

# Preface

A comprehensive description of the main characteristics and strengths and most relevant aspects of the Italian production system are provided in this work, which aims to fill a “gap” in the existing economic literature on Italy’s international competitiveness in an attempt to clarify misinterpretations and avoid common errors.

This book—through a rigorous analysis developed on the basis of data from Istat, Eutostat, UN Comtrade, WTO, and International Trade Center—provides data which show the strengths of the main Italian sectors of specialization. It offers the necessary evidence to prove that Italy remains a major competitive country internationally, contrary to those who claim it is inexorably declining, and ascribe erroneously the cause to a high manufacturing concentration in the more traditional sectors.

The book is divided into seven chapters; the first three are more general while the last four provide detailed analyses of specific sectors. The first chapter describes the top Italian manufacturing products in world trade. The second chapter outlines the fundamental role of the industrial district model for Italian industry in terms of employment, added value, exports, and foreign trade balance. A broad overview of the mechanical engineering sector is provided in the third chapter. It depicts the sector’s impressive growth, and how over the past 20 years it has gained increasing shares of both domestic and foreign markets. The last four chapters provide a thorough assessment of the sectors that are becoming increasingly pertinent to the Italian economy like mechanical engineering, more specifically wrapping and packaging machinery; pharmaceuticals; food and wine; and tourism.

Chapter 1 analyzes Italy’s international competitiveness and introduces a new analytical tool, the Fortis–Corradini Index (FCI), named after the authors who developed it on behalf of the Fondazione Edison. This index is used to highlight Italy’s strengths in international trade. It differs from the Trade Performance Index (TPI) developed by International Trade Center (UNCTAD/WTO). The Fortis–Corradini Index provides a high degree of detail at the sectoral level through the 5,117 products under the international classification HS96—available in the UN Comtrade database with a six-digit breakdown—in which world trade is

subdivided. The FCI shows how Italy is one of the most competitive countries in the world and that it holds important leadership positions in international trade. With reference to 2012, Italy in fact ranked first, second or third in the trade balance of 932 products for a total worth of \$177 billion. Moreover, there were more than 1,200 Italian products that had a trade surplus greater than the same German product (assuming Germany as international performance benchmark). Only China performed better than Italy with a trade surplus of around 2,200 products which did better than the German products. The chapter concludes with an appendix of detailed statistics describing the 235 first positions, the 376 second positions, and the 321 third positions obtained by Italy in international commerce in terms of trade surplus, as well as the 1,235 products where the Italian trade surplus was greater than German one.

Chapter 2 describes the Italian Industrial District (ID) phenomenon, which has grown to become unequaled by other advanced nations. It clearly describes the role and importance, at both the national and international level, of Italian Industrial Districts and presents a “map” of the main “Made in Italy” district specializations. More specifically, an in-depth analysis is provided of the links between Italian Industrial Districts and production specializations. The main classifications of an Industrial District proposed by various Italian sources (Istat, Mediobanca-Unioncamere, Fondazione Edison, Banca d’Italia) are listed. The relevance of IDs is described in terms of employment and production dynamics. The role of IDs in domestic and international markets is clearly depicted. The factors which continue to ensure the success of Industrial Districts are expounded in the conclusion.

Chapter 3—after an initial section delineating the historical framework of the main phases of Italian industrialization and economic growth (both domestic and foreign), from its unification to the present—analyzes the dominant production specializations from WWII onwards. The Fondazione Edison has coined the term 4Fs (Fashion and cosmetics; Furniture and ceramic tiles; Fabricated metal products, machinery and transport equipment; Food and wine) to describe the main sectors of “Made in Italy” specializations. A case study is provided of mechanical engineering which, over time, has become the leading motor of the 4Fs. This chapter in particular expounds Italy’s ability to maintain its world export quotas in manufacturing notwithstanding the rise of China over the last years. This has been possible, in part, due to the shift in production specializations. The general contraction of market segments in the fashion and furniture sectors—which nonetheless continue to maintain a relevant share of production—is counterbalanced by a significant production increase in mechanical engineering (in particular non-electronic machinery, i.e. metal products, industrial machinery and domestic appliances, but also some electronic equipment) and means of transport other than cars (luxury yachts, cruise ships, helicopters). In fact, today, the mechanical engineering sector, in terms of machines and mechanical equipment (excluding metal products), has an export quota which is almost double that of fashion. Italy ranks second in both electric and non-electric mechanical engineering products, according to the UNCTAD/WTO Trade Performance Index for international competitiveness. When considering the 633 products specific to machinery, equipment and metal products found in the

Fortis–Corradini Index, Italy places first, second, and third for world trade surplus in 285 of these, for a total value of \$66 billion. It, furthermore, has a higher trade surplus than Germany in 179 of these products. The chapter also proves that Italy is not at all in “decline” when it comes to international trade. While it must certainly strengthen its production system, possibly through an aggregation process of pooling smaller-sized Italian companies and encouraging greater growth among medium-large and large companies, englobed by the term *quarto capitalismo* (fourth capitalism), it has reacted positively to challenges, by shifting its manufacturing, which has provided further opportunities to conquer new global leadership positions.

