

# COMPETITIVENESS AND EXPORT PERFORMANCE OF ITALY

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## 1. Italy's role among the major manufacturing countries

Italy is the world's fifth manufacturing country in terms of manufacturing value added, as appears from the latest edition of the World Bank's "World Development Indicators 2009", after the US, China, Japan and Germany and before France, the United Kingdom and South Korea.

In particular, Italy is the second industrial manufacturing country in Europe after Germany. In 2008 the value added directly generated by the Italian manufacturing sector (without considering its impact on the other economic sectors) amounted to 262 billion euros, based on basic prices, after Germany (517 billion) but well ahead of France (209 billion) and Great Britain (201 billion).

In 2008 Italy recorded one of the largest foreign trade surpluses in the world in non-food manufactured products (64 billion euros, 50 of which in northern Italy alone) after China, Japan and Germany, while other advanced countries (such as France, Spain, Great Britain and the US) recorded considerable deficits (see Table 1).

**Table 1**

**Trade balance of some countries for non-food manufactured industrial goods: year 2008**  
(billion euro)

	Machinery and transport equipment	Chemistry and pharmaceuticals industry	Other manufactured goods	Total
CHINA*	121	-35	237	323
GERMANY	199	44	35	278
JAPAN*	219	15	-3	231
<b>ITALY</b>	<b>37</b>	<b>-10</b>	<b>37</b>	<b>64</b>
<i>Northern Italy</i>	<i>31</i>	<i>-9</i>	<i>28</i>	<i>50</i>
SWEDEN	11	1	6	18
FRANCE	-3	12	-30	-21
SPAIN	-21	-9	-14	-44
UNITED KINGDOM	-36	6	-40	-70
UNITED STATES*	-158	-4	-224	-386

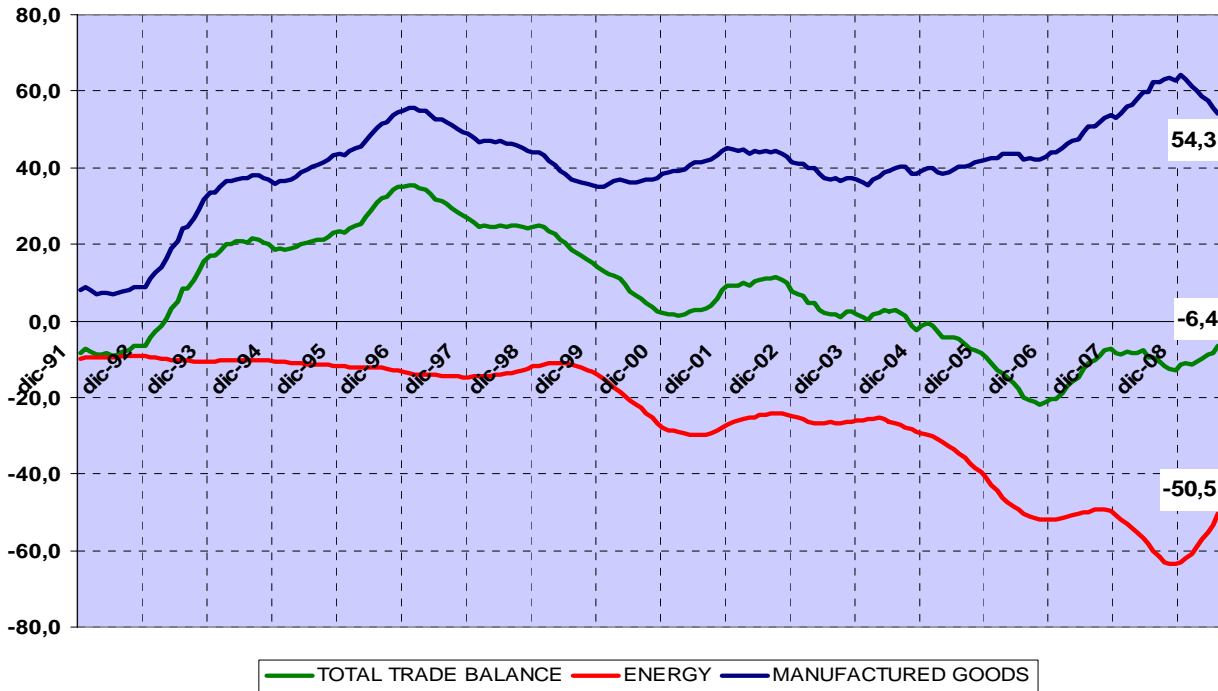
\* 2007 data.

