferential tariffs, the more Italy has to gain in terms of reduced price of the imported goods. The significance or not of the country dummy variables, in which it appears that smaller countries show significant coefficients, suggest that there are idiosyncratic factors to take into account and this might improve the general quality of the model. However, given the originality of the model, it can constitute a good starting point for future research. At the same time, the graduation of Vietnam from the GSP scheme could be an interesting further analysis. Both issues suggest that the particular conditions of each country, as also shown in previous sections of this paper, are important factors to take into consideration when defining a proper economic approach to the Indo-Pacific.

The analysed data have shown how, in spite of an evident trade deficit with China, in some sectors such as machineries and other technologies, Italy maintains a surplus with the rest of the region. This finding is compatible with possible future orientations of friend-shoring policies.

In fact, in light of the results and the positive and significant correlation between preferential utilization rates, weighted by the importance of the corresponding HS sections in these countries' exports to the EU, profiling and Italian economic engagement with the region may need to consider the enormous potential that trade and preferential treatment represent for building and strengthening relationships with many emerging countries in the area. Indeed, while it has been extensively illustrated above that Italy enjoys a trade surplus in some sectors with the region, it is equally important to stress that it is in the interest of these emerging countries for Italy to become a key destination for their economic activities, and to position itself as an important partner in supporting their economic development. This remains by far the top priority for the vast majority of countries in the region and often serves as the foundation for their alignment choices. This evidence further supports the complex reflections previously discussed regarding

Italy's role in the region – one that, far from being solely driven by security concerns and de-risking at all costs, can instead capitalize on this advantageous position.

In its diplomatic engagement with some emerging nations, the results show how there is a benefit for Italy in the upkeep of preferential treatment, as this results in a dramatic increase in trade volumes between the EU (and Italy, indirectly) and such countries, in a mutual and beneficial relation. For the above, it can be argued that Italy's economic stake in the Indo-Pacific lies in buttressing FTAs and working with other regional partners in order to upkeep such systems. To do so, there may be two viable roads. The first is related to the strengthening of the bilateral relations with certain actors, like the Philippines or Bangladesh, to negotiate the contents of European trade agreements in its favour. The second is within the EU's body. FTAs, on paper, are determined together with the Commission, the Council of the European Union, and the Parliament, but, *de facto*, the first two hold the reins of negotiations. A possible avenue for Italy to leverage its position may be through coordinating the efforts of the commissioner as well as their ministers to advocate for preferential tariffs, in those sectors where the trade balance is in deficit.

6. Conclusions

This paper seeks to provide a comprehensive analytical and data-driven understanding of Italy's current and prospective engagement with the Indo-Pacific region. Recognizing the region's increasing geopolitical and geoeconomic importance, our study aims to identify the primary drivers behind Italy's evolving Indo-Pacific strategy and explore opportunities for deeper economic collaboration. We initiated this inquiry by examining Italy's foreign policy context as a second-tier power and the complex entanglement of economic and strategic issues within the Indo-Pacific, including the emerging concepts of de-risking and friend-shoring.

To achieve our objectives, we combined a review of relevant literature on Italian foreign policy with a novel econometric analysis of Italy's trade relations with the Indo-Pacific. Our data-driven component focused on Italian import and export volumes with 34 countries in the region for 2022. Crucially, we estimated a hierarchical regression model on this cross-sectional dataset to statistically analyse the effects of the EU's preferential trade agreements, specifically the GSP and other non-reciprocal preferential regimes. This application of a hierarchical linear model to preferential trade literature represents an original contribution to the scholarship. We specifically constructed weighted measures for GSP and other preferences to account for the relative importance of each HS Section on overall national exports to the EU.

Our statistical findings confirm that preferential utilization rates, weighted by their importance in corresponding HS sections, significantly and positively impact Italian imports from Indo-Pacific countries. This suggests that the extent of preferences a country receives, alongside the volume of trade such preferences apply to, plays a crucial role in shaping Italy's economic gains through reduced import prices. While Italy exhibits a trade deficit with China in certain sectors like machinery and electronics, our analysis reveals that it maintains a trade surplus with the rest of the Indo-Pacific region, a finding compatible with future 'friend-shoring' policies. The varying significance of country-specific dummy variables in our model also points to the presence of idiosyncratic

factors, suggesting that country-specific conditions are vital considerations for refining an Indo-Pacific economic approach.

Despite these robust findings, our study faces certain limitations. The GSP utilization rate dataset used pertains to exports from beneficiary countries to the entire EU, not exclusively to Italy, thereby allowing us to capture only the indirect effects on Italian imports. The highly detailed level of analysis, encompassing 22 HS sections across 34 countries, constrained our choice of explanatory variables. Furthermore, while the HS Section classification is widely accepted, our assumption of countries being hierarchically nested within sections, rather than the inverse, could be debated. Finally, the cross-sectional nature of the data means our model primarily reflects trade dynamics for 2022. Trade volumes are subject to year-specific shocks, such as the increase in energy prices due to the conflict in Ukraine, which can impact import costs.

Future research could address these limitations by exploring a temporal dimension in the analysis to account for time-dependent trade variables and further investigate the specific conditions of individual countries, such as Vietnam's graduation from the GSP scheme. From a policy perspective, the results suggest that Italy may consider building on its observed preference for multilateralism and inclusivity in its Indo-Pacific economic engagement. As Dell'Era and Pugliese (2024) note, maintaining a multilateral approach alongside bilateral relations is crucial for Italy in the Indo-Pacific, even as it strengthens security ties with partners like South Korea, Vietnam, and the Philippines. Economically, given the predominant role of trade agreements, it can be argued that Italy's interest lies in actively navigating the EU's trade negotiation processes with Indo-Pacific states. This involves leveraging the room for manoeuvre available to Italian ministers to advocate for preferential tariff regimes that benefit its specific regional trade characteristics, particularly for goods where a negative trade balance exists. Maximizing profitability for Italian companies in the Indo-Pacific may require a nuanced understanding of how these agreements unfold along both geopolitical and geoeconomic lines. Ultimately, Italy's de-risking efforts will greatly benefit from exploiting existing opportunities with key consolidated and emerging partners within the region.

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