Chapter 4—after a general description of Italian Industrial Districts (Chap. 2), and a broad overview of the main development phases of Italian mechanical engineering (Chap. 3)—provides details of Industrial Districts in the field of mechanical engineering. Automated machines for wrapping and packaging in Emilia-Romagna existed already since the 1920s, but the industry experienced vigorous growth only after World War II. The chapter first describes the evolution of the mechanical engineering industry in Bologna where, during the last decades of the twentieth century, the automated machines sector experienced fabulous growth in wrapping and packaging machinery, which in fact became a central pillar of the Italian mechanical engineering industry. The section which follows is dedicated to the history of the Emilia district, highlighting the success factors, and providing a comparison of the more recent dynamics with its direct German competitor, the Baden-Württemberg district. The analysis covers various aspects beginning with: (a) a detailed examination of exports and Italian and German trade balances as well as their automated machinery for wrapping and packaging sectors, using Eurostat data; (b) an analysis of where the two countries rank in the world trade classification of the top 10 countries exporting automated wrapping and packaging machines worldwide, using UN Comtrade data; (c) a scrutiny of the size of the two districts—Baden-Württemberg and Emilia-Romagna—for automated packaging machinery. This analysis highlights Italy’s “superiority” particularly with respect to Germany. The Emilia-Bologna industrial district, which from the original Bologna district expanded to embrace Modena and the provinces of Parma and Reggio Emilia, in this “broader” form employed 16,000 workers in 2011 and had a turnover of €3.7 billion. The German district of Baden-Württemberg which now also encompasses the neighboring regions North East of Stuttgart of Schwäbisch Hall and Waiblingen, employed 13,000 workers in 2010.

Chapter 5 analyzes a sector which in more recent years has re-acquired a significant role in the Italian economy. The pharmaceutical sector has found ample space for growth in Italy due to numerous investments from foreign multinationals attracted by its production sites, research centers, and qualified personnel at competitive prices. The chapter describes the relevant size of the pharmaceutical sector, focusing on those regions where the pharmaceutical industry is most present. It compares these industries at the European level and identifies the ranks of the five Italian regions within the classification of large European pharmaceutical regions. The chapter then provides an analysis of the industrial performance of the

pharmaceutical sector in terms of production, investments and exports both domestic and foreign. More specifically, from 1991 to 2014 Italy's export share of pharmaceutical products (medicines and pharmaceutical preparations) of total exports improved from 0.5 % to 4.5 % and the ranking of exported pharmaceutical products increased from 53rd place in 1991 to 4th place in 2014. Within an international context, Italy, over the last 5 years, has registered the largest increase in absolute value of pharmaceutical exports (\$8.1 billion), and its share of exports between 2010 and 2014 grew by 2 percentage points from 4.5 % to 6.5 %. German pharmaceutical exports increased by 1 percentage points, while that of other major European countries decreased. Lastly, the chapter concludes with a brief analysis of the Italian pharmaceutical biotech sector.

Chapter 6 is dedicated to "Food and Wine". This sector places Italy at the top echelons of world classifications due to the excellent quality of its products and production system. Even though Italy, in the primary sector (plant products, live-stock, forestry, fishery, game), is a net importer, the food and beverage industry in terms of both exports and trade balance is performing extremely well. After a brief overview of the agricultural, fishery and forestry sectors (in which Italy has the highest added value of any of the European countries), an in-depth analysis is provided of the food sector in terms of turnover, employment and exports. The food industry in Italy has a turnover greater than €130 billion, which is second only to the mechanical engineering and metal products sector. As regards foreign trade, the analysis shows that, over the 2010–2014 period, exports increased by 29.6 % from €20.9 to €27.1 billion, while the trade surplus grew by around 60 % from €4.2 to €6.7 billion. The Italian food industry's competitiveness in international trade has been confirmed by the UNCTAD/WTO Trade Performance Index, which ranks it sixth worldwide, and by the Fortis–Corradini Index (IFC). The Fortis–Corradini Index shows that of the 616 agro-food products considered, Italian products reach top spots 65 times (21 products placed first, 23 placed second and 21 placed third), with a trade surplus of \$20.3 billion (in 2012). Last, the chapter dedicates a specific section to wines, the branch which contributes the most to overall exports. In 2015, the beverage sector exported €7.3 billion: €5.4 billion was in wines. More significantly, of the €5.4 billion, the wine trade surplus accounted for €5.1 billion.

