

**Mendel University in Brno**  
**Faculty of Business and Economics**



***‘Participation of Italian Economy in the Global Markets’***

Bachelor thesis

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## **Acknowledgement**

I would like to thank sincerely to the supervisor of my bachelor thesis, Ing. Miroslav Radiměřský for his expert guidance, consultations, comments and support while writing the entire thesis.

## **Declaration**

Herewith I declare that I have written my final thesis “Participation of Italian Economy in the Global markets” by myself and all sources and data used are quoted in the list of references. I agree that my work will be published in accordance with Section 47b of Act No. 111/1998 Sb. On Higher Education as amended thereafter and in accordance with the Guidelines on the Publishing of University Student Theses.

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## **Abstract**

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The purpose of this thesis is to investigate the participation of the Italian economy in the global markets, with particular regard to food trade, and assess the impact of exports on the Italian economy.

We will identify the general characteristics of the Italian economy from an international perspective and will be discussed the limits of the Italian productive system that restrict exports.

Then we will proceed with the empirical part and with the discussion of the results in order to investigate a possible relationship between exports and national economic growth, in the time interval that goes from 1990 to 2015. Finally, we take into account all important factors that influence these results both from the national economy point of view and from the point of view of the more and more impressive process of interrelation between markets.

## **Keywords**

Globalization of markets, Italian international trade, exports, Global Value Chain, national economic growth.



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## 1. Introduction

In recent years, we have witnessed a phenomenon of global openings of the markets and of intense development of international trade.

This phenomenon is referred to as globalization of market. Globalisation is not a new phenomenon, there has already been in history. In fact, during the Roman Empire, the goods were circulating throughout the whole known world.

The term globalisation, nowadays, assumes a broader meaning and involves different areas of human life - economy, market, culture, technology and the world of work, information, styles of life - trying to make universal and unify on a global scale every dimension.

This is, therefore, a globalized market: a single global market where goods and services can be made and sold in all parts of the world.

Even if nowadays we are witnessing a remarkable interaction between the international markets on a world scale, it is important to remember that not all nations are opened in the same way as regards the trade. Due to some social, geographical and political factors, there are still nations rather closed or which in any case they are not open to all. This is the case of Italy, as we can see in the next paragraph, the Italian market is not fully internationalized yet due to the economic crisis afflicting the country for several years, the marked difference between northern and southern Italy and some structural limits of the Italian companies. However, the continuous and increasing interconnection between the economies on a global scale and then the virtual approach between nations has, in recent years, given rise to different strategies and new approaches (for example the Global Value Chain) which for businesses have mainly the purpose of reducing transaction costs and increase its market share. The importance of this process takes on Economic systems also relevant from a macroeconomic point of view, because the performance of the international economy are also reflected on national wealth. In the analysis, it is important to consider the characteristics of the object of study the nation, as well as the heterogeneity of industries and companies that make up the national productive system. Therefore, it turns out to be interesting to analyse some of the main factors that affect international trade and the effects of the performance in international trade that have an impact on national economic growth. Furthermore, the analysis must take into account any period taken into consideration, since mutations in the panorama of the globalization of markets are steadily increasing in recent years.

## 2. Aim and Methodology

The main objective of this bachelor thesis is to evaluate the participation of Italian economy in the global markets through the analyse of the main characteristics of the Italian international trade, studying the impact of the exports for the main sectors and by comparing them with other nations, and then go on to analyse the main internal factors that influence positively or negatively the Italian international trade.

The structure of the thesis is divided into two main parts. The first part, the literature review, takes into account classical and modern theories and research work of several economists with regard to topics related to exports, global value chain and the effects of exports on national economic systems. In the second part has been described the general characteristics of Italian trade in an international perspective. It focuses on the evolution of the trade balance in relation to GDP in recent years, Italy position in the opening up to international trade and in the exports of goods, on the analysis of foreign demand for the Italian goods, with particular attention in the food exports and global value chains for food exports. Other important question deal with the internal characteristics that affects the international Italian trade, the analyse of the Italian productive system is essential part to identify his strengths and weakness.

Moreover, the thesis includes an interesting parts, i.e. proposed measures and recommendations for improving the Italy's performances using strategic alliances in order to face to the several obstacles and problems affecting Italian companies, derive an advantage of expansion from the globalization of markets and to reduce the risks it entails.

Finally, we will go to analyse and discuss the results obtained from the thesis.

The methodology used to achieve the objective of the thesis will be statistical-descriptive. Then proceed with the collection of statistical data compared inherent in the Italian international trade; to this will be added an analysis of the data collected in connection with the main purpose of the thesis. The time period taken into consideration in the collection of these statistical data comprises mostly the last 5 years, on the basis of the availability of statistical data.

The results will test a possible relationship between export growth and GDP growth through linear regression model. After obtaining the  $R^2$  index, we will be able to evaluate the possible relationship between export growth and GDP growth and its intensity.

Economists Constantine Michalopoulos and Keith Jay, in their research entitled "Growth of exports and income in the developing world: a neoclassical view", made in 1973, analyzed the relationship between exports and economic growth by using the linear regression model, with regard to a sample of nations that in 1973 were considered in developing. In order to assess the importance for the Italian economic system of the country's participation in the global market, in this thesis we are going to use the methodology used by Constantine Michalopoulos and Keith Jay.

This methodology can be illustrated as follows:

$$y_i = a + bx_i + e_i$$

where  $a + bx_i$  is a straight line.

Specifically, we have the following:

- $a$  is the ordinate at the origin (in this case the ordinate at the origin of GDP per capita)
- $bx_i$  is the regression coefficient (that is, how much it varies on average GDP per capita for a unit change in exports).
- $e_i$  is the error term (accidental)

We know that:

- the relationship between exports and GDP per capita is linear;
- the export values are known and without error;
- errors have average equal to zero and constant variance.

This model represent, through the phenomenon under study, the relationship between the considered variables (in our case between exports and GDP-per capita).

In order to calculate the intercept and the regression coefficient is necessary to minimize the errors by the least squares method, by applying the following formula:

$$\sum e_i^2 = \sum (y_i - \hat{y}_i)^2 = \min$$

Where  $\hat{y}_i$  is the result of  $y$  of the  $i$ -th equation  $y_i = a + bx_i + e_i$

The index  $R^2$  will give us a measure of how strong is the relationship between the two variables.

This index is obtained through the following equation:

$$R^2 = \frac{\sum(\hat{y}_i - \bar{y})^2}{\sum(\hat{y}_i - \bar{y})^2 + \sum(y_i - \hat{y}_i)^2}$$

Since the equation  $\sum(y_i - \hat{y}_i)^2$  represents the deviation of the errors (i.e. the part of variability that the model cannot explain), it has a better adaptation when such deviation is small, because the deviations are minor between observed and theoretical values of Y (in this case with reference to the values of GDP per capita). Higher is the  $R^2$  index and higher will be the relationship between the variables studied in the model.

### 3. Overview of the literature and sources

In this thesis, we will consider two different approaches regarding the globalization of markets: a classical approach (general) and a new approach (concrete) that is catching on in recent years in the economic literature.

With regard to the classical approach, there is a wide range of empirical studies in which researchers deal with the issue of globalization of markets and its effects on the economies of individual nations. In a world increasingly influenced by globalization of markets and the internationalization of enterprises, some economists have studied the relationship between export growth and economic growth. In this respect, some economists (Constantine Michalopoulos and Keith Jay, 1973; Balassa, 1978, 1985; Kormendi and Meguire, 1985; Moschos, 1989; Bahmani-Oskooee, 2007) have argued the importance of exports on economic growth of individual countries, and so the importance for a country of its participation in the global market.

Obviously, this relationship takes on different characteristics and intensity depending on the nations, both from the national economic structure and the production system point of view and from the geographical point of view. In this respect, Italy enjoys a strategic geographic position with regard to exports; its location at the centre of Europe and the territory surrounded by the seas allow it to easily export its products not only by land and by air, but also by sea. However, a big disadvantage for the Italian international economy is its production system: in fact, 99% of Italian companies are small and medium-sized enterprises, which are more difficult to internationalize than large companies. It is therefore interesting to refer to the scientific paper of Daniela Federici and Daniela Marconi, entitled *On exports and economic growth: the case of Italy*. This economic paper offers a new vision based on previous scientific papers regarding the relationship between export growth and economic growth. In fact, according to Federici and Marconi, to assess whether exports are the engine of growth or its consequence, it is necessary to look at time series of the individual country. This approach thus takes into consideration all factors of a single country that go to significantly influence the impact of exports on economic growth. It, therefore, emphasizes the uniqueness of each individual nation, but the assumptions on which the work is based is that the growth of exports leads to an economic growth.

Another interesting result to keep in mind is that obtained from Constantine Michalopoulos and Keith Jay in "Growth of exports and income in the developing world: a neoclassical

view", in 1973. Such paper provides a comparative evaluation of the effects of exports (and the incentive to exports) on economic performance in eleven countries that in the 70's were considered in developing, classifying the countries into four groups depending on the timing and extent of their export promotion efforts.

In order to explain the economic growth of a country, they performed two different linear regressions, of which:

- in the first one it was tested the relationship between productive factors and economic growth;

- in the second one, they add exports to the equation already formulated for the first relation.

In the first case the  $R^2$  index was equal to 36% index, while in the second case the result of the index  $R^2$  was equal to 71%. The regression coefficient for exports was statistically significant and the overall fit improved substantially as the  $R^2$  increased from 36 % to 71 %.