Source: Eurostat

Despite the looming world recession triggered by the financial and subprime mortgage crisis in the US, in 2008 Italy set a new record in its overall foreign trade surplus in the sector of manufactured products (including food): the Italian manufacturing surplus exceeded 64 billion euros (Fig. 1).

**Figure 1 – Italy net trade in manufactured goods: last 12 months**  
(billion euro, update to July 2009)

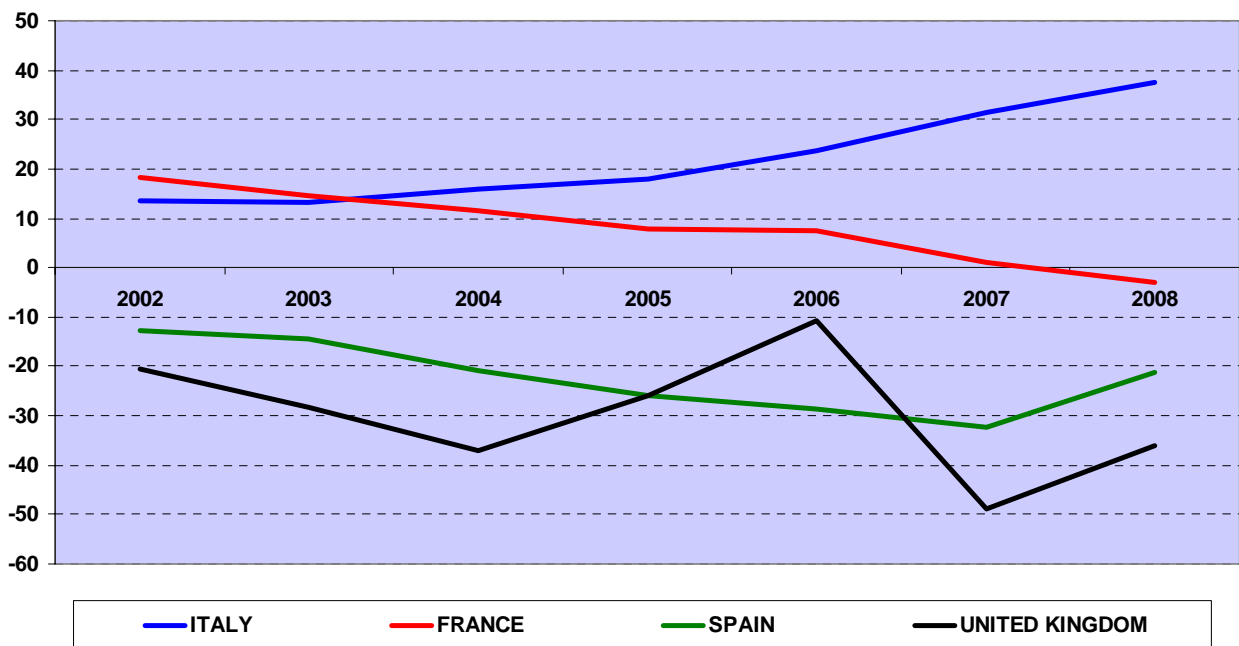
Source: Istat



In the last seven years the Italian economy significantly increased its foreign trade surplus in the sector of “machinery and transport equipment” (group SITC 7), which in 2008 recorded a surplus of 37.4 billion euros, while other European countries such as France, Spain and Great Britain became weaker and weaker (Fig. 2).