Chapter 7 is dedicated to tourism. After a brief reconstruction of the global demand for tourism in terms of foreign arrivals at the border, the analysis concentrates on the number of "tourists nights" (nights spent in hotels and similar accommodation establishments). The competitiveness indicator used considers this data more significant than the number of arrivals at the border, since the latter are influenced by the presence, in some instances, of large airport hubs which attract the arrivals of foreign tourists who tend to go elsewhere for longer periods of time. Using tourists nights as an indicator of competitiveness, Eurostat places Italy as the second most popular destination in Europe after Spain, and third for overall tourism (including domestic), after Spain and France. Italy, however, is placed first in the Eurozone when considering the number of nights spent by extra-EU tourists. It is the favored destination of Japanese, Chinese, American, Australian, Canadian and Brazilian travelers who are attracted by Italy's impressive heritage in art,

architecture and monuments that *il Belpaese* is known for. Italy is in fact world leader for the number of sites on the UNESCO World Heritage list (51), thus placing it before China (48), Spain (44), France (41) and Germany (40). The chapter also provides a territorial analysis that singles out specific Italian regions which, if they could be inserted in the EU classification of overnight stays of foreign tourists per country, they would place in the top half. When considering single Italian regions, Veneto would place seventh before Holland and Portugal, Trentino Alto Adige would place tenth and Tuscany twelfth (both before the Czech Republic), Lazio and Lombardy would place fourteenth and fifteenth respectively (both before Belgium), Emilia-Romagna would place twentieth and Campania thirtieth. Once again, the myth is dismantled that Italy is incapable of revitalizing and adapting its tourism industry to the new demands of the continuously increasing foreign visitors.

In conclusion, fashion and furniture products are no longer the only sectors of excellence identified with “Made in Italy” products. The concept of Italian excellence has been broadened to include other areas like high-quality food and wine and many branches of the mechanical engineering-machinery sector, chemicals, pharmaceuticals and means of transport other than cars (luxury yachts, cruise ships, helicopters), without forgetting the enormous economic potential of the Italian tourism industry. These new developments do not take away from the important role of the more traditional sectors like fashion and furniture, which together with fabricated metal products, machinery and transport equipment, and food and wine continue to represent the Italian manufacturing industry’s four main areas of excellence for added value, exports, and foreign trade surplus.

According to the 4Fs paradigm developed by the Fondazione Edison, “Fashion and cosmetics” includes textiles, wearing apparel, footwear, leather goods, travel items, eyewear, jewelry, cosmetics and perfumes; “Furniture and ceramic tiles” includes wood products, furniture, ceramic tiles, ornamental stones and ceramic sanitary ware; “Food and wine” includes agro-food products and beverages excluding those that have been slightly processed like fresh milk and meats; and lastly “Fabricated metal products, machinery and transport equipment” includes all means of transport and vehicle parts but not finished vehicles, with the exception of Ferrari luxury sports cars, by now, one of the most popular symbols of “Made in Italy” excellence. It includes non-electronic mechanical engineering, i.e. industrial machinery and mechanical equipment, rubber and plastics.

When observing the dynamics of the 4Fs, it is clear that over the past two decades, Italy has undergone a very real industrial reconversion. It has focused increasingly on quality, and less on the quantity of products and processes. It has worked to create added value in the traditional fashion and furniture sectors which are more exposed to competition from emerging economies. It has invested in new specializations like pharmaceuticals and especially mechanical engineering, which today is by far the most important sector in terms of foreign trade surplus. In less than 15 years, from 2001 to 2014, the manufacturing surplus in the Fabricated metal products, machinery and transport equipment sector almost doubled from €47 to €84 billion. Fashion and furniture in 2014 generated an overall trade surplus of €38

billion, a figure impressive enough to cover the deficit created by weaker specializations (especially IT, telecoms and finished vehicles with the exception of Ferrari cars). The Food and wine sector trade surplus was €7 billion.

The contribution to the balance of trade from the more traditional sectors like fashion and furniture remains fundamental, notwithstanding their decline. Fabricated metal products, machinery and transport equipment, and food and wine instead are thriving. The latter sector, while smaller than the others, remains buoyant and rich in potential.

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