"THE ITALIAN PRIVATE SECTOR IN THE POST-CRISIS ENVIRONMENT: TECHNOLOGY, INNOVATION AND GLOBAL COMPETITION"

Speech at Brookings Institution
President Emma Marcegaglia

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Distinguished guests, Ladies and gentlemen,

Let me first of all thank you for this kind invitation. I am truly delighted to have the opportunity to be here at this prestigious institution, and address you about some of the greatest challenges Italy is facing today.

A) POST CRISIS SCENARIO

- The worldwide recession is over, but its consequences are still affecting all of us.
- The massive increase in public debt, the huge untapped production capacity and high levels of unemployment are casting long shadows over the sustainability and strength of the recovery process.
- The global crisis has exacerbated some Italian long-standing weaknesses. The downturn started earlier and has been deeper and longer-lasting than in other major European countries. GDP contracted by 1,3% in 2008 and by 5% in 2009, minus 6,8%, from peak to trough, a huge loss of which less than 20% has been recuperated.
- Furthermore, the recession in our main trading partners led to a sharp fall in exports.
- GNP is not expected to rebound to its precrisis trend over the medium term, and is projected to recover its peak level not before 2015.
- Alongside with relatively high domestic savings and a banking system structurally less vulnerable to the excesses of the financial trading system, our private sector is the first line of defense for the national competitiveness in the global scenario.
- And manufacturing lays at the very heart of such a defense line.
- Flexibility and capacities to rapidly adapt to change are our most effective drivers, especially for our Small and Medium companies that play a decisive role in the Italian economy.
- Between 2000 and 2009 the averages of Return on Investment (ROI) for Medium-sized companies was 10,2% versus 5,9% for larger groups; NOM (Net Operating Margin) was 22,3% for medium size companies versus 2,8% for larger groups.
- Also during the crisis, our data show better results for Medium-sized companies than for larger groups, both in terms of export, return on capital, value added and employment.

- In 2009 export of Medium-sized companies fell by 18,4%, compared to 19,7% of larger groups.

- In the same year, Medium size companies suffered a reduction of 16% in turnover and a 28% decline in operating profit; this performance was less negative than that of large size firms, (reduction turnover of 19% and in operating profit of 29%) and of the largest group, whose turnover fell by 39%.

- Estimates for 2010 show an improved overall performance of medium size companies, in terms of net sales, volume of orders, number of employees and investments.

- A particular feature concerning international trade of small and medium companies is that their activities will increasingly be determined by the levels of tariff duties adopted by partner countries, witnessing the importance of establishing a level playing field in trade practices.

B) THE CAPACITY TO REACT OF THE ITALIAN INDUSTRIAL SYSTEM

- Over the last years Italian companies have been promptly responding to international competition by refining their strategies, improving qualitative composition of products and undertaking differentiated paths to go international.
- Flexibility and capacities to rapidly adapt to change are our most effective drivers.

- The recent pick up of our exports, +14% in the first 9 months of 2010, witnesses the profound transformation of the Italian manufacturing model.

- Such a transformation has consisted in a marked attenuation of the traditional comparative advantages in personal and household consumer goods and in a - corresponding – greater specialization in a number of higher value-added goods, high-tech segments and investment goods.

- This tendency has been confirmed by the Technological Balance of Payments (TBP), which returned positive in 2006 for the first time since 1981.

- Besides companies' structure there is an extremely important human factor: Italian entrepreneurs have indeed demonstrated great ability to adapt to the evolution of world demand and to positively intercept international markets' forces.

- In the past few years the geography of Italian exports has shifted from "mature" markets towards "emerging" regions, particularly those closer to Italy (such as the South – Mediterranean basin and Eastern Europe) and the commodity-producing countries (such as China or Brazil).

- In 2009, less than 70% of the Italian exports was directed to the OECD countries; in 2005 this percentage was 76%.

C) TECHNOLOGY, INNOVATION AND GLOBAL COMPETITION

- However, companies cannot be left alone. The way the recovery is handled will be crucial for our future.

- Italy needs structural reforms in order to break the shackles of low growth.

- *(The 150th anniversary of National Unity must spur us on to come out from the crisis, from poor growth and from the latest round of European tensions. The 100th anniversary of Confindustria sees our Organisation concentrated on conveying to our government concrete recommendations to sustain growth and competitiveness).*

- The same need of structural reforms is on the top of the European agenda.

- And Research & Innovation are central pillars of both the EU and Italy to face international competition.

- On March 2010, the European Commission published its strategy "*Europe 2020*" where it puts forward 3 mutually reinforcing priorities that Confindustria supports in their full meaning:

  - Smart growth: developing an economy based on knowledge and innovation;
  - Sustainable growth: promoting a more resource-efficient, greener and more competitive economy and
  - Inclusive growth: fostering a high employment economy delivering social and territorial cohesion.

- According to our vision, Italy has to move from "*R&D-policies*" to an overall "*R&D-based Economic policy*".

- In this framework, together with higher public and private investments, new highly knowledge-based products and services must result in an enhanced national competitiveness.

- "*Innovation*" must become the fundamental criterion of the economic policy decision-making process.

- Such an approach has to start by soundly investing in the development of technological clusters and platforms.