**Figure 2 – Machinery and transport equipment: net trade (billion euro)**

Source: Eurostat

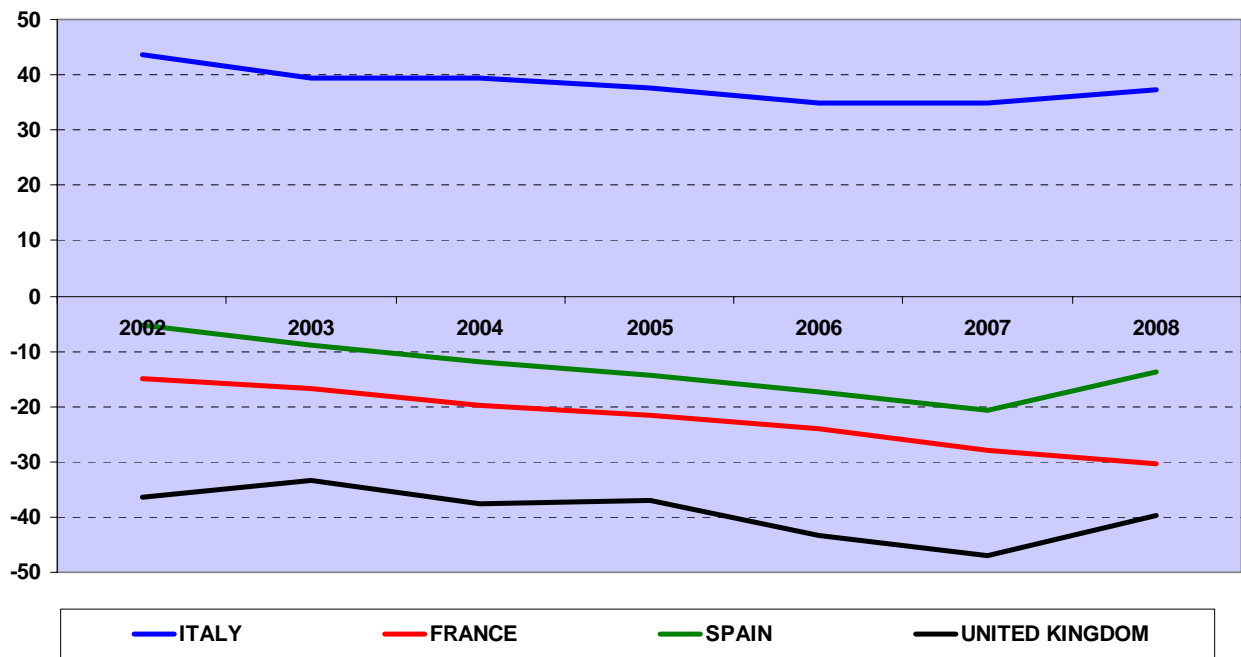


Also in the sector of "other manufactured products" (groups SITC 6+8, which include textile, footwear, furniture etc.) Italy was the only major European country posting a remarkable trade surplus with 37.2 billion euros in 2008 (Fig. 3) despite the rising Chinese competition in the lower value-added products.

In non-food products Italy has a trade deficit only in chemicals (SITC 5), which amounted to –10 billion euros in 2008.

**Figure 3 – Other manufactured goods: net trade (billion euro)**

*Source: Eurostat*



## **2. The value added generated by the Italian manufacturing industry: the strength of the “4 Fs”**

The major sectors of the Italian manufacturing industry, i.e. where our country is most specialized and a substantial foreign trade surplus is recorded, can be listed under the so-called "4 Fs":

- Food and wines;
- Fashion: including, in addition to apparel, leather goods, footwear, jewellery, eyewear, cosmetics and perfumery;
- Furniture and building materials: including, in addition to wood products and furniture, ornamental stones, tiles and other ceramic products;
- Fabricated metal products and machinery, Ferrari cars, yachts, cruising ships and helicopters, plastic and rubber products: including all non-electronic machinery, i.e. industrial machinery, mechanical equipment, plastic and rubber products as well all transport equipment and car parts except for finished cars, where our trade balance shows a deficit; only Ferrari sportcars, a real "made in Italy" symbol, are included.

In 2006 the "4 Fs" generated an added value of about 142 billion euros (Table 2), or about 65% of Italy's overall manufacturing value added at factor cost (219 billion). The "4 Fs" employ 3.3 million people.

**Table 2**  
**The "4 Fs" of the "made in Italy"**

The 4 F's	Value added at factor cost (billion euro), Year 2006	Number of persons employed (thousand), Year 2006	Net foreign trade surplus (billion euro), Year 2008
Food and wine (a)	19	465	3,5 (f)
Fashion and luxury (b)	25,5	719	21,4
Furniture and building materials (c)	16,4	473	12,1
Fabricated metal products, machinery, plastic and rubber products (d)	80,8 (e)	1.669 (e)	76,0
<b>TOTAL</b>	<b>142</b>	<b>3.326</b>	<b>113</b>

(a) All manufactured food products.

