

Italy's role in international markets. An overview of foreign trade data

Fabio Giorgio¹

Abstract. Italy plays an extremely prominent role in international markets, thanks to the capacity of Made in Italy branded products to reach markets that are quite distant both in physical and traditional terms, endorsing both the image and prestige that goods produced in our regions boast among foreign consumers.

In support of our argument are the following considerations.

- Italy currently is the eighth largest exporter in the world.
- We are among the developed countries which in the globalisation process, have retained a greater market share internationally.
- Italy rated second as concerns the manufacturing trade surplus – in the EU – and preceded only by Germany.
- Another peculiarity is the practice of our entrepreneurs to reposition products, where there is greater demand.
- Weighing on our trade balance however, is the energy issue. In fact, if we exclude from the final calculation both crude oil and natural gas, Italy's foreign trade balance would greatly benefit.

1. The contribution of exports of goods and services to the formation of Italian GDP.

The relationship between real growth and exports of goods and services in Italy is extremely tight as one is strictly dependent on the other. The statistical indicator that represents this ratio identifies a very strong correlation between the two factors and, in the last decade, variations in exports of goods and services have almost always brought about variations in GDP in the same direction. In particular, at the end of 2008 and throughout 2009, during the world trade crisis, also the indicators of the economic development were negative, while in the two-year period 2010-2011 there was an improvement in both. Moreover, from 2012 to 2014, exports of goods and services were the only component that made a positive contribution to national wealth. Lastly, during the last two years, real GDP growth of 0.7% in 2015 and 1% in 2016 was associated with a sharp increase in exports, of 4.1% and 2.6% respectively.

This appreciable parallelism between the changes of these two variables depends on the fundamental role that export holds in the Italian economic system and in the formation of the gross domestic product. In an open economy like the Italian one, internationally oriented and traditionally based on manufacturing, the contribution of exports of goods and services to GDP formation is particularly significant². It reached significant percentages over the three-year period 2006-2008 (about 27%) and, by contrast, it was significantly lower in 2009 (22.5%), following the crisis that greatly hindered the volume of trade in all the geographic areas of the globe. Since 2010 it has returned to growth and during the three-year period 2012-2014, the contribution of Italy sales abroad to the formation of national wealth has been around 29%. Between 2015 and 2016, according to the latest national data published by ISTAT, the relative incidence was 30%³. In

¹ Ministry of Economic Development (General Directorate of Internationalisation Policies and Trade Promotion - Division II - Analysis, Markets and Countries - Economic Observatory.
fabio.giorgio@mise.gov.it.

² Current prices. Seasonally and calendar adjusted data.

³ Starting from September 2014, with the publication of a new release of national accounts, Member States of the European Union adopted the new European system of national and regional accounts – Esa 2010 –replacing Esa 95.

general, for the two-year period 2017-2018 it is expected a particularly significant input from exports to Italian national wealth: a contribution of 32% this year and of 32, 5% the next⁴.

From 2010 to 2015 (*see Table 1*), exports of goods and services grew - in real terms⁵ - to a greater extent than other components of GDP, providing the largest contribution to national growth. In particular, in 2011, against a 6.1% increase in Italian sales abroad, consumption and investment slowed down by 0.5% and 1.7% respectively. In 2012, also, a 2% increase in exports was associated with a sharp fall in consumption and investment, equal to -3.3% and -9.4%, while in 2013, despite the continued contraction in domestic demand⁶ (-2.8%), exports of goods and services improved the levels achieved the previous year (+ 0.9%). However, the data released by Istat show that in the last three years Italy is starting growing again, albeit slightly. In 2014, the slight increase (+ 0.2%) of GDP was the result of an exports acceleration of 2.4%, which compensated the significant fall in investments (-2.2%). Even in 2015, Italy's gross domestic product registered a modest increase (+ 0.7%) driven by both domestic demand (+ 1.1%) and, above all, by exports (+ 4.1%). A similar trend was also registered last year when the simultaneous increase in domestic demand (+ 1.5%) and - to a greater extent - of exports of goods and services (+ 2.6%) brought a fairly important growth to national wealth - equal to 1% - which had not been achieved for years.

All this demonstrates once again the good performance Made in Italy carries out all around the world, even in the presence of difficulties within the Italian inner market.

