



THE CAPITALS OF INDUSTRY – THE ITALIAN CASE

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The crisis of the European economy

Europe's competitiveness has for some time marked a downward trend, as documented by the Commission¹ and as testified by the decision to activate the "Competitiveness" Council of Ministers, which merges "Home Market", "Industry" and "Research".

There are many indicators that show the drop in Europe's competitiveness. Two of them are particularly useful, because they enable time and space measurements: the GNP and the international market shares² dynamic.

Percentage shares of World GNP³

	1972	1982	1992	2002
Italy	4,1	4,2	3,9	3,5
EU 6	17,3	21,7	20,6	18,7
EU 15	26,0	29,9	28,1	26,4
EU 25	26,3	30,5	29,1	27,6
Japan	16,3	17,6	18,8	16,2
USA	25,5	24,1	24,5	26,0

Percentage shares of the World Market of Goods and Services (exports)

	1972	1982	1992	2002
Italy	4.5	4.5	4.2	3.8
EU 6	29.0	28.3	27.7	25.6
EU 15	42.1	40.6	38.8	37.1
EU 25	42.5	41.2	40.1	39.3
Japan	6.3	9.0	8.5	6.6
USA	9.7	10.3	12.6	11.0

Europe experienced a relative slow-down in development in the 80s, and was braked in the following decade. This phenomenon is common to the complex of developed countries, but there are some decisive exceptions: the United States of America, for example, moved partly against the wave, losing market shares but increasing its GNP in both absolute and relative terms.

¹ Commission of the European Communities, "Some key questions concerning European competitiveness - the road to an integrated approach" COM (2003) 704 def of 21/11/2003.

² The above mentioned communication of the Commission uses a myriad of indicators. Many are, however, redundant and repetitive. They often do not allow to distinguish among causes and effects. The GNP dynamic and the percentage of the market are, from this viewpoint, two effective, unequivocal measurements of the effects of the loss of competitiveness. Conversely, the other indicators are useful, at a second stage, to identify the causes of loss of competitiveness.

³ Source: World Bank Group, "World Development Indicators", 2004.

Up to now, the loss of Europe's competitiveness has not led to a contraction in wealth, but only to a very marked slow-down in the rate of growth. If this trend were confirmed in the next few years, one cannot rule out an absolute drop in the level of well-being.

The changeover from a Union of 6, then to 15 and finally to 25 countries, has merely attenuated the gradual worsening in the Union's ability to grow. However, this inability mainly concerns the founding countries and the countries of the 'old continent'.

Italy's case is particularly interesting, because the drop in growth rate is less accentuated compared to the rest of Europe, considering Italy's economy with its larger secondary sector, especially in the manufacturing industry⁴, to the extent of suggesting and anticipating the theory whereby industry alone cannot be responsible for Europe's difficulties.

Percentage variation of GNP (dollars at constant value)

	1972-1982	1982-1992	1992-2002
Italy	34.0	37.5	29.6
EU 6	68.1	30.5	17.9
EU 15	53.8	29.2	21.9
EU 25	55.2	31.5	22.9
Japan	44.6	46.9	11.5
USA	26.6	39.7	37.5

In spite of this warning, the European crisis is always associated with industrial decline, thus attributing to this sector most of the responsibility for the loss of competitiveness of our continent.

⁴ In the European Union, Italy is part of the group of countries with greater industrial specialisation, in terms of both added value generated by the secondary sector (or by manufacturing activities), and the percentage of persons employed in industry.

	Percentage of Added Value produced in the industry (2002)	Percentage of employment in the secondary sector (2003)
Belgium	26,2	24,8
France	24,5	
Germany	28,8	31,4
Italy	27,0	31,8
Luxembourg	16,7	16,8
Netherlands	24,9	18,8
Austria	30,5	28,7
Denmark	25,4	23,8
Finland	31,1	26,2
Greece	22,1	22,2
Ireland		27,6
Portugal	29,5	32,3
Spain	28,5	30,6
Sweden	27,9	22,5
United Kingdom	27,6	23,3
Cyprus	20,8	22,9
Czech Republic	37,6	39,6
Estonia	27,3	32,5
Hungary	30,6	33,4
Latvia	22,5	27,0
Lithuania	30,0	28,1
Malta	25,8	29,9
Poland	30,2	28,6
Slovak Republic	31,3	38,3
Slovenia	35,2	37,5

Source: EUROSTAT

This analysis is not unsuitable, because, above all, the trend of the market shares indicator depends almost wholly on manufacturing activities⁵, but is, in our opinion, prejudiced.