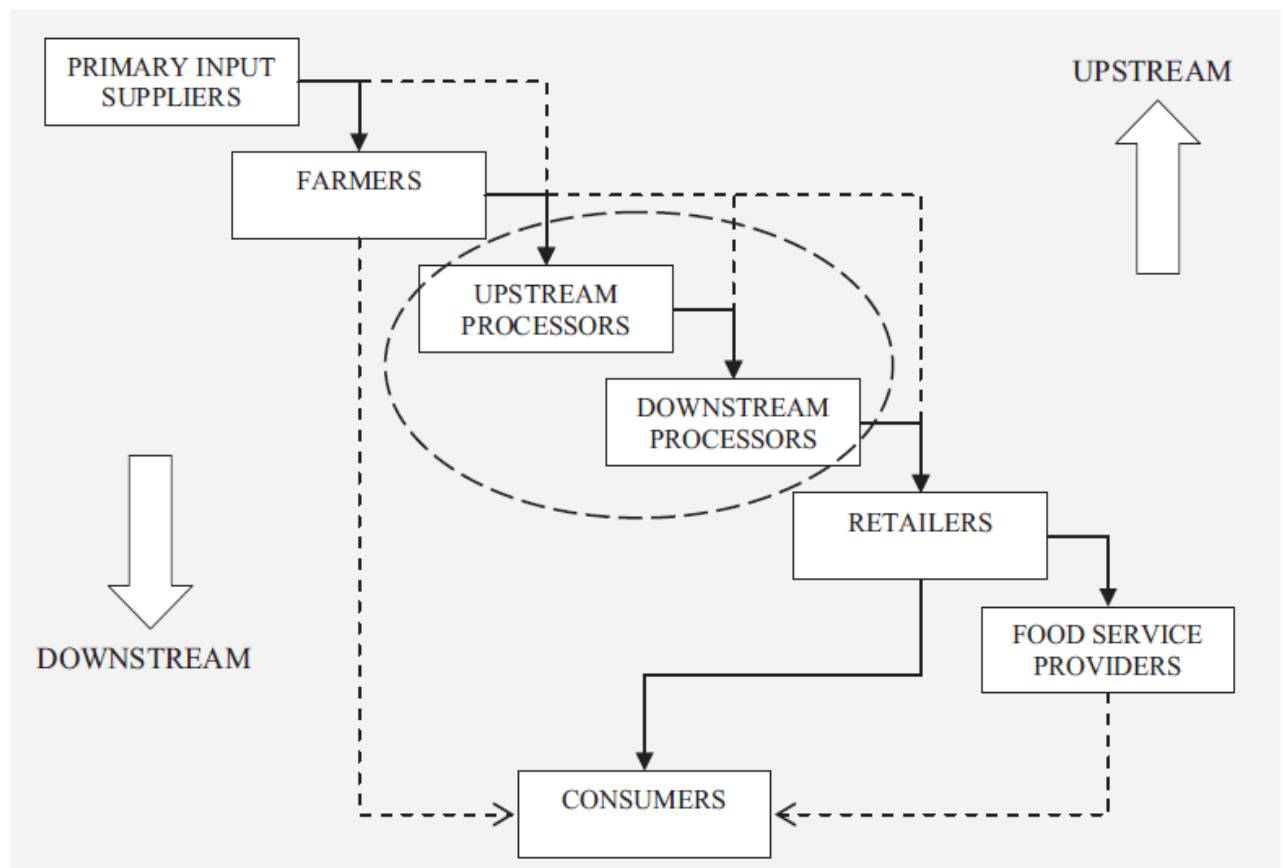
This testimony that exports can have a very strong impact on economic growth of a country.

Today, for economic growth is more important "what to do" (the activities in which a company or a country participates) than to "what to sell" (final product). This is why in recent years, under the pressure of a growing interconnection between economies, it has come to create a new approach that is the shift between classical literature and modern literature in the field of exports and market globalization: this approach emphasizes on Global Value Chain (often referred in the economic literature by the acronym GVC). Global Value Chain Approach is an analytical framework, able to shift the focus from a merely technical perspective, i.e. production activities only, to a broader governance perspective, including a wide range of market and non-market activities related to the provision of the final good. Such approach is exploded in the past decade and can be described as the organizational process of the work - son of globalization and the "physical" and "virtual" reduction of geographical distances - under which the individual stages of the production chain are fragmented and carried out by suppliers and business networks scattered in different countries based on the cost-effectiveness and the specialization and expertise degree of the different companies involved. From product conception to direct sale to the consumer, all the intermediate stages can be involved in a network of companies located in different countries. Then the global value chains allow companies and economies to "perform" the part of the process they do best, using intermediate goods and services from elsewhere without being forced to develop all the activities. For example, the outsourcing of production processes and offshoring improve their competitiveness by giving access to cheaper inputs, more different and better quality.

According to Kogut (1985), the value chain is the process by which technology is combined with the material resources and with the labour, semi-finished products are processed, assembled, distributed and brought to market. An individual company can only carry a ring in this process or may be vertically integrated.

The economists Giorgia Giovannetti and Enrico Marvasi, in *Food exporters in global value chains: Evidence from Italy (2016)*, highlight the importance of global value chain as far as the international food trade with respect to Italian companies. The food trade, because of the particular nature of foods, generally requires different levels of distribution so that it can be marketed effectively and with low transaction costs. In addition, especially for SMEs operating in the food trade, it can be critical part in a global value chain in order to cope effectively with the increasingly high international competition to which SMEs often succumb due to their small size. The agri-food value chain can be schematically represented in the next figures:

**Figure 1:** The agri-food value chain.



**Source:** GIOVANNETTI, G. – MARVASI, E. *Food exporters in global value chains: Evidence from Italy (2016)*.

The main features of agri-food value chain include a wide variety of activities from inputs suppliers, such as seeds, machinery and chemicals, to farming, processing, distribution and other food-related services (also financial inputs, not included in the diagram for simplicity, play an important role). Furthermore, according to the main modern literature of this field, the agri-food industry is increasingly global and organized in international production networks. A number of studies (Fally, 2012; de Backer and Miroudot, 2014) shows that the food value chain is rather peculiar as it tends to be “buyer-driven”, relatively long in production and with long retailing chains. Recent evidence suggests that, over time, power has shifted toward downstream firms in the production process, and even more strongly toward downstream firms in the distribution process, such as large-scale retail distributors, e.g. supermarkets (Lee et al., 2012).

Because Italy is one of the largest food exporters globally, it is important to analyse the factors that affect the food export since an increase in food exports brings, of course, to an increase of total exports of goods and services of the nation. Giorgia Giovannetti and Enrico Marvasi, in *Food exporters in global value chains: Evidence from Italy (2016)*, look for a links between the probability to export and the value chain participation.

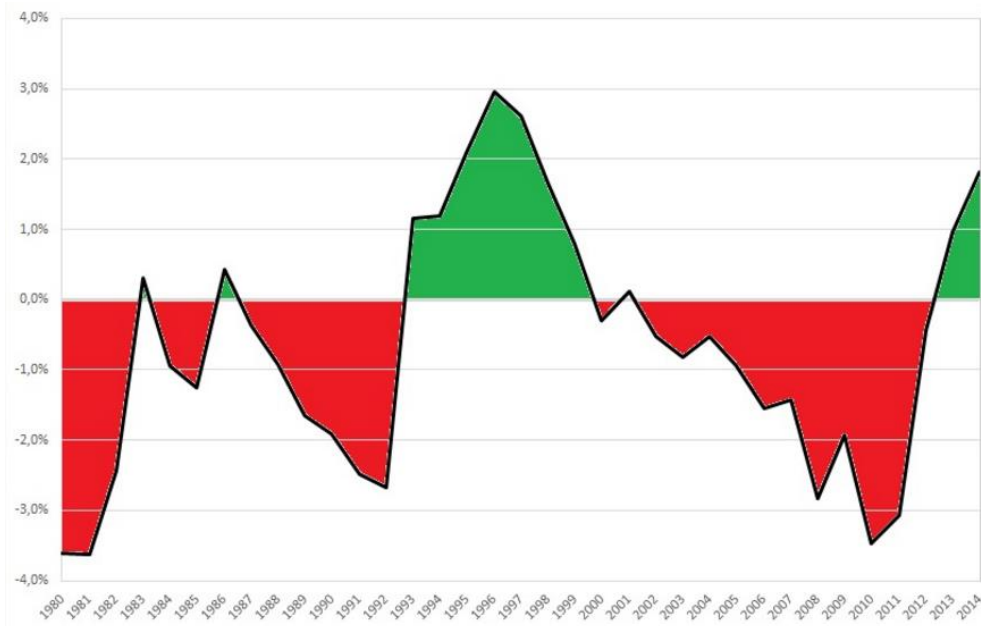


## 4. General characteristics of Italian trade in an international perspective

### 4.1 Influence of trade balance on the Italian economy

Since the end of the Second World War, Italy has experienced profound economic changes, which have led to become, in the subsequent decades, one of the greatest economic powers in the world, thanks to a continuous process of economic growth, which lasted until the end of the nineties of the twentieth century. In the years 2000, the whole world was hit by a phase of stagnation, which is subsequently translated into a true recession, doing cross Italy a period of profound and persistent economic crisis in which you are registered deficits in the trade balance for about a decade. The worst was record in 2010, when the current account deficit reached 3.5% of GDP. Since 2012, however, the deficit is significantly reduced and it is transformed into a surplus in the biennium 2013-2014, for the first time since the end of the nineties (**Figure 2**).

**Figure 2.** The balance of the account of the current Italian in percentage of GDP (1980-2014).



**Source:** International Monetary Found.

By analysing the data of Figure 2, it is possible to note that from 1980 to 2014 Italy has registered trade balances in negative for 23 years: in other words, in 66% of the period taken into consideration Italy has registered a trade deficit. The extent of these deficits has never been seated between fixed values but has a pattern very flexible and elastic, besides being generally consistent with the trend of previous years.

If we take the data in absolute value, it is possible to note how in the course of the years the influence of the commercial balance on Italian GDP is increasing. This behaviour is consistent with the growing interaction between the markets at international level and then with the intensification of international trade.

The highest peak in the period taken into consideration was in 1996, with a positive impact of trade surplus of around 3% on GDP. This peak was the culmination of a process of continuous growth lasted 3 years. Since 1996, this value has begun to drop and has followed this trend for 17 years, despite tentative signs of rising during this period.

The smallest peak in recent decades has been in 2010, with a trade deficit that has had a negative impact on aggregate national production for 3.47%. This peak was followed by a constant growth that has led to have a positive balance in 2013, after 11 years from the last time was recorded a level of exports over imports. A substantial growth was then recorded in 2014, with a balance of trade surplus in relation to the GDP higher than 0.852% compared to the previous year.

In the following chart, it is possible to observe the estimates by the International Monetary Fund, which show the probable trend of the current account balance as a percentage of the GDP for the years 2016-2020.