(b) Textiles, apparel, shoes and leather products, perfumes and toiletry, eyewear, jewellery.

(c) Wood and wood products, furniture, ceramic household articles, ceramic sanitary fixtures and ceramic tiles, ornamental and building stones.

(d) Ferrari luxury cars, other transport equipment (i.e. helicopters, yachts, cruising ships, motorcycles and bicycles, excluding common passenger cars and industrial vehicles), fabricated metal products, non-electronic machinery and equipment, plastic and rubber products.

(e) Ferrari Group data: 2007

(f) Excluding fresh milk and fresh meat.

Source: Eurostat, Istat, Mediobanca

Even individually the "4 Fs" generate a considerable value added, as shown by some comparisons with important industry sectors of other European countries (Table 3).

**Table 3**  
**The value added of the "4 Fs" of "made in Italy": some international comparisons**

The "4 Fs" of Made in Italy manufacturing	Value added at factor cost (billion euro), Year 2006	International comparisons	Value added at factor cost (billion euro), Year 2006
ITALY - Food and wine	19	FRANCE+SPAIN - Manufacture of motor vehicles	16
ITALY- Fashion and luxury	26	FRANCE+GERMANY+UK - Manufacture of aircraft and spacecraft	24
ITALY - Furniture and building materials	16	FINLAND+SWEDEN+UK - Manufacture of radio, television and communications apparatus	15
ITALY - Fabricated metal products, machinery, plastic and rubber products	81	UE-27 (including Italy) - Manufacture of pharmaceuticals, medicinal chemicals and botanic products	71

Source: Eurostat

For example, in 2006 the Italian food and wines industry recorded a value added of 19 billion euros, which is more than France's and Spain's car industries considered together (16 billion).

The value added of the Italian fashion industry was 26 billion euros in 2006, a larger amount than the total aerospace industries of France, UK and Germany (24 billion).

The Italian Furniture and building materials industry, with 16 billion euros in 2006, has a bigger value added size than the industry of radio and TV sets and telephones of Finland, Sweden and Great Britain considered together (15 billion).

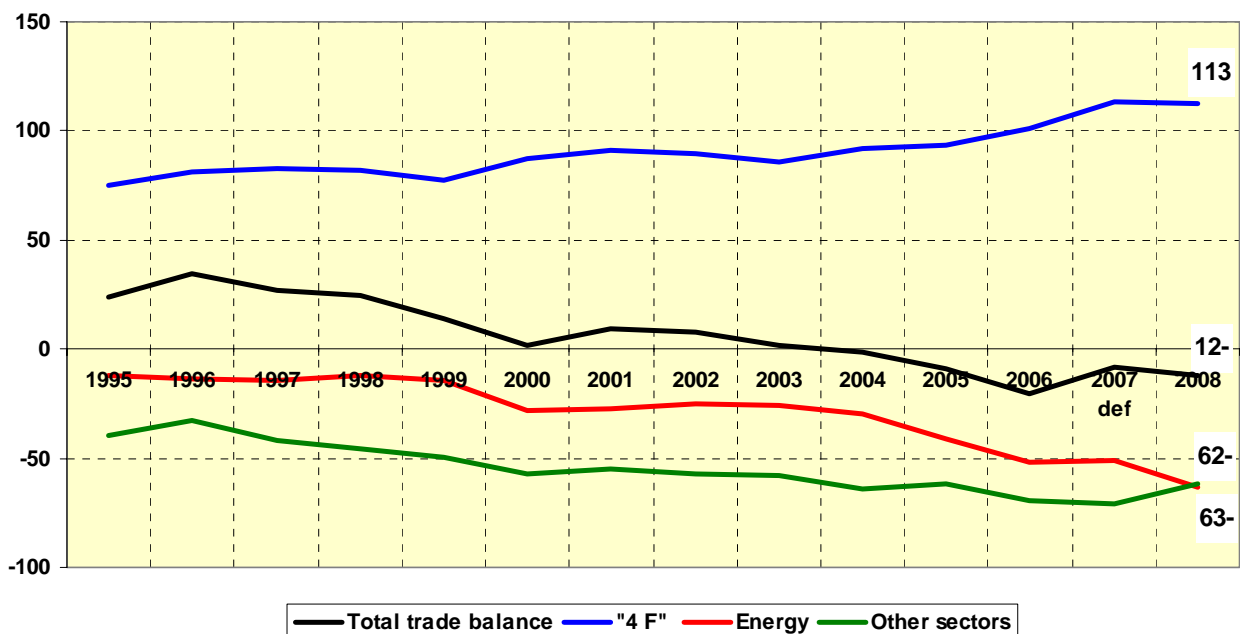
Finally the Italian fabricated metal products and machinery generated almost 81 billion euros' worth of value added in 2006, i.e. more than the whole pharmaceuticals industry of the European Union with 27 member states (71 billion).