The decline of industry

Numerous phenomena, at this stage of the world economy, characterise Europe's secondary sector - especially the manufacturing industry - and only by precisely analysing their evolution, can we diagnose the state of health and suggest therapies to regain competitiveness.

There are substantially five phenomena to be observed: the tertiarisation, de-industrialisation, decentralisation, delocalisation and innovation. The swings of their indicators enable us to understand if industry is competitive or if true decline phenomena are present.

As many concepts are used indiscriminately in this subject, we first of all need to make some definitions to ensure that our analysis is fair.

The tertiarisation is a structural component of advanced economies and, therefore, the lead gained by the services over the secondary sector in producing added value, and in terms of employment, should be considered positively.

If we associate the trends of deindustrialisation with it, i.e. the absolute loss of wealth and employment in industry, this produces a signal of a true fall in competitiveness of the secondary sector.

The other two phenomena must also be considered jointly. Production decentralisation means the transfer of work processes and companies to countries with minor costs, whose products are, however, targeted at the EU home market or at the inflowing markets. Instead, delocalisation indicates the transfer of an activity - or new investments abroad - mainly destined to serve new developing markets. In this case too, decentralisation is a structural, positive aspect of an evolved industry which, among other things, has not hitherto caused loss of jobs and wealth, whereas delocalisation shows a wholly negative balance.

Finally, the capability to innovate must be measured on the market and not on indirect difficult to compare indicators, such as personnel employed in research, patents, etc. Information on export and import prices is much more effective, because these prices synthetically incorporate the innovation contents (including design) of the products⁶.

The Italian case

The success of the tertiary sector in Italy can be traditionally dated at 1970, when, for the first time, it overtook industry in terms of produced added value. From that moment, and, especially, from the 80s, the services sector has generated increasing wealth and has provided jobs for an ever growing number of persons employed.

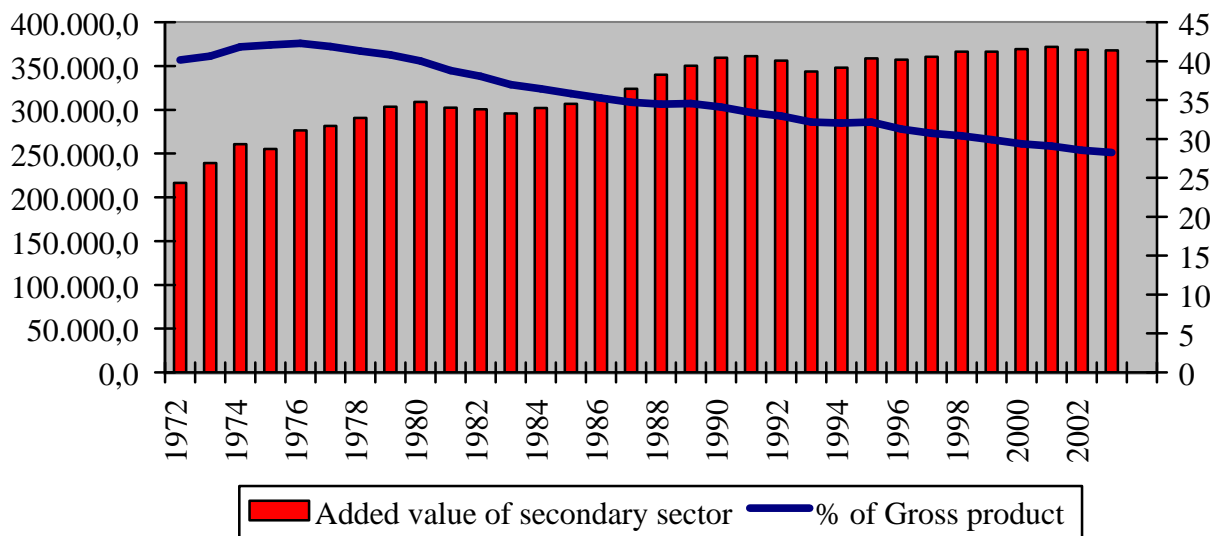
However, industry has continued to grow up to the present day, in terms of production value. But, in the 80s, there were signs of a fall in employment in the secondary sector.