Table 1. National accounts (*Percentage change – seasonally and calendar adjusted, chain linked volumes 2010=100*)

Time	Gross domestic product	Imports of goods and services	Domestic Demand			Exports of goods and services
			Changes in inventories and valuables	Final consumption expenditure	Gross fixed capital formation	
2011	0.7	1.2	-0.7	-0.5	-1.7	6.1
2012	-2.9	-8.3	-4.5	-3.3	-9.4	2.0
2013	-1.7	-2.3	-2.8	-1.9	-6.6	0.9
2014	0.2	3.1	-0.4	0.0	-2.2	2.4
2015	0.7	6.7	1.1	1.0	1.4	4.1
2016	1.0	3.1	1.5	1.2	3.1	2.6

Source: Economic Observatory on Istat Data.

2. Italy's Foreign Trade

Focusing only on the foreign trade of goods, the elaboration of the data of the International Monetary Fund highlights that Italy, during the first ten months of 2016 (last available data)⁷, was - with a market share of 2,9% - the eighth exporter in the world, preceded by China, the United States, Germany, Japan, the Netherlands, France and South Korea.

Analyzing the Italian export dynamics over the last few years, it is noted that from February 2010 to March 2012, Italy's products sales abroad showed positive growth rates (year over year). Conversely, since April 2012, exports have been registering fluctuating trends: in April, September and December 2012, during the two-month periods of February-March, May-June and in the months of August and November 2013, August 2014, January and October 2015 and January, March, April, June, July and October of 2016, Italian exports have experienced decreases.

In general - from 2010 to present - Italian exports of goods has been growing on average every month by about 6%. The signs of this new attractiveness of Made in Italy come from the level

⁴ According to estimates of the 'Economist Intelligence Unit - May 2017.

⁵ Economic Observatory on Istat data (*seasonally and calendar adjusted, chain linked volumes 2010=100*).

⁶ Domestic demand excluding inventories.

⁷ Economic Observatory on IMF – DOTS data, March 2017.

reached by Italian exports of goods⁸ in 2016: Italian foreign sales, which rose by 1.2%, amounted to € 417.1 billion, the best result ever when compared to the export performance made in previous years. The European Commission⁹ also foresees that the 2017-2018 biennium will feature export growth rates of 6.7% and 4.9% respectively.

The most striking result has been, for some years now, the consolidation of the surplus of Italy's trade balance: in 2016 the trade balance, backed by the large surplus of non-energy products, was € 51.5 billion, resulting - compared with the values obtained in previous years - the largest surplus ever.

This surplus is due both to the success of Made in Italy products on foreign markets, but also to the contradictory signals concerning purchases and consumption, which come from the inner market. In this respect, it is worth pointing out the abrupt decrease in imports over the three-year period 2012-2014 (-5.3% in 2012, -5.1% in 2013 and -1.1% in 2014): on the one hand it has allowed to reduce the trade deficit, on the other hand it has shown the marked contraction of purchasing power and consumptions of Italians. Positive indications, however, have come from the analysis of 2015, where imports increased in the same way as exports (+ 3.8%). Last year, however, imports came back to a contraction, registering a -1.3%.

Energy¹⁰ keeps on weighing heavily on Italy's trade balance. Suffice it to think that by excluding the energy sector, the Italian balance would have reached a surplus of just over 78.8 billion euros in 2016, which is just a little more than what Italy exported, in same interval of time, in the United States, the United Kingdom and Switzerland.

The typical "Made in Italy" sectors, such as machinery, fashion, agro-food and furnishing, are decisive for Italian export performance. Only these four sectors account for over half (55%) of national exports. The Italian market, among the European Union countries, registers the second commercial manufacturing surplus after Germany; this contradicts the thesis of Italy's alleged decline and points out, on the contrary, the continuing relevance of Made in Italy's top sectors. This is also accomplished in spite of the overwhelming rise of developing economies in world trade: among the advanced countries, Italy is the one that, with the advent of globalization, has retained a higher percentage of market shares at an international level. Following the emergence of China and other Brics countries in the world market, Italy managed to maintain 78%¹¹ of its export shares compared to 2000; a performance not comparable to that of Germany (100%), but better than Japan, whose shares were reduced to 55%, France (62%), the United Kingdom (58%), Canada (57%) and, even if only slightly, better than the United States (76%).

It is the strength of Made in Italy's top sectors that allows the country to balance the strong energy deficit and the structural passive of other sectors (such as chemistry, cars, computers and consumer electronics), where the absence of a sufficient core of large national groups condemns the country to an inevitable dependence from abroad.