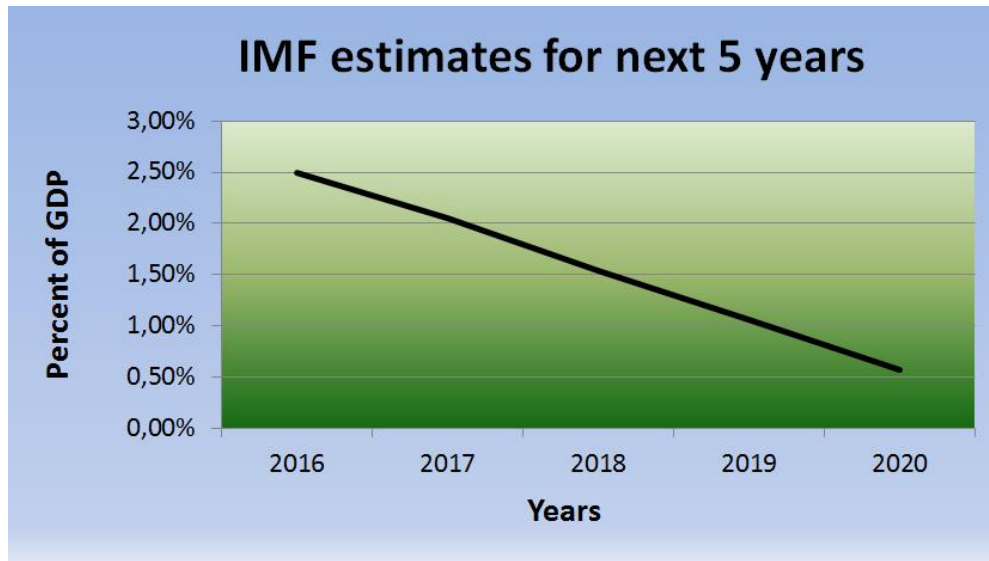
As shown in the following figure, the surplus for 2016 is intended to decrease continuously along the five years ahead.

According to these estimates, the budget balance in relation to GDP is intended to decrease of 0,44 % in 2017, to then continue with annual variations negative of 0,514 % in 2018, of 0.48 % in 2019 and 0,49 % in 2020. Then the expected decrease from 2016 to 2020 is of 1.93%.

Despite these changes the negative annual envisaged and despite from 2013 to 2015 there was a balance of trade surplus always increase if these estimates will be close to the reality of the situation for Italy would still be good whereas over the last 35 years has registered trade balances in negative for ben 23 years, i.e. 66% of the period taken into consideration.

The estimates are also taking into account a possible reduction of the current account balance that reaches the lowest level of 0,5 % forecast for 2020.

**Figure 3.** Estimates of the IMF relating to the current account balance as a percentage of GDP from 2016 to 2020, concerning Italy.



**Source:** International Monetary Fund, World Economic Outlook Database, April 2015.

## 4.2 Market share of world total and index of opening up to international trade

As was previously said, globalisation has been a mechanism that has given a strong impetus for change at global level, involving several fields from technology to trade from information in social life and so on.

This phenomenon, in any case, involves still today risks and opportunities.

**Table 1.** Risks and Opportunities of Globalisation.

RISKS:	OPPORTUNITIES:
Delocalisation of production	The ability for companies to exploit economies of scale and reduce unit costs of production due to the expansion of market size allowed by the international trade
Competition very intensified by competition with foreign companies	
Income inequality between workers and employers	
Products which become obsolete in the short term	Increase profits of businesses
Indiscriminate use of natural resources which involves the devastation of the environment and pollution in particular cities	Businesses can easily access new markets in expansion and have at their disposal a wider variety of products at lower prices
Economic dynamism, then lack of stability, so that companies are struggling to adapt to the turbulent changes in the external environment, causing the closure of many activities	Greater visibility of products thanks to the Internet that provides a global window, allowing to goods and services to be sold throughout the world
Rapid change of the history and organization of businesses	Access and immediate dissemination of information of any kind
Rapid change of growth and decline of the countries	
Unemployment as a result of the relocation	

**Source:** AMENDOLA, Adalgiso, BIAGIOLI, Mario, CELI, Giuseppe. *Economia internazionale. Globalizzazione, produzione e occupazione*

This offers potential significant advantages for the European Union, in terms of higher levels of productivity and real wage increases.

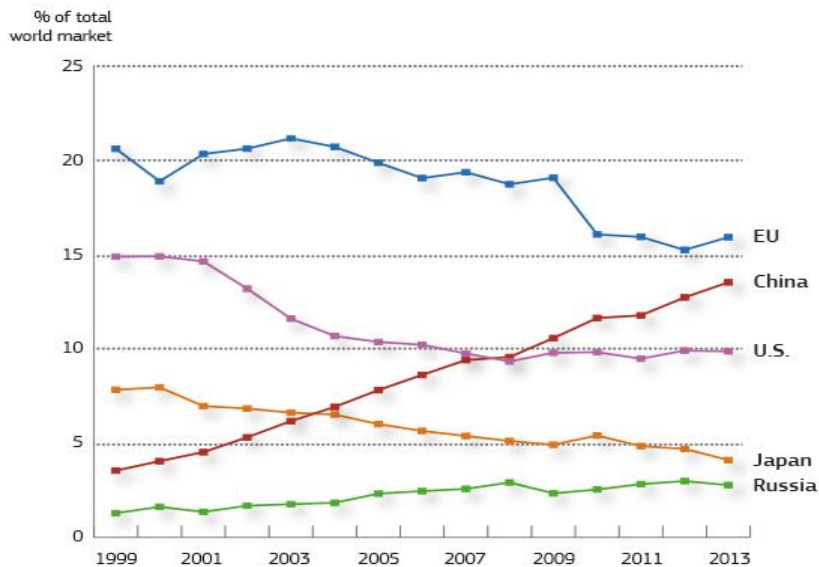
The European Commission estimates that approximately one-fifth of the improvement of the

standard of living in the EU-15 over the last 50 years is attributable to globalisation.

For this reason, the EU adopted an attitude decidedly in favour of a more open economy.

We can demonstrate through a graph showing, in relative terms, the domination exercised by the countries on the world market, from 1999 to 2013. (**Figure 4**).

**Figure 4.** Market shares relative in % of total world, from 1999 to 2013



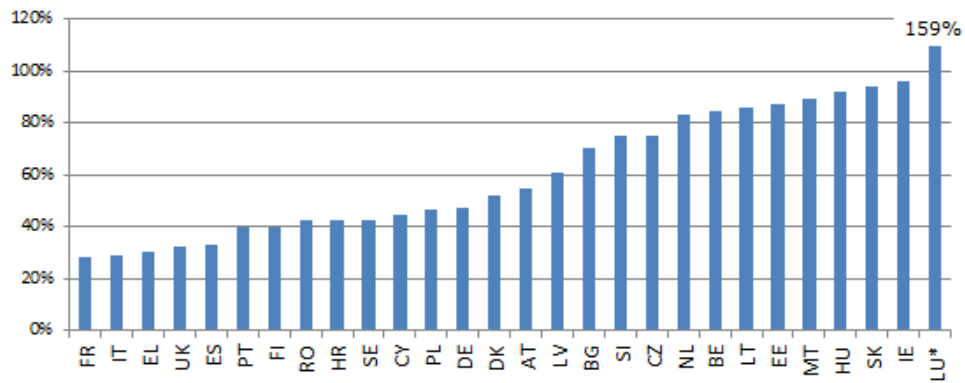
**Source:** European Commission calculations based on COMext and IMF Dot, Data cut-off February 2015

As we can see from the graph, the European Union is without doubt the greatest trading power in the world and has kept this primacy in the period taken into consideration in the graph. However, we must say that in recent years the worldwide market share held by the EU decreased, as well as the market share of the United States, while the emergent China is in constant and rapid increase in this and in the course of the last ten years has exceeded the economies historically strong, such as Japan and the United States and certainly this also happened thanks to cost leadership that have many Chinese industries.

Over 80% of exports and imports in the world takes place in the triangle formed by Europe, Asia and North America. A marginal role in the world market is assumed by the Japanese economy (whose dimension is in decline) and by the Russian economy (despite presents a slight increase of its share in the world market).

The economies of the Member States of the EU will remain among the most open in the world. (**Figure 5**)

**Figure 5.** Opening up to international trade in European countries.



**Source:** European Commission

\* The exceptional opening of Luxembourg is due to high exports of financial services.

The share of Italian international trade represents more than 25% of its GDP. Despite Italian ranking is the penultimate place, that share of the opening represents a significant slice of their economy.

### 4.3 Role of Italy in the international economy

In 2014, Italy was to the eighth place as largest exporter of goods around the world (**Table 2**).

**Table 2.** The first 20 world exporter of goods.

Rankings			COUNTRIES
2010	2013	2014	
1	1	1	Cina
2	2	2	Stati Uniti
3	3	3	Germania
4	4	4	Giappone
5	5	5	Paesi Bassi
6	6	6	Francia
7	7	7	Corea del Sud
8	11	8	Italia
11	9	9	Hong Kong
9	8	10	Regno Unito
12	10	11	Russia
13	13	12	Canada
10	12	13	Belgio
14	14	14	Singapore
15	15	15	Messico
20	16	16	Emirati Arabi Uniti
18	17	17	Arabia Saudita
17	18	18	Spagna
19	19	19	India
16	20	20	Taiwan

*Source: ICE elaborations on WTO data*

While the first seven countries have reconfirmed their position from 2010 to 2014, Italy had treble and bass. In fact, in 2010, as in 2014, Italy stood at the eighth place, while in 2013 fell until the eleventh position and in the last year (2015) passed from the eighth to tenth place. The reasons that have led to this descent in the ranking are traceable to the crisis and to the difficulties of small and medium-sized enterprises to compete with foreign competitors. SMEs are facing every day to the growing pressure due to competition from emerging countries of East Asia.

#### 4.4 Analysis of foreign demand for the Italian goods

A fundamental role that has guaranteed the spread of globalization phenomenon has been adopted by some agreements between nations, thanks to which is verified the passage from a closed economy to an open economy.

The European Union has played a fundamental role in the attempt of market liberalisation. To promote the free market has issued a series of directives and regulations included in the Single European Act (1986) for the creation of an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured. The free movement of goods is the first of the four fundamental freedoms of the internal market, is ensured through the elimination of customs duties and measures having equivalent effect (Art. 28-33 TFEU), quantitative restrictions (Art. 34-36 TFEU), and the prohibition of discriminatory taxation on imported goods (Art. 110 TFEU). The principles of mutual recognition, the elimination of physical and techniques barriers, and the promotion of standardization were added in order to continue the completion of the internal market.

All these Regulations have contributed to benefit the trade and the internationalisation of Italian firms; but in addition to the aforementioned regulations were adopted other regulations more large-scale international level in order to facilitate and adjust the business relations outside the borders of Europe.

Foreign demand for goods and services is one of the relevant factors in determining the economic growth of a country.

From the geographical point of view, Europe remains the main partner of Italian exports. This means that the foreign demand for Italian property is composed mainly of European countries.

The main destinations of exports to Italy are Germany, France, the USA, the UK, Switzerland, etc. (**Table 3**).

European countries are followed by not belonging to the EU, East Asia, North America, the Middle East, and America south-central.

Among the non-European countries, the main country that import Italian property is China.