Briefly, for two decades, the Italian economy has been on the verge of deindustrialisation. One can, likewise say, that every economic crisis tends to heighten the ceding characters, thus broadening the differential of industry's growth rates compared to that of the services.

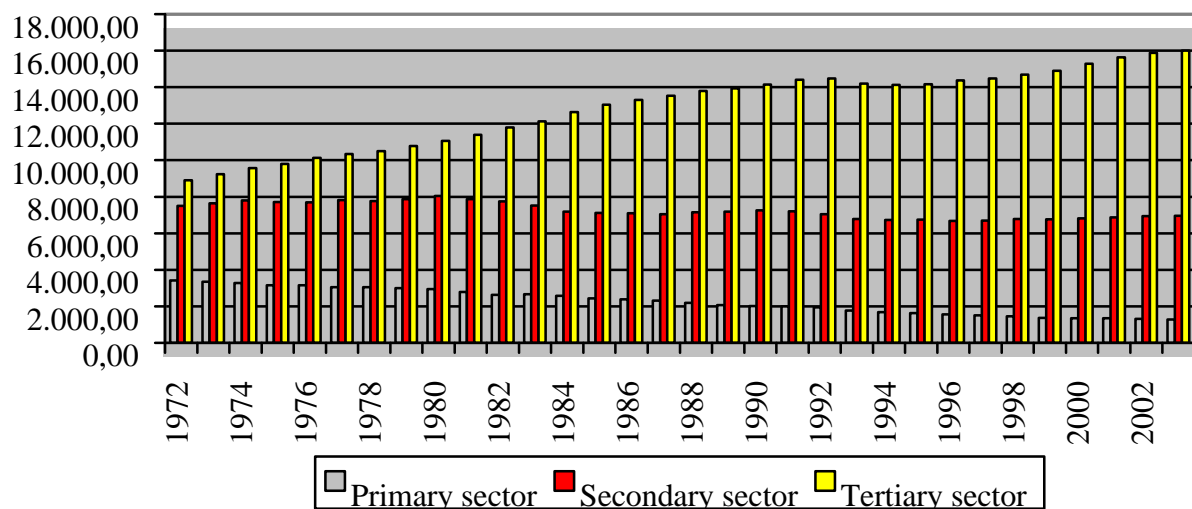
⁵ This work plan does not involve the tertiary sector, but we should point out that the worse evolution of income compared to market shares would suggest that the non industrial sectors are experiencing probably a worse crisis. We know about the situation in agriculture, but we know less about the tertiary sector which, overall, is growing powerfully, but, in Europe, especially in the continent, this sector seems to have difficulty in producing wealth.

⁶ The information about the dynamic of prices also includes the effects of the presence of mature sectors, or those with a low rate of innovation.

ADDED VALUE OF THE SECONDARY SECTOR (constant Eurolire) and SHARE OF GROSS PRODUCT



WORK UNITS PER SECTOR (thousands)



The decentralisation and delocalisation phenomena are both present on the Italian market and are growing significantly. From 1992 to 2003, decentralisation⁷ grew by over 600%, while Italy fell back in terms of outsourced industry.

⁷ There are no statistics enabling us to precisely measure decentralisation. Literature suggests an indicator made up of inward and outward processing traffics. In particular, temporary exports offer an approximation of how much the economy entrusts to other countries and then commercialises with its traditional channels.

Inward and outward processing traffic (in thousands of current Eurolire)

	1992	2003
Temporary exports	98,509	244,587
Re-imports	44,092	802,508
Total outward processing	144.604	1.049.067
		625,5%
Temporary imports	11,399,999	6,261,201
Re-exports	6,521,591	2,714,196
Total inward processing	17.921.590	8.975.397
		- 49,9%

Delocalisation⁸ has most recently been a substantial phenomenon. Its comparative influence is still of very insignificant, although, in the last ten years, it has risen from 2% to 3% as part of overall investments in Italy.

One positive aspect to be reported is that Italian investments abroad are growing much less than foreign investments in Italy.

Therefore, the question of delocalisation is a real one, but it has not yet become particularly serious, because foreign investments partly concern production decentralisation too.