These extraordinary results were possible because in the traditional sectors (food, fashion and furniture) Italy covers the higher-value-added segments, thus distinguishing its production from the lower-value articles from the emerging countries. At the same time fabricated metal products and machinery represent a number of sectors where Italy is a niche leader in technology and quality, with products ranging from luxury yachts to cruising ships, from Ferrari cars to helicopters, from specialized industrial machinery to general-purpose mechanical equipment such as valves, taps, pumps etc., from domestic appliances to metal household goods, knobs and handles, ironware, bolts etc, down to a wide range of plastic and rubber articles.

### 3. The Italian foreign trade manufacturing surplus in the "4 Fs" sectors and the Trade Performance Index

In 2008 the foreign trade surplus of the "4 Fs" reached 113 billion euros (see Table 2 and Fig. 4).

**Figure 4**  
**The contribution of the Made in Italy's "4 Fs" to the Italian trade balance (billion euro)**  
*Source: Istat (Ateco 2007)*



Previous Fondazione Edison surveys show that in the "4 Fs" sectors Italy has the second-best trade surplus in the world after China (100 and 144 billion dollars respectively in 2005). However, while the Chinese surplus is mainly concentrated in fashion (besides electronics, not included in the "4 Fs"), Italy's surplus in all four sectors has a more balanced distribution, with a rising weight in the sector of fabricated metal products and machinery, which especially in the last 15 to 20 years reached the importance of the traditional "made in Italy" products of "Mediterranean" food, wines as well as personal and household goods.

It is worth mentioning that a recent international trade competitiveness indicator devised by the UNCTAD and the WTO, the "Trade Performance Index" (TPI)<sup>1</sup>, ranks Italy as second best after Germany for number of best placings in its sector tables. We actually hold 3 best and 4 second-best positions in the 14 macrosectors analyzed on the basis of the 2006 figures, immediately after Germany, which has 7 best and 2 second-best competitiveness positions (Table 4).

**Table 4**  
**THE UNCTAD/WTO "TRADE PERFORMANCE INDEX"**  
**The first most competitive countries in the world trade in 14 sectors:**  
**number of first, second and third positions in 14 sectors**

Rank	Country	Gold Medal	Silver Medal	Bronze Medal
1	Germany	7	2	0
2	ITALY	3	4	0
3	Netherlands	2	1	0
4	Sweden	1	0	3
5	Australia	1	0	0
6	China	0	3	0
7	France	0	1	3
8	Russia	0	1	0
9	Finland	0	1	0
10	Denmark	0	1	0

Source: Unctad/WTO

In particular, according to the *TPI*, Italy ranks first in the competitiveness table in many product categories in the "4 Fs". It is first in textile products, clothing as well as leather products and footwear. It is second in non-electronic machinery (where it competes on equal terms with Germany), in miscellaneous products (thanks to eyewear and jewellery) and in basic manufactured products (which include metal products, marble and ceramic tiles, where Italy has always been at the top in the world) (Table 5). In addition, our country ranks sixth in processed food (which includes wines).

<sup>1</sup> The *Trade Performance Index (TPI)* is a new indicator jointly devised by UNCTAD and the WTO through their International Trade. The UNCTAD/WTO developed the *TPI* for the 14 major macrosectors of the international trade. A composite index was built for each macrosector of each country based on five sub-indicators: trade balance; per capita exports; world exports share; diversification level of each macrosector in terms of number of products contained; and market diversification level. Thus the *TPI* takes into account not only the absolute trade value, but also the size and specialization of each country as well as any weaknesses resulting from excessive concentration of the exports on few products or destination markets. For more details on the *Trade Performance Index* see: International Trade Centre UNCTAD/WTO, *The Trade Performance Index. Technical Notes*, May 2007.