In this regard, elaborating the latest IHS data for the year 2016, it is noted that:

- Italy has the world's fourth largest surplus in the mechanical sector (+43.9 billion dollars in 2016), preceded only by Germany (+82.9 billion), Japan (+69.5 billion) and China (+63.2 billion);
- Italy is the third exporter in the world, behind China and Germany, in the home furnishing sector, with a market share of about 6%;
- In the fashion system, Italy is, behind China and India, the third-largest exporter in the world - with a market share of 6% - and has the third commercial surplus market;
- Italy is the eighth largest exporter in the food sector in the world. However, looking in depth at the data, Italy is first in the pasta sector, second in both wine (behind France) and olive oil (behind Spain) and fourth in cheese.

⁸ Current prices.

⁹ AMECO data.

¹⁰ The energy sector includes, in particular, crude oil and natural gas.

¹¹ Economic Observatory on IMF – DOTS data, March 2017.

Another peculiarity is the tendency of Italian entrepreneurs to reposition their products where there is a greater demand. In fact, from the point of view of the geographical destination of Italian goods, 2016 saw a 3.1% increase within the EU at 28, which more than compensated the fall of 1.2% in non-EU countries¹².

The dynamism of Italy's commodity exchanges within the EU¹³ is confirmed by the + 3.1% increase achieved - last year - from exports - from 226 billion euros in 2015 to 233 billion - and, although less marked, by the + 1.8% increase achieved by imports. These results have allowed Italy's trade surplus to reach about € 11.6 billion, even better than the 8.6 billion surplus achieved in 2015. As far as the geographical destination of Italian goods is concerned, in 2016, Italian intra-EU sales, if compared with 2015 figures, registered an increase with all the major trading partners, such as Spain (+ 6.1%), Germany (+ 3.8%), France (+ 3.0%), the Netherlands (+ 1.7%) and the United Kingdom (+ 0.5%). It is also worth noting the good performance in the Czech Republic (+ 6.5%).

The decline in Italy's exports in 2016 in the non-EU areas is attributable to the contraction in non-EU Europe, mainly a consequence of the multiannual reduction in Russia (due to the well-known international events that are affecting the country), together with the decelerations registered in Central America, the Middle East, and in the entire African continent. Against this, sales of Italian products continued to be particularly good in North America, driven by the US market (+ 2.6%), in East Asia (+ 2.4%) - thanks to the good results achieved in China, Japan and the so-called ASEAN¹⁴ countries - and Oceania (+ 11%). However, it should be noted that the first months of 2017 have been characterized by particularly favourable dynamics: between January and March, Italian products have experienced a widespread increase in all non-EU areas, improving positions already acquired during the first quarter of last year.

As far as the countries of destination of Italian exports are concerned, Germany is the first (representing 12.6% of the sales abroad), followed by France and the United States, with a share of respectively 10.5% and 8.9%. In the ranking of Italy's main client markets, there are only three non-European countries - the USA, China and Japan - in the top 15 places (*see table 2*).

On the other hand, as far as the markets of origin of Italian imports are concerned, Germany is always the leader - accounting for 16.3% of Italy's purchases of goods abroad - preceding France (8.9%) and China (7.5%).

At a regional level it should be emphasized that more than two thirds of the Italian trade exchange concerns Northern Italy. In particular, the North West has the lion's share: on the one hand, in fact, this area contributes for more than 39% to Italy's overall sales abroad, on the other, about 42% of the purchases from international markets are directed to this area. Decisive is also the role of the North East which accounts for 32% of the exports and for more than 23% of the imports.

In addition, if Central Italy accounts for more than 16% of national trade, Southern Italy holds the lowest shares: just over 10% of Italian sales abroad, in fact, concerns the South of Italy, while only the 12% of imports are destined to this area.

It should also be pointed out that more than 1% of exports and about 5% of imports are entered - by Istat - in the *different and unspecified* category. This last entry, in fact, collects commercial transactions for which it is not possible to specify exactly the province/region to which the transaction refers. Such is the case, for example, of purchases of goods aimed at meeting a not immediate internal demand and that, for this reason, are destined to reach the places of actual use at different times; or of those sales abroad made by *groupage*¹⁵, for which it is not easy to indicate the places of production; or transactions executed by operators submitting quarterly or annual summary recapitulative statements.

¹² The data for the first quarter of 2017 indicates that Italy's intra-EU exports increased by 8.2% while extra-EU exports increased by 12.4% .

¹³ EU 28.