Foreign investments (billions of current lire)

	1992	2003
Investments abroad	22.694	66.774
Disinvestments abroad	15.765	54.688
Balance	6.929	12.086
Gross fixed investments	346.965	408.797
Relationship between investments abroad and gross fixed investments	2.0%	3.0%
Balance of investments from abroad	3.945	26.029

To sum up, the following trends are present at the same time: positive trends based on the competitive ability generated by decentralisation, but delocalisation phenomena which begin to show, quite rightly, give rise to concern.

The last suggested competitive indicator concerns export prices. They are the indicator of a country's ability to perform well in production, in terms of both the built-in technology and design, or a country's skill in creating market niches.

At a time when international prices have been driven down by new competition, and by the advent of producers advantaged by very low labour costs, Italian industry has, nevertheless, managed to offer adequate export prices.

In this field, to have any significance, the analysis must analyse product by product and, thus take into account the offer variations of a country. However, to initially quantify competitiveness, it may be sufficient to consider that the unit value of Italian exports in the last ten years has risen by 50%, a percentage sufficient to take in inflation, as well as some prizes for improved competitiveness.

⁸ In this case too, no official statistics about the phenomenon exist. The phenomenon is habitually estimated according to the relationship between foreign and home investments.

To conclude, Italian industry overall retains some elements of vitality, and, thus, of competitiveness, but it certainly also has to pay for some structural weaknesses of the industrial system (age, company size, technological level) and of the country's system.

Decline, with some of its effects, is present, although some of the production framework could maintain a significant presence on world markets.

Areas of industrial specialisation

These evaluations, based on average national data, are not entirely satisfactory and, above all, are inadequate for Italy's highly differentiated production set-up.

As a result, last spring, the Industrialists' Union of the Province of Bergamo built an ample database on Italian provinces and, in particular, on those with high industrial specialisation and with a high income per head. 15 high income provinces were selected, where at least 40% of added value and of overall employment are produced by the activities of the secondary sector⁹.

The 15 Industrial Associations set up a permanent Working Group to establish a network of collaborators and to make economic policy proposals for enhancing competitiveness in their area.

The statistical analysis shows that Italian industrial provinces are not declining, even if, in Italy and Europe likewise, their competitiveness is under a strong threat.

To sum up, the high industrial specialisation provinces are rare, precious and costly.

Studies¹⁰ have shown that areas of high industrial specialisation are less widespread than one might think: in Italy, more than a quarter of employment in the secondary sector is concentrated in provinces which do not reach 15% of resident population, although all these provinces are highly populated.

In Europe the situation is not very different, and out of 264 regions, only 18 have high income per head and at least one third of jobs in the secondary sector.

Rarity has important political consequences because - as we shall see - these areas, which have specific economic policy requirements, have trouble in having them adopted, as they are in the minority.

These areas not only do not decline, but also boast highly positive economic results, which is why we made use of the adjective "precious".

As evidenced by the censuses of 1991 and 2001, employment in Italian industry has dropped by 9.6%, in the 15 it increased by 0.8%. The average company size which, as we know, is particularly limited in Italy, is much higher than average in these zones, although the group does not include the large industrial cities, and only one of the provinces is a regional capital.

Entrepreneurship is at average levels, and these areas are attractive for new localisations (if we take 1 as the index of attractiveness for external investments in northern Italy, the more industrialised provinces reach a value of 2.43 and two of them approach 4).

Consequently, the levels of unemployment stand near zero, the trading balance is always amply positive, and the export multiplier¹¹ (Italy = 1.03) is on average higher than 2, and the degree of international openness is 15 points higher than the average national figure.

The indicators of the technological level of production and of the capacity to innovate point to a situation above the national average, even if still well below the average of the leading countries.

⁹ The 15 provinces are, in geographic order: Biella, Novara, Bergamo, Brescia, Como, Lecco, Varese, Belluno, Treviso, Vicenza, Pordenone, Modena, Reggio Emilia, Prato and Ancona.

¹⁰ The database and the reflections which led to the construction of the Group of 15 provinces are available.

¹¹ The name habitually used to describe the relationship between exports and imports.