**Table 3.** The first 20 countries of destination of Italian exports in 2013.

COUNTRIES		Position
		2013
1	Germania	1
2	Francia	2
3	Stati Uniti	3
4	Regno Unito	4
5	Svizzera	6
6	Spagna	5
7	Belgio	7
8	Cina	8
9	Polonia	9
10	Turchia	10
11	Russia	11
12	Paesi Bassi	14
13	Austria	18
14	Romania	16
15	Hong Kong	13
16	Giappone	19
17	Emirati Arabi Uniti	12
18	Arabia Saudita	17
19	Brasile	20
20	Repubblica Ceca	21

Source: ICE elaborations on the ISTAT data

By comparing these data with those for 2015, we can notice small changes, reversals of position of some countries importers of Italian products, these include Spain, which reaches and slightly surpasses Switzerland, Poland that exceeds China, Netherlands and Austria that exceed Russia. The percentage changes are minimal, which is why the data are subject to change from year to year.

About the Italian products, the main goods required are showed in **Figure 6**.

**Figure 6.** The main Italian products required abroad in 2013.



Source: Observatory of Economic Complexity

What emerges from the graph is a higher demand for products and manufacturing activities. In 2014 the situation seems to be quite similar, is approximately 381,936,000 euro of manufactured goods have been exported, then follow the products of agriculture, forestry and fishing for a total of 5.922 million euro and, finally, the products of mining industry, such as crude petroleum and natural gas for only 1,190 million euro.

An analysis of the values elaborated on Istat data on foreign trade of goods by sector, you can immediately identify which products belonging to manufacturing activities occupy an emerging position in comparison to others. We can name a few of the most exported:

- Machinery and mechanical appliances (74 194 million euro)
- Textiles, clothing and accessories (46 892 million euro)
- Basic metals and metal products (44,617 million Euros)
- Means of transport (39 905 million euro)
- Food, beverages and tobacco.

## 4.5 Food exports

Although the above chart it is possible to deduce that the foodstuffs are not among the most exported, it is good to emphasize that they nevertheless play a fundamental role in order to promote greater integration of the Italian market abroad. Several studies conducted in recent years show a ranking of food more requested from the foreign country.

In fact, Made in Italy is quite appreciated by the world population, although it is also true that several are the attempts of low cost imitation for the most representative products of the Italian food identity on the part of “enemies cleverer”.

In different continents are selling disturbing aberrations, from "Spicy thai pesto" to "Parma salami" of Mexico, to conclude with the "Parmesao" and "Regianito" throughout the South America. The historical Italians trademarks are faked and this global deception causes consumers economic damage and distorts image to the Italian production at international level.

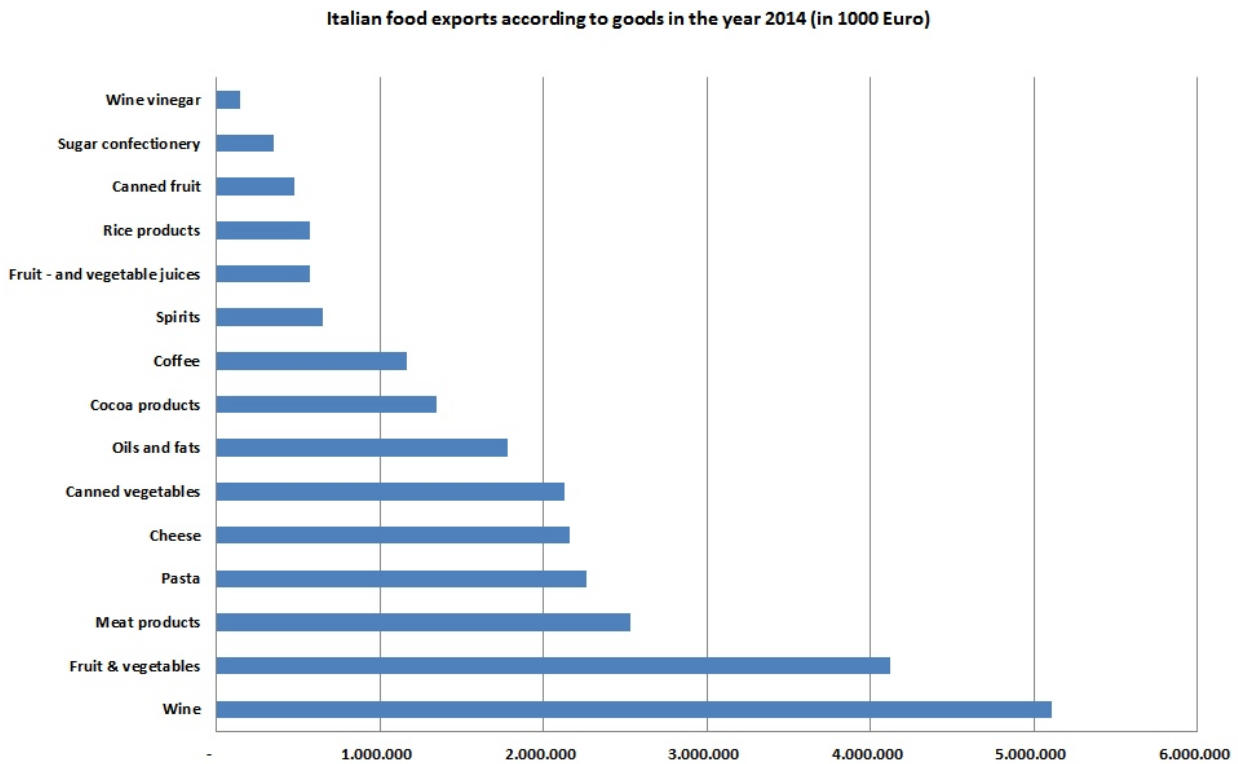
This strong impetus to the growing sale of Italian products in the world is also due to the event held in Milan in 2015: Expo.

This event has given us the opportunity to make know the true identity of the Italian product abroad, offering a worldwide showcase of Made in Italy and allowing a greater diffusion of national products and a growing interest by foreign consumers.

Among the most successful food products, we may mention cheeses, meats and fruit; but do not pass unnoticed pasta, coffee, oil and in particular wine.

Many of these quality products are often classified as DOC, this certificate allocated by the EU ensures that the place of the whole production process is recognized. This certification is important to avoid confusion with low-quality products. **(Figure 7)**

**Figure 7.** Exports of food by Italy in 2014.



Source: Eurostat

Italian exports close 2014 by registering the historical records for agri-food exports and domestic beverages reaching a value of 34.3 billion, with an increase of 2.4% compared to the previous year. This is what emerges from an analysis based on the Istat data relating to foreign trade in 2014.

## 5. Internal characteristics that affect the international Italian trade

### 5.1 The Italian productive system

An important distinguishing factor of the entrepreneurial Italian industries with respect to the productive systems of other European countries is represented by the importance of *SMEs*, namely small and medium-sized enterprises. Within this category are distinguished for competitiveness midsize businesses.

There are different definitions of *SMEs* as regards the number of employees and the annual turnover.

Moreover, the dimensional parameters of the businesses vary from country to country.

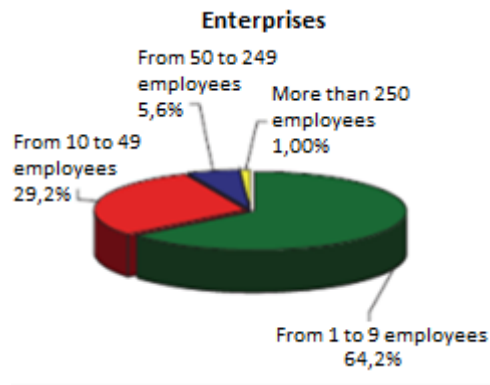
That we are going to take into consideration is the definition on dimensional thresholds of the undertakings provided by the EU in 2011, according to which defines the micro-enterprises like those that have less than 10 employees and not exceed at least one parameter between the annual turnover of EUR 2 million and EUR 2 million total assets; small enterprises have fewer than 50 workers and does not exceed at least one parameter between EUR 10 million turnover and EUR 10 million total assets. Finally, midsize enterprises have fewer than 250 employees and does not exceed at least one parameter between the 50 million euro turnover and 43 million euro in total assets (**Table 4**).

**Table 4.** Definition of micro, small and medium-sized enterprises in the European Union

	Annual employees (unit)	Annual turnover		Annual total assets
Medium	< 250	≤ 50 millions of €	or	≤ 43 millions of €
Small	< 50	≤ 10 millions of €	or	≤ 10 millions of €
Micro	< 10	≤ 2 millions of €	or	≤ 2 millions of €

*Source: "The new definition of SMES", European Union, 2011*

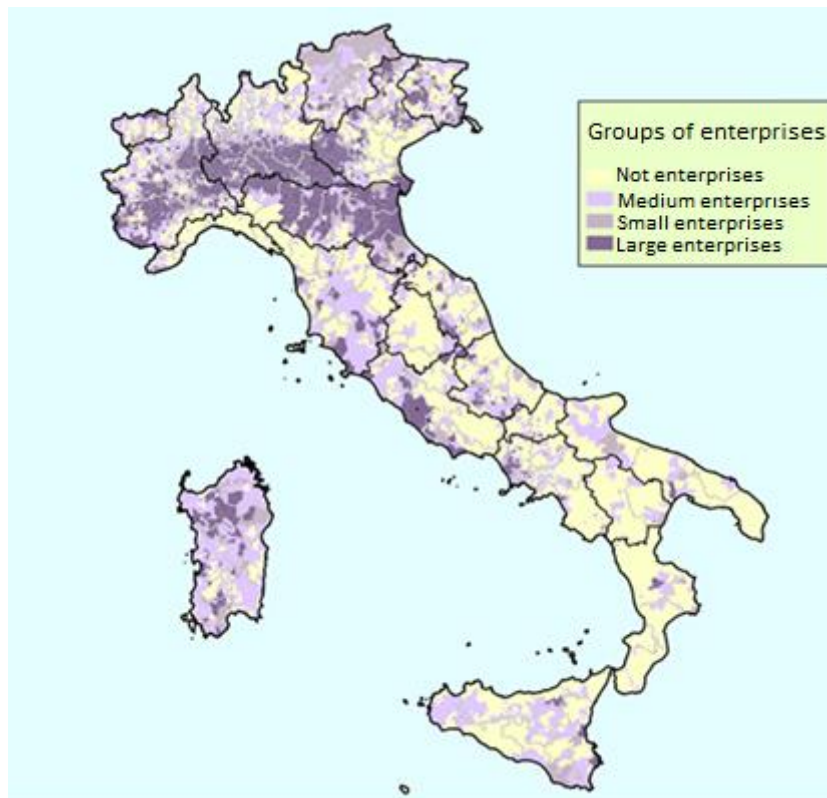
The Italian productive system has not changed in the course of time, despite the crisis of 2008, the structural characteristics have remained largely the same: it continues to be characterised by a massive presence of small and medium-sized enterprises, which represent 99% of all companies in Italy. (**Figure 8**).