**Table 5**  
**Countries' ranking in the UNCTAD/WTO "Trade Performance Index": year 2006**  
 (Current Index)

	1st Country	2nd Country	3rd Country
Transport equipment	Germany	France	South Korea
Non-electric machinery	Germany	<b>ITALY</b>	Sweden
Chemicals	Germany	Netherlands	France
Basic Manufacturing	Germany	<b>ITALY</b>	Sweden
Miscellaneous manufacturing	Germany	<b>ITALY</b>	Switzerland
Electric machinery and electrical appliance	Germany	<b>ITALY</b>	France
Electronic components	Sweden	China	Singapore
Minerals	Australia	Russia	Norway
Processed food	Netherlands	Germany	France
Wood products	Germany	Finland	Sweden
Fresh food	Netherlands	Denmark/ New Zealand	-
Textiles	<b>ITALY</b>	Germany	Taiwan
Clothing	<b>ITALY</b>	China	Rumania
Leather products	<b>ITALY</b>	China	Vietnam

Source: UNCTAD/WTO, International Trade Centre

It should also be stressed that the statistical aggregations penalize Italy's leadership in furniture, which the *TPI* includes in the macrosector of forest products and derivatives. Otherwise we would hold an additional top position thanks to our undisputed leadership in furniture manufacture in Europe.

#### **4. The Italian manufacturing industry maintains its competitiveness in the world market**

The surplus figures, especially in the "4 Fs" sectors, as well as the *TPI* figures, once more disprove the "decline" theories that in the last few years envisaged Italy's irreversible fall as a manufacturing nation and exporter of finished products.

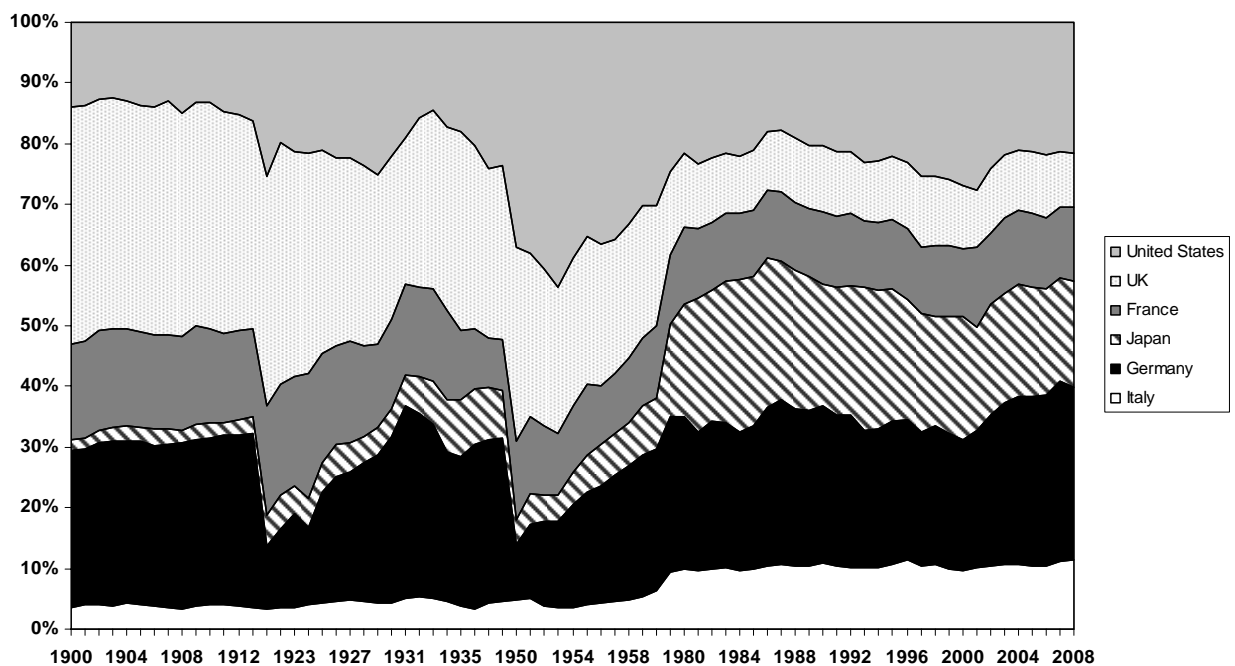
One of the biggest assessment errors of the Italian economy's ranking and competitiveness in recent years, which so powerfully fuelled the mentioned decline theories, concerns Italy's international trade share. Under the threat of the rising asymmetric Asian competition (nourished by dumping actions: in currency, social, environment etc.), many hurriedly inferred that the bell was tolling for the Italian industry, the evidence being a decrease in our world exports share. However, the inference was unfounded and incorrect for several reasons: 1) Many analysts used historical series at constant values, therefore volume-based series, to calculate the Italian exports shares (neglecting Italy's recent shift towards higher-value-added productions, which sacrificed volumes but increased the value of its goods); 2) Use of historical series for total exports (which include energy and farming raw materials, whose prices have been rocketing in the last few years, resulting in a distorted view of the real competition trend, because of the simultaneous increase in the exports of oil producing and food exporting countries); 3) Ignoring the growth of the emerging countries (China first and foremost) generally diminished not only Italy's world exports shares, but also those of the overall G-6 system.