	Rate of unemployment	Exports 2000 (millions of €)	Imports 2000 (millions of €)	Trading balance (millions of €)	Export /Import	Degree of international openness
Biella	2,7	1.593,8	-1.220,3	373,5	1,31	69,0
Novara	3,7	3.241,1	-1.867,1	1.374,0	1,74	75,8
Bergamo	1,8	8.709,2	-5.602,6	3.106,6	1,55	67,8
Brescia	3,3	8.079,6	-4.954,2	3.125,4	1,63	50,0
Como	2,9	4.680,1	-2.437,4	2.242,7	1,92	64,7
Lecco	1,6	2.275,1	-1.263,8	1.011,3	1,80	60,5
Varese	5,2	6.269,6	-5.105,1	1.164,5	1,23	67,4
Belluno	3,7	1.679,3	-563,5	1.115,8	2,98	44,4
Treviso	2,5	8.561,0	-4.044,7	4.516,3	2,12	68,1
Vicenza	2,2	11.869,4	-6.770,4	5.099,0	1,75	97,2
Pordenone	2,7	3.186,6	-1.001,7	2.184,9	3,18	58,7
Modena	2,7	7.694,2	-3.168,2	4.526,0	2,43	64,8
Reggio Emilia	2,4	5.156,2	-2.132,9	3.023,3	2,42	63,2
Prato	5,9	2.993,3	-1.132,4	1.860,9	2,64	77,9
Ancona	4,4	2.977,8	-1.873,8	1.104,0	1,59	52,8a
ITALY	9,5	268.833,7	-259.958,3	8.875,4	1,03	48,1

These economic and social performances imply the consumption of areas. Many data items can be considered - we have considered four summarising data items:

- ❑ Industrial employment compared to the population and overall jobs - of the 1,498 municipalities of 15 provinces, 1,029 (i.e. 68.7%) can be considered of high industrial specialisation (that is to say, where the jobs in the secondary sector are at least half of total employments, and where the relationship between this employment and the population is higher than the national average);
- ❑ The congestion of the area - in the 15 provinces, the density of employees in the secondary sector per sq.km is more than double the national average (53.6 employees per sq.km compared to 22.7);
- ❑ The energy requirements for production use per inhabitant are double the national average (5.3 kWh per 1,000 inhabitants compared to 2.6) and industry's energetic intensity compared to the area is 1.23 million kWh per sq.km compared to a national average of 0.49. Consequently, the shortage of energy is considered one of the fundamental items of criticality;
- ❑ Demand for infrastructures (roads, railways, but also water services and tele-communications) is above average requirements as it is correlated to the population's income and to production density.

The impact of industry on the area is strong, and, therefore, sustainable development is an obligatory objective: how to preserve and enhance industry, how to remove obstacles to further development.

The studies have pinpointed six areas of intervention:

1. Italy - and the European Union - have neglected industrial policy, which is instead necessary for relaunching and revisiting. In fact, the traditional instruments of public intervention on the economy were tailored to the national states and most of them no longer seem suitable at a time of free circulation of people, services, capital and goods.
2. The strong openness on an international scale forces companies to compete on a global scale, giving priority to high-tech production, but also to production with the advantage of low costs,

to the extent that the marginal added value of exports drops to a worrying degree and imposes a change in the EU's current commercial policy.

3. We must revitalise research-oriented initiatives and redistribute resources for applied research and innovation, especially by allowing access to small and medium enterprises.
4. The industrial areas show an incredible training deficit due to lower availability of technical-scientific disciplines (if we take 1 as the technically oriented training offer in Italy compared to job demand, the indices of the industrial provinces swing from 0.60 to 0.80).
5. The demographic crisis heralds a sharp drop in the offer of jobs (-7% in the next 25 years) and an increase in average age of 3/5 years. There is an emergency concerning investments in permanent training and a higher rate of activity. The latter is very slight in the industrial provinces, because industry has, through its history, produced a demand for jobs that is almost totally men-oriented.

The EU's objective is to take the rate of employment in the 14 to 65 age-bracket to over 67% in 2005 (it now stands at 63.8%) and to 70% in 2010. In the USA it already stands at 74% and in Japan at 69%.

In Europe, the objective has already been reached in Denmark, Holland, the United Kingdom, and in some areas of Finland, Portugal and Sweden, in some sub-areas of Baden Wurttemberg and in the province of Salzburg. In Italy, industrial areas are 15 to 20 points behind, and that amounts to the most worrying international comparison indicator.

In areas of full employment, especially where industrial specialisation is concentrated, the fall in population and low rate of activity is compensated by massive immigration. The number of immigrants with proper permits is 1.5 times the Italian figure in the 15 provinces. Accentuated concentration occurs in places with more manual work and greater reliance on shift work.