**Figure 8.** The composition of the undertakings for the class of employees of exporting companies.

*Source: ICE processing on the ISTAT data 2010*

In 2015, the ISTAT has made an annual report presenting a 'Check-Up' of Italian businesses. From the analysis performed are in 2015 about 4.4 million active businesses with 16.4 million employees.

The following figure shows the concentration of enterprises in the Italian regions.

**Figure 9.** Geographical distribution of firms in Italy

**Source:** Istat

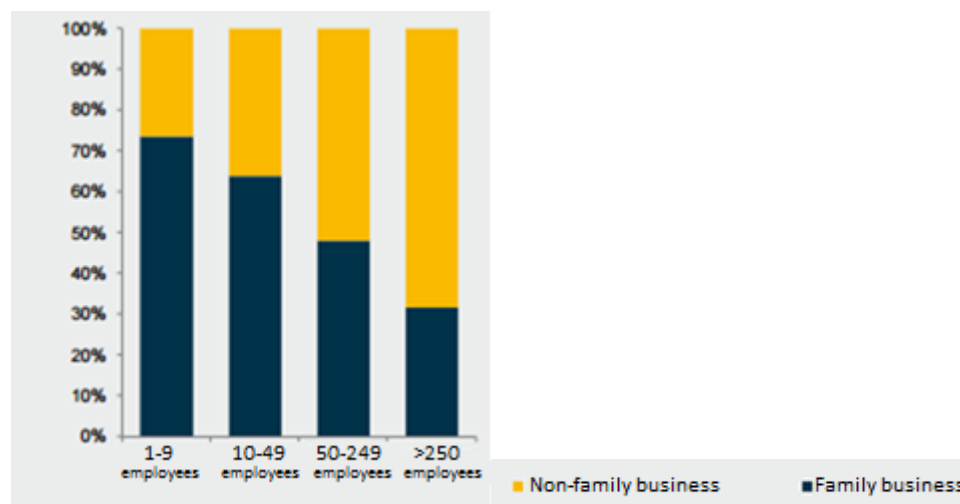
Figure 9 shows the geographical location of the enterprises in the Italian regions. With a deep purple were labelled zones in which dominate large enterprises; as the colour becomes more clear, firm size decreases until it arrives to the situation of total absence of undertakings, shown in the graph by the yellow colour.

As we can see there is a strong presence of medium and large enterprises mainly in the regions of Northern Italy and on the island of Sardinia, these tend to decrease more and more in the area of the Mezzogiorno until they disappear almost completely in Calabria, Puglia, Basilicata and Campania.

This significant datum explains phenomena such as the crisis in the South, unemployment, the tendency of young people to emigrate. The total absence of undertakings in those regions justify the absence of jobs and thus young people, who today are going through a very difficult situation, are looking for a job and a future abroad.

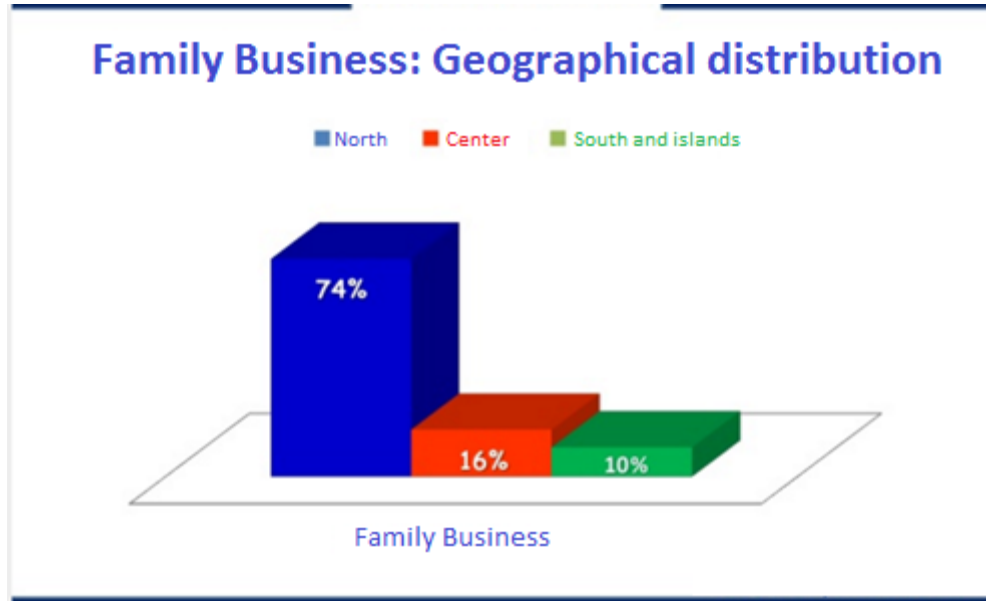
In the Italian productive system prevail governance models simplified, with a prevalence of undertakings with just one employer or to familiar character: about 72% of enterprises employing 3-9 people (micro), 64% of small businesses (10-49 people), 48 % of the medium (50-249 employees) and remains high, 33%, even in the large (250 or more employees). (**Figure 10**)

**Figure 10.** Family and non-family business, by size class



*Source: elaborations ISTAT on provisional data from the census of industry and services*

Therefore, it is possible to conclude that the Italian productive system consists almost entirely of small and medium sized enterprises, which, in their turn, are formed by an important share of family businesses and individual firms.

**Figure 11.** Geographical distribution of enterprises to familiar character

Source: EY-Family Business year book 2014

**Figure 11** shows the geographical distribution of family businesses in Italy: the Northern Italy has the 74% of family business, while the Centre and the South of Italy possess in total 26%. This low percentage is supposedly justified by the fact that the enterprises in those regions are very scarce and the few present are family run.

As we are going to see in the next paragraph, the Italian productive system represents a limit for the international expansion of the Italian economy, because it is composed almost entirely of small and medium-sized enterprises, characterized by low productivity and limited propensity to innovate.

The explanation of this tendency is very simple and the causes are sought in their tendency to assume a market strategy defensive.

The micro-family character firms must ensure the survival of the company in the long term for the livelihood of their own family and rarely arise the objectives of growth and productivity, unlike not family businesses sometimes of larger size, which instead are more interested to gain a profit in the short term.



## 5.2 Internationalization of Italian enterprises: composition of exports and imports

The crisis in the United States of 2007 quickly acquired a global dimension and, like other developed countries, Italy has been affected immediately as well. In Italy, the recession was more severe and this has given rise to serious doubts as to its capacity to react because of its fragility and of its difficult financial situation.

It was facing serious problems that could seriously compromise the internationalisation:

### - the public debt

total debt in 2014 Italy amounts to 2.135.902.000 €, about 133% of GDP

### - the size of the firms

Italian firms are very small to be competitive in the global market. Small businesses have not received yet the change that has taken place with the globalisation. They believe that there is only the local market; contrary, the rules of the game have changed and now there is a single world market.

This leads to serious problems with export.

Several companies have products to sell abroad, because made in Italy is successful, but they don't export because they do not know or do not have the size to do so.

Despite the difficulties of small enterprises, there are large and medium-sized enterprises, mainly located in Northern Italy, which have a greater propensity for export. There is a relationship between the size of the firm and the international competition through the export: large companies that export are, in percentage, more than medium sized enterprises, while the latter are, in percentage, more than smaller ones.

It has been demonstrated that the productive internationalisation of Italy is still limited compared to that of major European partners. Thus, appear ample margins for further improvement of performance on the international markets, achievable through an increase of the number of exporting companies and business size too small to compete with the giants of the world market.

### - the crisis of the Mezzogiorno

Italy is drastically divided by inequality of income and employment between North and South of Italy. The Mezzogiorno is increasingly poor and unemployed.

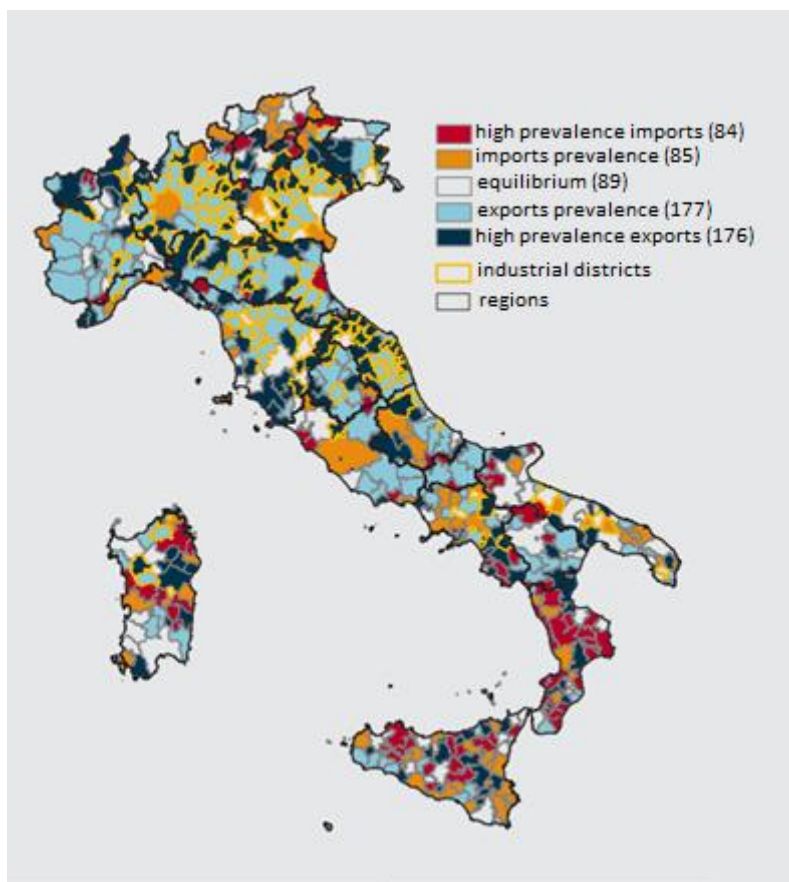
Let us now look at the regional breakdown for imports and exports.

The chart below shows the propensity for export and import of the Italian regions.

As was previously mentioned, in the south of Italy, there is an almost total absence of undertakings and this justifies in part the ability to import from abroad goods and services on the part of some regions.