- To promote and attract higher value R&I activities, we support the enforcement of regulatory measures such as tax credit and fiscal facilities for start ups to establish a R&I-friendly regulatory environment.

- Confindustria has identified the most promising sectors and companies, by mapping the Italian companies' competencies in R&I.

- These high-level competencies are distributed in many different sectors: from transport to aerospace, from biotechnology to food, from energy to machinery.

- "Highly competent companies" are operating in the whole country (north and south). Many of them are Small and Medium companies, world leaders combining high-tech products with innovation and design.

- Confindustria is deeply involved in strategic projects, based on clear industrial plans, joining up large companies and SMEs, universities and public research centres benefiting of innovative financial tools.

- The most recent calls of the national programme "*Industry 2015*" on "*energy efficiency and alternative sources, sustainable mobility and Made in Italy*" have seen the participation of more than 550 projects, 3974 companies and 1400 public research centres.

- In January 2010, a further call for “industrial research” has had 533 projects submitted by 1746 enterprises and more than 200 research centres and universities.

D) OTHER FACTORS OF GLOBAL COMPETITIVENESS

- A full economic recovery will be possible only if nations enforce an effective and efficient rules-based global governance supporting international trade through a strong commitment to open markets.

- While appreciating the efforts and the progresses made in Seoul at the recent G20, a lot remains to do in order to establish a true framework of global economic coordination.

- The debate on exchange rate and the threat of a “*currency war*” is a clear warning; the failure to develop a comprehensive multilateral approach to economic imbalances implies great risk of renewed protectionism, that should be avoided.

- Currency stability and a rapid transition toward a market-based exchange rate system in China and in other emerging countries need to be part of a global, long-sighted, commitment towards sustainable economic policies.
- Macroeconomic imbalances must be addressed in all G20 countries; Governments must undertake reforms in a coordinated and balanced manner to ensure stability and growth in the global economy.

- Financial reform is key to strengthen and to grant stability to the financial and non-financial sectors.

- Major emerging countries, in particular Brazil, India and China, are requested to contribute substantially, since according to their new economic and political weight, also responsibilities must increase.

- New rules, including prudential and accounting standards and regulatory frameworks, must be strong and responsive enough to avoid further global crisis.

- Moreover, Governments must deliver on the commitment to restore fiscal discipline, which is imperative to stimulate greater investment, reinforce financial stability, and to sustain private sector-led growth.

- Regarding international trade, we continue to express concerns over government measures that restrict access to market, to public procurements, to trade and to raw materials.

- And we are strongly critical towards measures that subsidize exports.

- According to the WTO, 54 new restrictive measures have been introduced since the Toronto G20 Summit, amounting to 0,3% of total G20 imports, and 0,2% of total world imports.

- We remain convinced that an ambitious and balanced Doha Round is the best way to deliver trade liberalization.

- Therefore, despite the slow progress, completing the DDA remains our top priority; the potential benefits are simply too important to be ignored.

- Doha represents in fact a potentially sizable boost to the global growth: world trade could increase by over 300 billion € a year and world income by more that 135 billion €.

- The successful conclusion of the Doha negotiations would act as a powerful shield against protectionism.
- However, 2011 represents the last chance to conclude an agreement. After 10 years it is time to end up and start again, possibly with a reformed WTO, where decision-making processes must become much more efficient.

- Thus, we urge negotiators to gather the necessary political will to conclude the Round, because business cannot wait any longer.

- Considering the stall in the Doha negotiations, the EU is - rightly - considering parallel tracks for bilateral actions.

- The world economy and world trade have undergone profound changes in the recent past. By 2015, 90% of world growth will be generated outside Europe, with a third from China alone.

- Developing and emerging countries are likely to account for at least 60% of world GDP by 2030, compared to far less than 50% today.

- More efforts are to be done to improve market access for our companies in emerging economies, including further tariffs cutting on industrial goods.

- In this respect, the EU's bilateral free-trade agreement agenda must be seen as a complement to the multilateral approach.

- The European Union has recently concluded FTA negotiations with Korea, Peru, Colombia, and Central America. Talks with the Gulf and Mercosur countries, India, Canada, and Singapore are at an advanced stage.

- The one with Korea is very unbalanced and we have strongly complained with the EU, since Korean car producers have been awarded a relevant comparative advantage.

- The US, however, are – by default – our main global partners.

- The United States are by far the EU's largest trade and investment partner. Our economies account together for about 40% of the entire world economy, so we need to work in tandem to address global economic challenges.

- A strong transatlantic relationship is not only critical for global security and prosperity, it is essential for job creation, innovation and sustainable economic growth.

- But we need to remove the remaining obstacles, in particular in standards and regulations, to pave the way for innovation, energy efficiency, and hi-tech sectors to freely cooperate and integrate.

- The "Transatlantic Economic Council" (TEC) already provides a forum for political guidance helping to achieve satisfactory regulatory convergence.

- The expected gains are high, as illustrated by recent research suggesting that by removing only 50% of the non-tariff barriers from our bilateral trade would result in a 0,5% increase in the EU GDP.

- Distinguished guests, Ladies and gentlemen, concluding, I believe that the most important challenge in the next future is to provide efficient economic policies with a more effective coordination at the global level.

- Nowadays the general interests lie in a robust international recovery and long-lasting growth.

- In a world as interdependent as ours today, there is no “go alone” solutions.