¹⁴ Association of Southeast Asian Nations: Brunei, Cambodia, Philippines, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Singapore, Thailand and Vietnam.

¹⁵ A situation in which several companies transport their goods together in order to reduce costs.

Regarding the regions, about 27% of Italian exports to international markets come from Lombardy, followed by Veneto (14%), Emilia Romagna (13.5%) and Piemonte (just under 11%). Fifth is the first region of Central Italy, Tuscany (8%), while the first Southern region is in ninth position, Campania (about 2.5%). Milan, Turin, Vicenza, Brescia and Bergamo are the provinces that, in this order, export more; in total, the sales flow in 2016 amounted to 105.5 billion euros for a contribution to national exports of just over a quarter. Among the first twenty exporting provinces three are from Central Italy (9th Florence, 15th Rome and 17th Arezzo) and one is from the South (20th Chieti).

Lombardy and Veneto are - in that order - also the most active regions in terms of Italian imports, absorbing over 40% of the total. Lazio is third (9%) and precedes, for just a few tenths of a percentage point, Emilia Romagna and Piemonte. Also in this field Campania, which is in the seventh position, represents the most dynamic Southern region. As far as the provinces are concerned, Milan - followed by Rome, Turin, Verona and Vicenza - holds the position of leader. In this context, the ranking of the first twenty provinces shows the presence of two provinces of South Italy, namely Naples (9th) and Syracuse (14th); the latter, in particular, thanks to the intense port activity in the energy field.

Table 2. Main Italian trade partners in 2016

Pos.	Client countries	bill. €	%	Supplier countries	bill. €	%
1	Germany	52.7	12.6	Germany	59.5	16.3
2	France	43.9	10.5	France	32.5	8.9
3	United States	36.9	8.9	China	27.3	7.5
4	United Kingdom	22.5	5.4	Netherlands	20.2	5.5
5	Spain	21.0	5.0	Spain	19.5	5.3
6	Switzerland	19.0	4.6	Belgium	17.8	4.9
7	Belgium	13.5	3.2	United States	13.9	3.8
8	Poland	11.2	2.7	United Kingdom	11.0	3.0
9	China	11.1	2.7	Russia	10.6	2.9
10	Netherlands	9.7	2.3	Switzerland	10.6	2.9
11	Turkey	9.6	2.3	Poland	8.7	2.4
12	Austria	8.8	2.1	Austria	8.3	2.3
13	Russia	6.7	1.6	Turkey	7.5	2.0
14	Romania	6.6	1.6	Czech Republic	6.4	1.7
15	Japan	6.0	1.4	Romania	6.2	1.7

Source: Economic Observatory on Istat Data.

Exporting enterprises

From Istat's source data, surprisingly, it stands out the decisive role of Italian small and micro-enterprises: constantly looking for alternatives to the contraction of domestic demand, even small-scale companies have been able to manage foreign markets by increasing the number of exporting firms - between 2012 and 2014 - by 1.7%. The difference is significant compared to 2009 when the impact of the crisis had severe costs. According to the National Statistics Institute, about a third of the total export-oriented companies, which have operated at least in five non-EU areas with a growing number of products, have increased their sales over the last few years.

In addition, from Istat's report "Statistics on the competitiveness of manufacturing sectors - Edition 2015", it is clear that exporting companies also perform better on the domestic market. In 2014, companies that exported more than 75% of their total production had an average revenue growth of 4%, those that exported more than 25% and less than 75% increased it by only 0.6% and those that exported less than 25% decreased their sales (-2.3%). From recent editions of the report, i.e. 2016 and 2017, it is possible to note that the highest degree of competitiveness required to operate on

international markets seems to be associated with a better employment performance. For example, medium-sized exporting companies operating in the manufacturing sector have a higher chance of creating jobs of 10 (in the class 50-149 employees) and 14 (in the class 150-249 employees) percentage points, compared to companies operating only in the domestic market. In addition, enterprises that sell globally (the so-called “Global companies”) have increased - between 2011 and 2014 - both the employment of 21,800 employees (+ 5.1%) and the added value of 1.8 billion of euros (+ 6.5%).

According to the latest data from the Istat-ITA Agency Report “Foreign Trade and International Business Activities”, *Italian exporting enterprises* are slightly less than 193,000, accounting for 4.5% of all the Italian active companies. Among them, the companies steadily present on foreign markets - those with an annual export of over 250,000 euros¹⁶ - are more than 49,000, accounting for about 26% of the total.