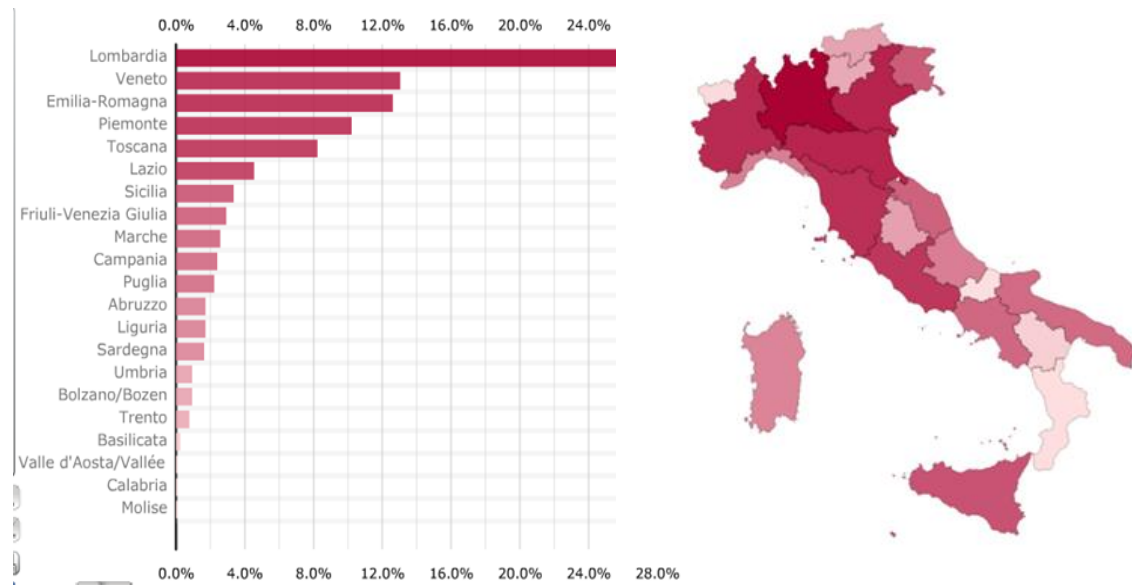
In particular stands out the case of Calabria, 90% in its area has a strong prevalence to import precisely for this reason, in recent years has trade balances in predominantly negative. **(Figure 12)**

**Figure 12.** Exports and imports of Italian regions



Source: Istat

As regards exports, North Italy is much more active than Mezzogiorno. From what emerges from the research carried out in 2013, the regions with the greatest number of export are Lombardia, Veneto, Emilia Romagna, Toscana and Piemonte. **(Figure 13)**

**Figure 13.** The composition of the exports of the Italian regions in 2013

Source: Istat

As you can see from the figure above, the share of Italian exports is dominated from the Lombardia region, which has a distinct advantage over all other regions. In general, we could say that the regions of Northern Italy dominate the scene of exports in relation to the south of Italy, with the exception of Sicilia, which, although it is the Italian region located more to the south, is located among the regions with higher positions as regards exports. In this regard is important to note that the position of the region of Sicily has been replaced in 2015 by Marche, Friuli-Venezia Giulia and Campania, which have taken over and have driven down the ranking of Sicily, from seventh to tenth place, losing 2,728 mln euro of exports.

Let us now analyze the impact of businesses with exports to growth, by sector, area of destination of the goods and the class of persons in percentage values between 2011 and 2012.

It is interesting to observe how midsize businesses are those that, by observing the totals, have the higher percentage of companies that have increased exports. To be noted is the fact that they are the only size class in which more than 50% of enterprises have increased their international presence.

By carrying out an analysis at the level of activity class, we observe how for the manufacture of traditional undisputed primacy to leave it up to large enterprises. Interesting

is the fact that for the production of high added value, in this case represented by the undertakings to offer specialized and high technology intensity are the medium-sized enterprises that have expanded more their exports and that even in areas of scale they are positioned just behind of micro-enterprises.

By analyzing the markets served, midsize companies are those that most have increased their exports to the EU markets, while they are the second ones for markets extra-EU, slightly behind the large enterprises. In all classes of people there is a percentage of companies that have increased exports to countries outside of the European Union more than 50%. (**Table 5**)

**Table 5.** Incidence of enterprises with exports to growth, by sector, area of destination of the goods and class. (% Values, Gen.-jun. 11 - Gen.-jun.'12).

Class of business Markets	Classes of employees				Total
	micro 1-9 employees	small 10-49 employees	medium 50-249 employees	larges more than 250 employees	
Traditional manufacturing	48,5	49,3	51,6	54,5	49,4
Specialized offer	48,5	52,1	53,2	46,8	51,2
Technology-intensive	47,7	46,9	49,0	45,4	47,5
Economies of scale	50,1	49,0	49,8	46,4	49,3
UE markets	42,6	45,2	45,5	44,7	44,8
Extra UE markets	51,3	53,3	55,7	57,1	53,2
<b>Total</b>	<b>48,7</b>	<b>49,9</b>	<b>51,4</b>	<b>48,9</b>	<b>49,8</b>

**Source:** Istat, 2012, "Performance of manufacturing enterprises on foreign markets".

The value of trade (sum of exports and imports of goods) amounted to more than 750 billion in 2014, to which exports contributing almost 53%, for a value equal to about a quarter of GDP.

Thanks to the availability of data relating to individual undertakings, it is possible to measure the degree of international openness of Italian businesses. High values of the degrees of opening up to international trade are in systems of Northern Italy, with some exceptions in the center and in the islands.

## 6. The rivalry and cooperation among nations: Italy's position

### 6.1 Main rival nations of Italy

Remember, according to what is stated in the previous chapter about the exported goods, that some of the main products of greatest interest to the foreign market are foodstuffs, in particular the wine, and the means of transport.

As each exporting country, Italy has to face the competition and the rivalry with the various producers of similar goods.

In this section, I will show you the position of Italy in the world market in terms of exports of beverages and spirits, doing a comparative analysis based on the volume exported to the years 2010 and 2011.

The following chart shows the ranking of the top ten countries exporters of alcoholic and non-alcoholic drinks, including wine, in 2010. (**Figure 14**).

**Figure 14.** Ranking the top 10 exporting countries of beverages for quantity exported in American dollars in 2010.

Rank	Country	Exports of Beverages, spirits and vinegar in USD (2010)
1	France	\$15,049,788,211
2	United Kingdom	\$8,777,911,228
3	Italy	\$7,219,162,004
4	Germany	\$5,814,789,728
5	United States	\$4,719,433,905
6	Netherlands	\$4,425,165,955
7	Spain	\$3,842,264,011
8	Mexico	\$3,040,823,375
9	Belgium	\$2,341,116,080
10	Austria	\$2,115,573,795

Source: Index Mundi

In 2010 Italy ranks in third place among the major exporters of beverages with an amount in excess of 7 billion dollars after France and the United Kingdom that export respectively 15 billion and 8 billion dollars.

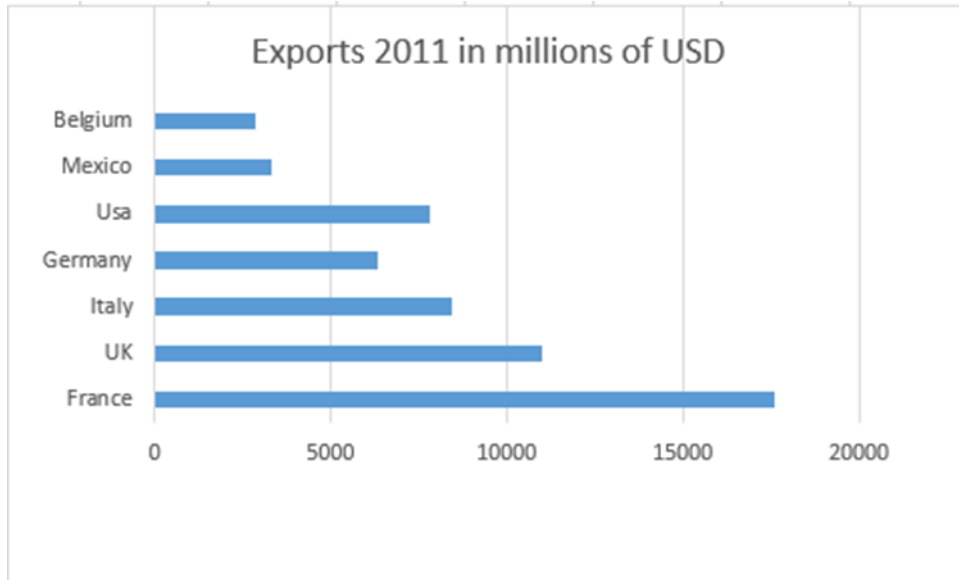
Our nation is very strong in this field; this is demonstrated by the fact that in 2011 has reconfirmed its position by increasing of about 1 billion the volume of exported drinks, passing by 7,219,162,004 USD to 8,420,677,349 USD.

France and the United Kingdom maintain the primacy.

Between 2010 and 2011, the UK has had an increase in the volume of exports even greater than France reaching 8 billion to 11 billion USD. France, despite having had a lesser increase

of exports in relation to the UK, has maintained the absolute primacy since departed from a stock of 15 billion and is then increased to 17 billion USD.(Figure 15)

**Figure 15.** The ranking of the main exporting countries of beverages for quantity exported in US dollars in 2011.



**Source:** Own elaboration on Index Mundi data

It is interesting to observe that in the course of these years, the United States have done literally a leap in quality, passing the Germany and conquering its position as the fourth in the standings, getting closer and closer to the volume exported from Italy.

## 6.2 Strategic Alliances

The rules to be competitive on the global market are the strategies.

The first guy who introduced the concept of strategy was Peter Drucker (1954) and defined it as “a tool used by the company to answer questions like what is, what will be, what should be our business given the constraints and opportunities of the external environment”.

The internationalization process can be pursued through export strategies, integration with the international market and global strategy. The main strategies developed by companies to entry in a new geographic market are:

- 1) Business networks and Joint ventures,
- 2) Foreign Direct Investment.

There are different types of strategic alliances.

We are going to analyse two in particular: the business networks and joint ventures.

The corporate network is made up of a group of companies that carry out a target / common project without merging with each other, so without giving up their corporate autonomy, but are committed to jointly carry out production and /or share investment in R & D, training and marketing.

The competitive advantages of business networks are manifold:

entrance to new markets, greater visibility, access to skills and knowledge of other enterprises, better access to capital (because companies prefer to offer financing to medium-sized enterprises), development of human resources, splitting of the risks of new investments, increase innovation through different skills, etc.