In order to overcome those methodological errors, the Fondazione Edison carried out an analysis based on new historical series (recently re-constructed by the UN) of the non-food industrial products exports in current US dollars covering the period from 1900 to 2008. The relevant Italian share (therefore energy and raw materials excluded) was already clearly recovering as early as in 2007, after an only temporary decline in the late '90s, and above all, our manufacturing exports share shows an outstanding performance trend among the major industrial countries (Figures 5 and 6).

As can be seen, in the last 110 years our total non-food exports share in the G-6 countries has never been as large as now, with the historical record of 11.4% reached in 2008, exactly at the start of the current worldwide economic downturn. Previously the other advanced countries had reached their top shares in G-6 exports in the following years: Great Britain in 1922; France in 1924; Germany in 1931; United States in 1953; Japan in 1984. Among the most advanced countries only Germany, together with Italy, showed a sharp increase in the G-6 manufacturing exports (at least until 2007) which brought again Germany close to its historical records of the '30s.

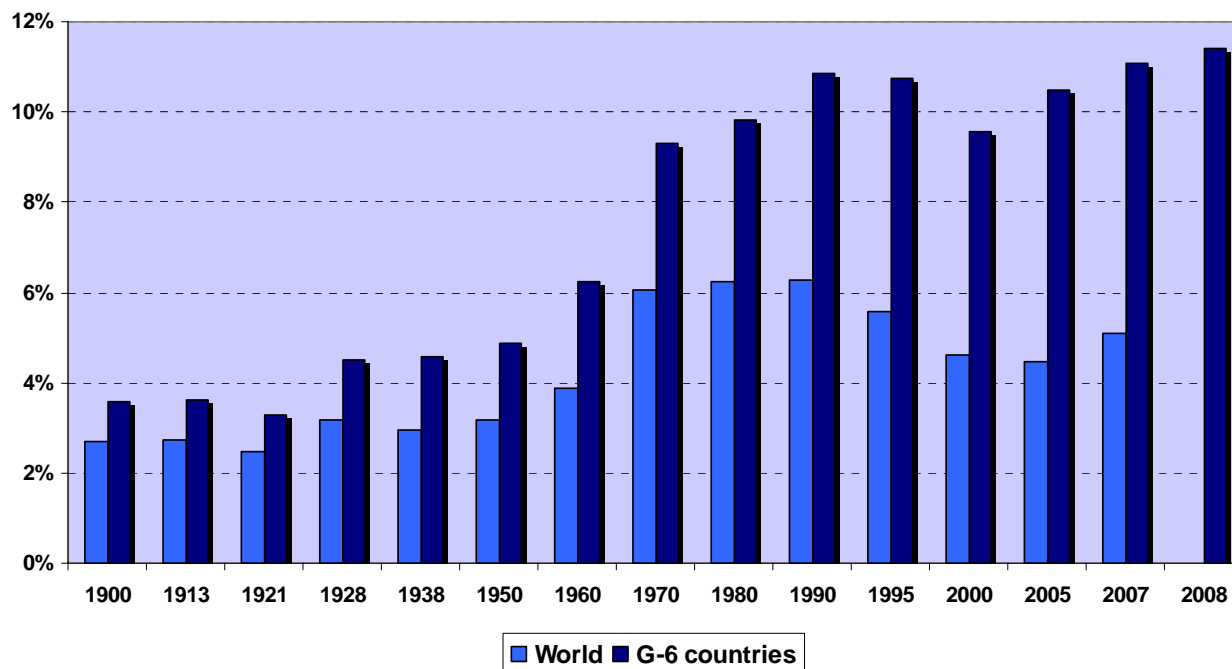
Italy's brilliant results in comparison with the other G-6 countries are even more significant because they were achieved despite the sharp euro revaluation of the last few years. While on the one hand the strength of the euro did increase the value of our exports in dollars, on the other it should have weakened our competitiveness and exporting ability. This did not happen because our industrial products have become more and more competitive and appreciated on the world markets thanks to their quality as well as design, technology and service innovation. In addition, our country has thus offshored less than other countries, keeping value added within its territory.