99% (around 191,000) of exporting companies are micro, small and medium-sized, i.e. 4.4% of all Italian SMEs. Exporting SMEs attain a total volume of foreign sales of 206.5 billion euros and contribute to Italy’s total exports by 54.5%. They also give work to just over 2.5 million people, accounting for 57.5% of the total number of employees operating in exporting Italian companies.

Again, according to the same report, during 2015 *the exporters in Italy*¹⁷ (that is, all individuals and businesses that - identified on the basis of the VAT code - have completed at least one foreign trade transaction during the period considered) were 214,113, up by + 0.5% compared with the 213,010 of 2014. They are mainly located in Lombardy (28.9%), Veneto (13.2%), Emilia Romagna (10.5 %) and in Tuscany (9.1%).

At EU level, by analysing Eurostat's latest statistics¹⁸, it is noted that Italy ranks second in terms of number of exporters, behind Germany (just under 312,000) and in front of the Czech Republic (beyond 163,000), Spain (just under 157,000) and the United Kingdom (137,000).

Turning to the size of the companies, it is evident that Italy is leader in the EU, both in terms of micro and small enterprises, by registering a share - on the total of EU exporters of equal size - respectively of 13.2% and 15.5%, and always standing in front of Germany. Germany, which instead gains the first place both in terms of medium-sized enterprises (preceding UK and Italy) and in large enterprises. As far as companies with at least 250 employees are concerned, Italy - with approximately 1,900 enterprises – accounts for 6,3% of the EU total, in the sixth place, after not only Germany, but also the United Kingdom, France, Poland and Spain.

It can also be interesting the analysis of the average contribution provided by each operator to the country's overseas sales, i.e. the average export of each firm. From this elaboration it is noted that this particular ranking is led by Ireland (7 million euros per capita), followed by Luxembourg, with 5.4 million. The success of these two countries must be attributed to the small number of exporting companies - just over 12,000 in Ireland and 2,581 in the Grand Duchy.

Italy ranks 16th, totaling 1.8 million euros¹⁹ - significantly below the EU average (2.5 million euros). This result is a synthesis of a very low value obtained when we refer to the micro enterprises (€ 0.2 million), of a value in line with the EU average if we turn to the small enterprises (€ 1.3 million) and of a value above the average of the EU if we refer to the medium (€ 10.4 million) and large enterprises (€ 91.8 million)²⁰.

Italians’ foreign direct investments.

With reference to foreign direct investments, as of December 31, 2015 (latest data available), Italian investments in foreign companies amounted to 29,483 (according to the *Reprint Database*, ed. by

¹⁶ As defined in Chapter 6 “*Le imprese*”, “*L’Italia nell’economia internazionale*”, Ice Italian Trade Agency – Istat.

¹⁷ The expressions exporting enterprises and exporters are often used as synonyms. However data on exporters are available for 2015 whereas data for export/import companies are available up to 2014.

¹⁸ Data are referred to 2013.

¹⁹ Confirmed by provisional Eurostat data of 2014.

²⁰ Data for 2014 confirm the trend in the average exports for micro and small enterprises whereas for medium and large enterprises export average value reveals an increase of respectively 11.2 and 92.3 million euros.

Politecnico di Milano–ITA Agency), more than a half located in the EU, provided jobs to a little less than 1.5 million people and reached a total turnover of just over 512.6 billion euros. The sectors most concerned were wholesale (44.2%), manufacturing - in particular automation-mechanics and metallurgy - (28.2%), and professional services (10%), mainly financial and insurance activities. It should also be noted that in the 81% of the investments, Italian had a majority participation, while in the remaining cases there was a parity or minority participation. The main target markets of Italian investments - in terms of number of participated companies - are the United States, France, Romania, Germany, Spain, the United Kingdom, China, Brazil and Poland.

On the other hand, at the same date, Italian foreign-owned companies were 11,294 (of which less than half in Lombardy), with a number of employees of around 988,000 and with a total turnover of over 504.3 billion euros. These companies, mainly of EU (60%) and US (19%) origin, operated in wholesale (31.3%), manufacturing (27.4%) – mainly mechanics, metallurgy and chemistry-pharmaceuticals – and professional services (18%). Moreover, over 90% of foreign companies that invested in Italian companies had a controlling stake. Germany, the United States, France, the United Kingdom, Switzerland, Spain and Japan - in terms of number of participants - are the main countries that invest in Italy.