The contracts of the network always attract more companies, which produces better results compared to companies that are not part of any aggregation.

The data updated September 2015 count 2348 business networks in Italy, inside of which are involved 11.879 companies. The regions with the greatest number of enterprises are the Lombardia, Emilia Romagna, Toscana and Veneto.

A network example implemented by seven small companies is the "Italian fine food and beverage", a network created by the coalition of seven small businesses operating in the food, beverages, manufacturing and agricultural use. The participating companies share the activity in the field of food and beverage and through the network intend to coordinate their participation in trade fairs and events at national level in order to enhance their economic development and competitiveness on the market.

Another type of strategic alliance is represented by the Joint Venture. It is an agreement, a coalition concluded between two or more undertakings (co-venturer) that create a new legally independent company with respect to them (joint venture), sharing their properties to produce and develop jointly defined economic activities, requiring a high financial commitment and high levels of risk, for a limited or unlimited period of time.

In this case, industry share risks and define a common strategic objective.

**Table 6.** Advantages and disadvantages that a Joint Venture.

ADVANTAGES	DISADVANTAGES
Reducing completion times	The decision-making limitation
Allocation of risks	Possibility of internal conflicts
Cost-sharing	Emergence of individual interests
Greater bargaining power	Partners' ability not adequate
Communion of knowledge and skills	

Source: AziendAttivA

The formation of a joint venture should always be preceded by a thorough analysis of the advantages and disadvantages of cooperation with a view to a successful agreement. The key issue is to ensure that all partners will benefit from the joint venture in proportion to the investment made.

A good example of the joint venture is the case Gran Moravia. Brazzale produces Gran Moravia in joint venture with partners of the Czech Republic, with whom collects milk needed in one of the most typical regions of that country. With Czech ingredients and Italian know-how, the Italian company Orrero and Brazzale Group set up their cheese factory in Litovel, Moravia in an area with excellent environmental characteristics (hilly, green, pollution-free) because of its high-quality milk, skilled workers, and expansive agricultural territory. Their dairy diplomacy dates back to 1996 and today they produce over 6,000 tons of Gran Moravia cheese that is sold locally and abroad. The project must not be identified as



an operation of production relocation, but like an internationalization in search of work conditions not replicated in Italy where milk cows, except sporadic cases, are forced to live in very confined spaces.

Marie Martinů in Haná founded the originary small chees factory Orrero. That initiative was a wonderful romantic gesture but without the indispensable know-how the chees factory was closing. The company then began to search for a suitable partner in Italy. She finds him in the company of Brazzale family. "We immediately recognized the potential of the Moravian agriculture and the Czech population. Was ideal region that we have not found neither in Poland nor in Hungary. Here we could start our big project", says Brazzale. The Joint Venture was established in 2000. "Since then, Orrero has grown nearly a hundred times, and today manufactures all the better cheeses of the Italian tradition", says entrepreneur.

Processing is strictly artisanal tradition. Brazzale also praises the fact that in Moravia he found the high quality milk with sustainable production. The companies are large, professional, with ideals livestock breeds. With the entry of the Italian investor, the number of companies has grown from 1 to 80 and the milk collected from 6 to 500,000 litres per day. In the future may moreover be up to one million litres per day. This growth is based on cheese like parmesan, which carries the brand Gran Moravia. The company presented this cheese in 2003 at the Cologne fair, where he won first prize for the best innovation. According to Brazzale, it was like "a bomb" and the cheese has undergone got hit with consumers.

On the world market with traditional hard cheeses, Orrero now covers 2.5%. The production is from 700 to 1,000 pieces of chees per day, 8 500 tons per year. Approximately 95% of the Gran Moravia mature in Italy and are sold in more than fifty countries of the world. The rest matures in Litovel for the Czech market. Revenues of Orrero company in 2013 were almost 2 billion CZK, of which 1.6 billion were from exports. It is also the first cheeses exporter from the Czech Republic.

It has been demonstrated that the undertakings belonging to groups (business networks, joint venture etc.) are much more productive and therefore competitive, with respect to those that operate isolated, regardless of size.

Companies that have relationships with other units are numerous, innovate more than the average and have a better performance.

Foreign Direct Investment (FDI) are defined as those which cross national borders and are addressed to acquisition of shares of a company, and that enable the investor to exercise some degree of control over the strategic and operational management of foreign enterprise. The company through FDI delocalize one or more parts of the production system. The phenomenon of delocalisation of Italian enterprises is becoming more frequent. Delocalization term refers to the choice of small and large industrial groups, which transfer their production from their own country to other countries, where labour costs are lower. This means that physical structures such as company, machines and call centres are transferred overseas, reducing employment opportunities for Italian citizens and those of other nation states. Delocalization is carried out mainly to Eastern Europe, China and South America. The objective is to reduce labour costs, hold at the household level stages of production to more high qualification, as the transport costs will be contained and the more the objective pursued by an undertaking is that of price competitiveness.

**Table 7:** Advantages and disadvantages of delocalisation.

ADVANTAGES	DISADVANTAGES
Direct presence on the foreign market, direct control of sales networks, ability to have a constant control, provide real-time technical support	Loss of jobs in the domestic country and the consequent emergence of social tensions
Reduction of costs thanks to lower labour costs	Distances and Logistics
Proximity to sources of supply of raw materials	Quality issues
Disposal or simplification of the logistic flow of goods	Loss of know-how
International contributions	
Tax and Customs Benefits	

**Source:** <http://lerablog.org/business/advantages-and-disadvantages-of-moving-your-business/>

The major Italian companies that have moved abroad their activities, thereby generating the loss of thousands of jobs, are:

- FIAT: establishments open in Poland, Serbia, Russia, Brazil, Argentina. Italy lost 20,000 jobs places going from 49,350 in 2000 to 31,200 employees in 2009.

- GEOX: structures in Romania, Slovakia ,Brazil, China and Vietnam; among 30,000 only 2,000 workers are Italian.
- BENETTON: establishments in Croatia.
- CALZEDONIA: establishments in Bulgaria.
- STEFANEL: establishments in Croatia.

All these companies that have relocated their production activities have enjoyed a reduction in production costs (in particular due to low labor costs in the countries in which they have chosen to relocate their production activities).

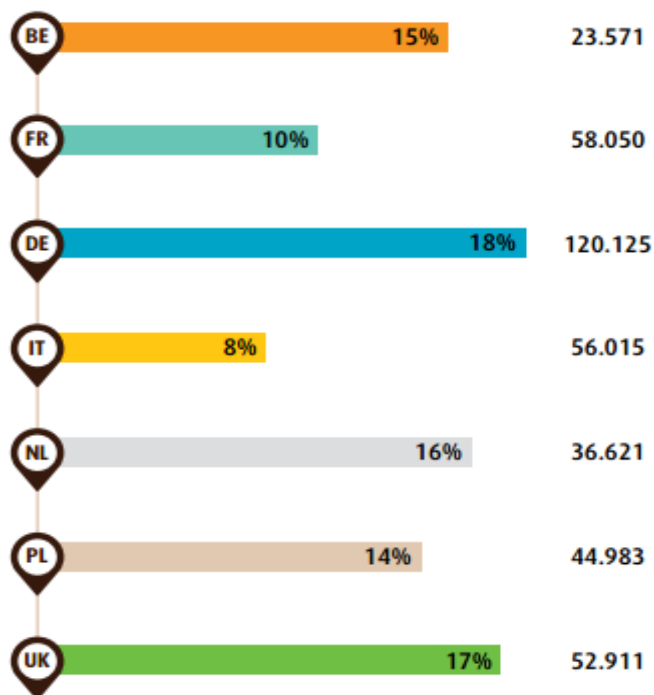
## 7 Results

In this thesis we considered Italy analysing the main factors that affect the country's international trade, Italy's role in international trade and how international trade affects the Italian economy.

It is also important to point out that from a study conducted by UPS, on average there are only 56,010 Italian SMEs that export, it means only 8% of Italian SMEs.

In the following figure is possible to compare Italian SMEs exports with other European countries' SMEs exports:

**Figure 16:** Comparison of SMEs exports in a sample of European countries



**Source:** [https://www.ups.com/media/news/it/European\\_SME\\_Exporting\\_Insights\\_Study\\_2015.pdf](https://www.ups.com/media/news/it/European_SME_Exporting_Insights_Study_2015.pdf)

The following table shows the average annual values of exports in US Dollars based on the size of companies (small and medium-sized enterprises are those with less than 250 workers while large enterprises are those that exceed 250 workers). It is important to consider that during the period covered by the table below, on average, every year the small and medium-sized Italian companies amounted to 4,470,748 units, while the large companies amounted to an average of 45,159 units per year. However, in the following table, the total export value (in USD) is compared to the total number of Italian SMEs.

**Table 8:** Annual average exports in USD for firm size (average per enterprise)

	2008	2009	2010	2011	2012	2013
<b>Firms with &lt;250 employees</b>	65,42	47,38	51,57	60,44	57,03	59,31
<b>Firms with &gt;250 employees</b>	6509	3916	4130	5075	4856	5025

**Source:** elaboration of ISTAT data

Italy is one of the world largest exporters of food products, despite having trade deficit in food (not being specialized). At the product level there is a relatively high degree of heterogeneity, with some high specialization products. According to ISTAT Statistics, in 2015 Italy was the 8th food (and beverages) exporter at the world level and the 5th at the European level. The number of firms in the food products manufacturing sector is about 55 thousands, employing some 395 thousands workers. Exporters are around 12%, about half than in manufacturing. Many Italian food products are renowned and exported worldwide, but Italy is not specialized in the food-processing sector. Imports are greater than exports, with a trade deficit of about 598 millions of Euro in 2013, which becomes almost 4000 million if we exclude beverages and tobacco (ICE, 2015).

It is important to say that in a GVC, small firms risk to be marginalized if they are not able to upgrade. Italian food processors are very small, even smaller than in the rest of manufacturing: almost 88% of firms have less than ten employees and the average number of persons employed is seven. Small and medium firms account for more than 60% of exports. In the next table, we can observe dataset based on a 2011 survey of 25090 Italian firms operating in manufacturing, with specific reference to food processing firms, and related services. The survey provides information on various characteristics of firms over the period 2009–2011.