**Figure 5**  
**Shares of each country of G-6 in the export of manufactured goods: 1900-2008**  
*Source: ONU*





**Figure 6**  
**Shares of Italy in the total export of non-food manufactured goods**  
**of the G-6 countries and of the World**  
 (calculated on dollars data at current value)  
*Source: Marco Fortis © on ONU data*



Having said that, the international trade crisis that started in 2008 is undoubtedly severe and in the first half of 2009 it had a heavy impact on our exports, whose value dropped by about 1/4<sup>th</sup> over the first half of 2008. This trend, however, did not concern Italy only; similar declines affected also Germany, Great Britain and France among the bigger European countries, and China in Asia. Even sharper drops, between 30% and 35%, were recorded in some EU northern countries specialized in hi-tech like Sweden and Finland. In Asia Japan's exports decreased by about 1/3<sup>rd</sup> in the first seven months of 2009.

However, the recession, though dramatic, seems to be easing off, i.e. the worst drop in indicators should be behind us. The recovery will be probably very slow, as reported by the OECD and IMF, resulting in painful production capacity adjustment processes, but we believe that the global downturn will not substantially change the production traditions of the various countries. The "made in Italy" industry, in particular, should not lose heart because, though suffering, it is not sinking.

This is evidenced by the trend of the EU countries' trade balance, which shows Italy's significant resilience in comparison with other countries. According to our estimates based on Eurostat figures, in the 12 months between July 2008 and June 2009 our overall trade balance, including energy and raw materials, recorded a minor deficit, i.e. 8.4 billion euro. On the contrary, large foreign trade deficits were posted by France (-65 billion), Spain (-62 billion) and Great Britain (-102 billion). Germany's surplus, though considerably shrinking, is still large (132 billion). Therefore though Italy, like Germany, did suffer the sharp world trade contraction, neither did its foreign balance worsen hopelessly nor does its manufacturing tradition risk to be disrupted.

This is even clearer from the statistics concerning manufactured goods trade only. Over the twelve months from July 2008 to June 2009 our country's surplus obviously shrank because of the global downturn, but the "made in Italy" industry maintained its relative strong position in comparison with its competitors, especially in two major categories like consumer products (cars and fuels excluded) and investment goods, measured according to the BEC' classification.

In the sector of **consumer goods**, which include many of our most successful products such as clothing, footwear, eyewear, leather goods and jewellery, despite the undeniable difficulties to be faced, we are still the EU country with the highest foreign trade surplus: 21.5 billion euros vs. Germany's 7.7 billion. The other major European countries recorded heavy deficits: Spain -6.1 billion, France -9.7 billion and Great Britain as much as -42.4 billion.

In **investment goods** Italy holds a firm second place in the trade balance after Germany. Between July 2008 and June 2009 our surplus here (where we are leaders in industrial machinery and household equipment) amounted to 22.7 billion euros, after Germany's (83.8 billion), but well ahead of France's (6.9 billion) while Spain and Great Britain suffered deficits (-8.7 and -12.3 billion, respectively).

Of course we cannot underrate the difficulties we have to face. The risk exists, also in Italy, of unemployment problems in the rest of 2009 and in 2010, though in our opinion not so dramatic as in other countries. The recovery will be long not only in the US, Germany and China, but also for us.

A country like Italy, which in the middle of the severest world economic recession since 1929 still generated a trade surplus of 44 billion euros in consumer and investment goods between July 2008 and June 2009, is not a declining country. And this confirms that the "made in Italy" industry is still capable of showing its strength in the competition scenario.