6. Lastly, a great need for infrastructures, especially as regards energy and mobility.

To sum up, the Work Groups have identified the characteristics of industrial vocation. In fact, provinces with marked industrial vocation have several characteristics in common, although they have obtained them through different historical paths and different production specialisations. These characteristics can be summarised as follows:

- ❑ economically strong,
- ❑ with unexpressed potential,
- ❑ over exposed to competition and always open to internationalisation,
- ❑ forced to undertake continuous, growing innovations,
- ❑ threatened by the lack of adequate work at different levels of training
- ❑ part of a weak country system,
- ❑ supported by a network of inadequate infrastructures,
- ❑ involved in difficult dialectics with the area

From the 80s, and increasingly so in the last decade, these areas have tried to make up for some competitive shortcomings, by means of initiatives - usually public/private - that tended to deal with criticality in an independent way.

Research Centres and Technological Poles were created; assistance aimed at globalisation was offered to companies; fairs were activated; the creation of some infrastructures began.

These initiatives led to some positive results, although they seem to be systematically disadvantaged by a user catchment area too limited for their potential, and by the lack of a co-operation network enabling them to differentiate the range of services on offer.

The list of requests and evaluations for the industrial and area policies which emerged during the study day is very broad.

First of all, what the industries must do:

- ❑ Acquire greater, quicker knowledge of markets;

- ❑ Focus on satisfying the demand of countries with a higher income;
- ❑ Innovate the products;
- ❑ Aim at specialisation or verticalisation of production;
- ❑ Invest, especially in highly sustainable technologies;
- ❑ Make best use of intellectual property.

What the politicians should do:

- ❑ Give priority to industrial policy;
- ❑ Reform the tax system (rates, progressiveness, deductions, relationship between direct and indirect taxes);
- ❑ Update the incentives model;
- ❑ Encourage the growth of risk capital (also by using pension funds);
- ❑ Reward research;
- ❑ Increase and liberalise education;
- ❑ Create infrastructures;
- ❑ Re-design town planning.

Lastly, as concerns the objectives within the system's competence:

- ❑ Re-define the bank/company relationship in the light of the changes not only of the markets but also of the structure of companies;
- ❑ Integrate and give voice to the new middle-classes;
- ❑ Build area alliances (geo-communities) concerning specific, variable geometry themes;
- ❑ Enhance negotiations aimed at objectives;
- ❑ Invest in social capital
- ❑ Communicate the value of companies and of successful industries.

A proposal

Co-operation among Italian Industrial provinces, which has been going on for 18 months, is judged to be highly positive, so much so that CONFINDUSTRIA has recognised an analysis and proposal role to these provinces.

Besides, the promoting Associations:

- have a benchmarking study in progress to select the most effective local initiatives,
- have begun to weave the network required to increase demand toward the technological poles, service centres, fairs, etc.,
- are also jointly evaluating the possibility of new activities to support companies with a super-provincial user catchment area.

According to the Union of Industrialists of the Province of Bergamo, the added value of this work could be multiplied several times if it were extended to the industrial provinces (NUTS3) across Europe. The best cost/benefits ratio should be obtained through technological co-operation and through the growth of the existing applied research centres. These centres have serious problems of focusing on and acquiring the companies' demand, in addition to being the main priority of the EU's industrial policy.

To begin involving the areas with high industrial specialisation in Europe, in a similar way as achieved in Italy, sponsorship by the European Union could be sufficient - such sponsorship should make it possible to contact the areas involved in a legally authorised manner.

Resources may be required - on a very small scale however - to build a common database and to arrange meetings among all the area subjects involved.

Useful pointers on policies aimed at competitiveness and the building of spontaneous relations among the areas, could be obtained only if they are based on this work.

At a second stage, a specific plan could be started, for supporting areas with high industrial vocation, according to the indications to be provided by the studies.

This intervention could become strategic for the European Union, also to signal best practices to the less evolved industrial areas, which can no doubt exploit the experiences of areas which have hitherto been able to resist decline.

Irrespective of any interest the European Union may have in putting this project in place - the project could be supported either by the Working Group of the 15 Italian provinces, or by the offices of CONFINDUSTRIA in Brussels - it would be extremely interesting for the 15 Industrial Associations involved so far, to open up a stable communications channel to Commissione Europea, through D.G. "Enterprises" and "Regional Politics" in order to communicate emerging problems and formally propose industrial policy initiatives.

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