**Table 9.** Share of exporters by class of employment.

## Share of exporters by class of employment.

Class of employment	Number of firms	Number of exporters		
		Value chain	No value chain	Odds
<i>Food processing firms</i>				
1–9	77.7	14.4	5.0	2.9
10–49	16.2	47.5	46.4	1.0
50–249	4.94	71.9	61.7	1.2
≥250	1.2	88.9	90.0	1.0
Total	100	29.7	13.6	2.2
Total number	1599	100	172	
<i>Other firms</i>				
1–9	60.4	23.4	11.7	2.0
10–49	25.3	54.0	37.4	1.4
50–249	10.9	73.9	52.8	1.4
≥250	3.4	75.7	61.9	1.2
Total	100	48.1	23.5	2.0
Total number	23,491	1117	4977	

Source: MET (Monitoraggio Economia e Territorio s.r.l.)

In Table 9 is reported the distribution by employment class for food processing firms and for other firms, and the share of exporters by value chain participation. Food firms tend to be particularly small; almost 78% of them have less than ten employees. The comparison of the two export columns suggests that belonging to a value chain increases the share of exporters, particularly for smaller firms. This seems to apply more strongly to micro-firms in the food sector. Moreover, while in the food sector the share of exporters is generally smaller than for the whole sample, it is actually higher for larger food firms. The survey also allows us to distinguish between the food industrial value chain and the high quality/gourmet value chain. This information is relevant in order to better control for positioning of firms. More than half of processors in the food value chain operate into the gourmet segment (about 57%), while some 45% operate in the industrial food value chain. The two types of food value chain show a different distribution by firm size: within the gourmet value chain small processors are common (78% of firms have less than ten employees, in line with the overall distribution), while within the industrial value chain larger firms are more represented (46% of firms have less than ten employees). This feature seems to suggest that the gourmet value chain is likely to be focused on niche artisanal productions.

As for the hypothesis highlighted by the classical literature considered in this thesis, now we are going to build a linear regression model in order to highlight the relationship between exports of goods and services and economic growth (in terms of GDP per capita), for individual years from 1990 to 2015. This period of time seems to be more than enough since the last 15 years the market globalization process has been gradually increasing and this process still seems oriented towards increased with increasing rates. The equation of our simple linear regression model can be represented as follows:

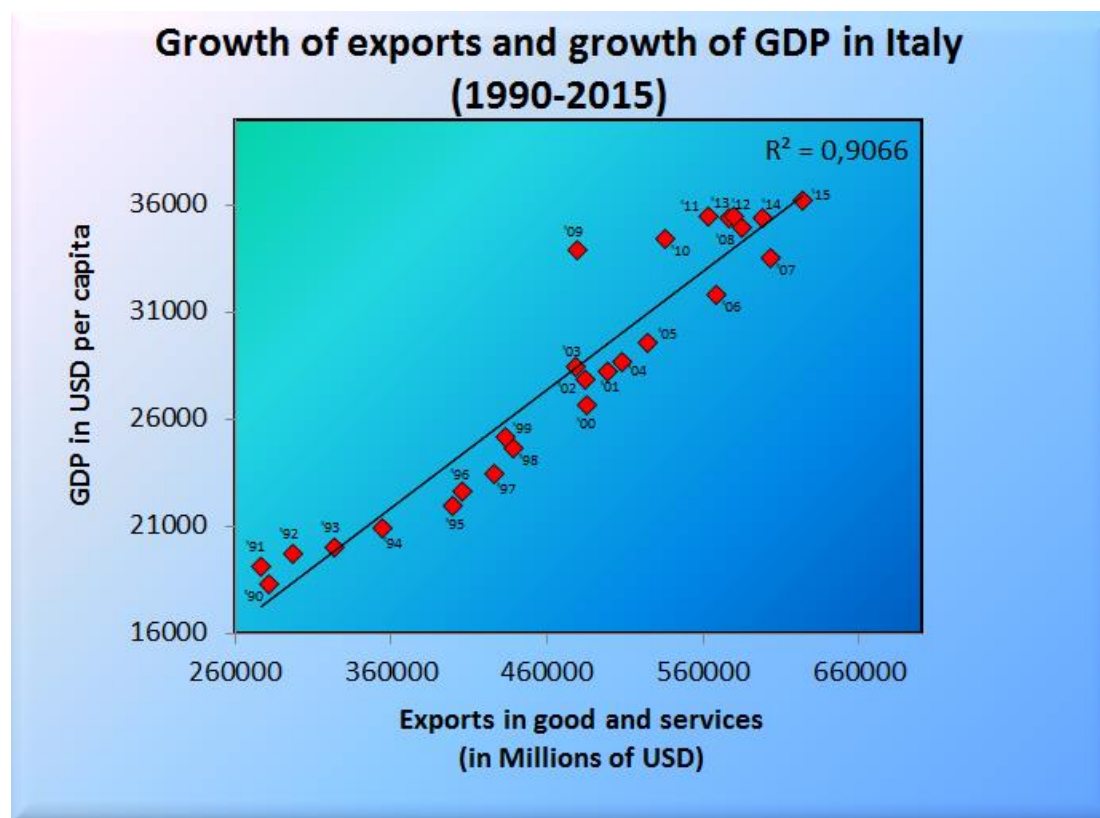
$$y = 1920,1 + 0,0553x$$

where:

- $1920,1$  is the ordinate at the origin;
- $0,0553x$  represents the regression coefficient (that is, how much GDP per capita varies on average for a unit change in exports).

This means that for every change in exports, GDP per capita varies in proportion of 5.53%. This regression can be represented by the following graphic:

**Figure 17:** Relationship between GDP per capita and exports (1990-2015)



**Data:** author's elaboration on *International Monetary Fund* data.

As we can see from the linear regression model, the relationship between exports in goods and services and GDP per capita is very high: in fact the  $R^2$  index is equal to 90,66%.

In fact, from the graph that represents our simple linear regression we can see that from 1990 to 2015 there has been a progressive increase in the GDP per capita following the gradual increase in exports. Furthermore, the deviations are very low: in fact, the joint values are very close to the regression line, apart from the joint value representing 2009, which appears to be the only anomalous value observed during the 15 years.



## 8 Discussion

In light of the economic literature taken into account and the results obtained in this thesis, we can explain the observed connection between Italian Economy Global Value Chain in the food trade, export growth and economic growth through the following steps:

- The diffusion of global value chain are a means which have particularly contributed to increase food exports;
- Cause of Italy is among the top eight nations in the world for the export of food, the diffusion of global value chain has promoted the growth of food exports;
- the growth of food exports generates an increase of total exports of goods and services;
- the increase in exports of goods and services is one of the macroeconomic factors that generate economic growth. These reports are the result of the classical and the modern approach in economic literature.

By the classical literature here considered, export growth is expected to lead to economic growth. In particular, in the economic research entitled *On export and economic growth: the case of Italy* by Daniela Federici and Daniela Marconi the authors start to taking into account the main characteristics of each nation since each nation is considered heterogeneous from the point of view of the production system and the geographical location.

We have seen how the Italian productive system is formed by 99% of small and medium-sized enterprises. We also analysed the difficulties that small and medium-sized enterprises found in the internationalization process and what are the main strategies to compete with international rivals.

The table shows in fact that the average values of exports for small and medium enterprises are very low for the following reasons:

- on average only 8% of Italian SMEs export;
- among the SMEs that export, there are considerable difficulties in penetrating the international markets because of their small size.

Whereas, as we have seen, Italy is made up for 99% of SMEs, it is clear that a big problem for Italy's international trade is its production system.

From the point of view of the new approach of economic literature in the field of exports and market globalization, which emphasizes on global value chains, it is interesting to note that this new approach can be particularly useful for Italian exports, because:

- 99% of Italian companies consists of SMEs, and global value chain are very useful for SMEs in their internationalization process;
- Italy is among the top eight nations in the world with regard to food exports, and global value chain are particularly suitable and useful for the international distribution of food.

Such theories are in line with the results: in fact, you can see that among small and medium-sized enterprises (which include all businesses with fewer than 250 workers) there are those operating in food trade through the global value chain. Italy displays an apparently “feeble” productive structure in the food sector. Food processing firms are found to significantly increase their probability to export when they produce within a value chain. Additionally, participating in distribution chains, for instance being able to sell products through large supermarkets, also significantly contributes to successfully enter the international market. Moreover, marginal benefits seem to be particularly large for food processing firms as increases in productivity are likely to increase the probability to export by relatively more than for firms in other sectors.

These data are particularly interesting for the Italian economy if we take account of its characteristics above mentioned.

Finally, as we can see from the linear regression model, the relationship between exports in goods and services and GDP per capita is very high: in fact the  $R^2$  index is equal to 90,66%. This means that over the past few years, the participation of the Italian economy in global markets, despite partially limited by the difficulty of small and medium-sized enterprises to internationalize and its continuous increase in exports led to economic growth. This relation turns out to be very strong. So the results obtained are consistent with the assumptions at the basis of this thesis.

## 9 Conclusions

In this thesis, we investigate the participation of the Italian economy in global markets and assessed the impact of exports on the Italian economy. The classical literature on the basis of this thesis has in common the will to demonstrate a specific relationship between export growth and economic growth, while the modern economic literature in the field of market globalization emphasizes the importance of a new phenomenon that is the global value chain. To test the relationship on the Italian economy between export growth and economic growth, we took into account the key factors that influence the Italian international trade, especially in a period where the interrelationship between the markets is becoming more global. We first identified the general characteristics of the Italian economy in an international perspective, and we also have paid particular attention to the factors of the Italian production system that restrict domestic exports and internationalization of enterprises. In fact, since the Italian productive system format for the 99% of small and medium-sized enterprises, we have seen how the suffering Italian exports of this "weakness" of the production system, whereas small and medium sized businesses have struggled to compete with international rivals and that only 8% of Italian small and medium enterprises has some relationship with foreign customers. Also in Italy there are some regions that export a lot (i.e. Lombardia), thanks to their geographical position closer to the border, and others regions that have a very low level of exports. Strategic techniques used by companies in order to increase its size and its ability to export are certainly useful in order to overcome this problem of international competition (i.e. Global Value Chain).

In the empirical part we used the linear regression model to test the possible correlation between export growth and economic growth to approximate GDP-per-capita. The time period considered to test the possible relationship between 1990 and 2015. The result of the index of correlation  $R^2$  is equal to 90.66%; this very high value indicates a strong correlation between export growth and growth of GDP per capita. Although Italy has spent several periods with a negative trade balance, with the decrease of the negative trade balance, or the increase of the positive trade balance occurred a process of growth of per capita GDP. We can therefore conclude that the advent of the global value chain positively influences the total exports and the relationship between export growth and economic growth is very strong in Italy. For this reason, an increase in farm size of the small and medium-sized enterprises

and/or an increase in Italy in the presence of large companies or the increase in operating through Global Chain Value could be a very favorable factor for the Italian economy.

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