

Chapter 3: International openness and growth potential of Italy's system of production

Performance on foreign markets and internationalisation

1. Domestic exports recorded robust growth in 2011 (+11.4 per cent). However, Italy's reduced share of global trade, which fell from 3.8 per cent in 2000 to 3.1 per cent in 2011, shows some signs of lost competitiveness on international markets.
2. The rigidity of Italy's international specialisation model, mostly concentrated in areas with traditional Made in Italy associations and in precision mechanical engineering, persists. Nevertheless, a number of niche specialisations, in part related to the increasing importance of trade in intermediate goods, are growing stronger.
3. Globalisation weakens the capacity of exports to activate domestic production – a 10 per cent expansion in exports of goods directly activates a share of domestic output that fell from 8.3 per cent in 1995 to 7.5 per cent in 2010 – yet also expands opportunities for growth by consolidating the interdependences of Italy's and other countries' production systems.
4. Over the last decade, Italy has consolidated the internationalisation process. However, there is still considerable room for improvement. In 2010 the stock of incoming foreign direct investment came to 16 per cent of GDP, while outgoing investment was 23.5 per cent. In comparison with Europe, Italy is characterised, in fact, by a relatively low level of openness to international trade in goods and by a relatively low level of active internationalisation.
5. Over the past 10 years, Italy's limited growth has been the result of unsatisfactory productivity growth. Compared to the average for the EU27 countries, Italy has recorded a negative productivity growth gap of 1.2 percentage points per year in real terms.

The determinants of productivity growth

6. In Italy the contribution of intangible capital to labour productivity growth is very limited, with a particularly small contribution from spending on research and development. Italian companies have a low propensity to innovate, especially in connection with the adoption of ICT technologies. These results confirm Italy's weakness compared to its European partners, which in contrast have invested in intangible goods, grasping the importance of turning to new sources of growth in order to ensure development.
7. For some particularly dynamic European Countries, a positive correlation is observed between productivity growth and birth rates of firms. In Italy, the birth rate of firms is especially low (7.2 per cent in 2009).

8. In some European countries, public investment is a driving force both for growth in GDP and productivity. Italy in contrast stands out for having reduced the ratio of public investment to GDP between 2000 and 2011 (-0.3 percentage points).

Critical factors for growth

9. The new measures of human capital set out by the OECD confirm Italy's unfavourable standing compared with other countries. Since the late 1990s growth of human capital in Italy has been linked both to the rise in the employment rate and to the higher education level of the population. The average level of education, however, still remains far below the European average.
10. In Italy significant deficiencies persist in terms of provision and efficiency of tangible and intangible factors of production to support domestic firms' competitiveness and attract foreign direct investment. In 2010 spending on research and development as a proportion of GDP was 1.26 per cent, compared with the EU average of 2 per cent. The patent count is very low: in Italy 82 patents were filed per thousand inhabitants in 2009, compared with the EU average of 116. In terms of the efficiency of logistics services, in 2010 Italy was twenty-second in the World Bank's rankings.
11. With a share of close to 90 per cent, 10 per cent higher than the European average, road transport is by far the most widely used in Italy's internal transport system. Italy is also characterised by a highly fragmented market: in 2009 there were 81,000 third-party transport firms, with a considerably smaller average size than in the rest of Europe.
12. In Italy rail freight transport is less developed than in other European countries; maritime transport has also lost ground, despite Italy ranking third in Europe in terms of transportation of goods by sea in 2010, behind the Netherlands and the United Kingdom.
13. Civil justice in Italy still takes too long and costs too much. In 2008, 4,768 proceedings were commenced per inhabitant in civil and commercial matters, almost double the number for France (2,728), five times that for Denmark (1,090) and almost ten times the figure for Sweden (559).
14. In Italy the underground economy is a significant phenomenon which adversely affects the national economic system's competitive position. The amount of value added produced by the hidden economy in 2008 is estimated to lie within a "spread" between 255 and 275 billion euros, or between 16.3 and 17.5 per cent of GDP.
15. The size of the underground economy as a proportion of GDP has fallen since 2000, when it was between 18.2 and 19.1 per cent. This decrease was achieved as a result of the positive effect of labour market regulation and the regularisation of foreigners through permanent employment. The effect of the crisis, however, has probably been to expand the underground economy.