

ESPORTARE LA DOLCE VITA

The potential of Made in Italy
in the changing landscape of global markets

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EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS

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Chart A
Trends accelerated by the pandemic



The pandemic accelerates the changes already in progress... The Covid-19 crisis had a propelling effect on ongoing trends, causing a leap in the speed of social and, by extension, economic transformation (Chart A). The crisis and the recovery plans that have been drawn up could, for example, push towards a reallocation of productive resources between sectors. On the one hand, the crisis has hit some sectors in a harder way (think, for example, of all the activities linked to tourism), which will probably need more time to restart. On the other hand, the new trends have represented a real advantage for some branches of activity (*first and foremost*, all those that can be carried out remotely and without physical contact).

... mainly due to the further push to digitalization Online sales, increasingly massive storage of information on digital platforms, reduction of people's physical movements, and the use of social media alongside the mass media are some of the phenomena that, for over 25 years and increasing rapidly, continue to grow in intensity and importance, posing unprecedented challenges to production and sales models. Firstly, the speed of adaptation required as a factor of resilience is crucial to keep operating in international markets. Technological change has also led to the emergence of web giants that operate on a global scale with oligopolistic rents that are difficult to break by other economic operators, at least in a short time.

The pandemic has provided further *impetus* for the global economic rebalancing The strength and resilience of China and its development model have definitively and unequivocally emerged: first to be affected by the pandemic, it was the only country among the world's large economies to grow in 2020, gaining even more relative weight in the world economy. This happened after the last five years had also revealed the strong technological and digital expertise behind the success of Chinese manufacturing, which is preparing to play a central role in the world's largest trade and investment area, established with the *Regional Comprehensive Economic Partnership* (RCEP).

Credit risks rise globally The crisis required an immediate response from governments, which put in place extraordinary and unprecedented measures to cope with it, especially in advanced countries, but also, in some cases, in the emerging countries. While the response proved effective in containing and alleviating the problems associated with the health and economic emergency, on the other hand, it has led to a huge increase in sovereign public debt. The level of private debt, too, has considerably risen, mainly due to the provision of government-guaranteed borrowing facilities to meet the liquidity crisis of

companies. The central banks' expansionary monetary policies, which are now under scrutiny given a possible acceleration in inflation, have contributed to making the scenario more sustainable.

Other factors temporarily overshadowed by the health emergency It should be noted that the ongoing changes make the management of critical issues that existed before the Covid-19 pandemic even more complex. Many of these factors are interconnected and, in any case, linked to new trends of change, making the framework increasingly complex and unstable, with negative repercussions on uncertainty. To name but a few, US tensions with China have been put aside only momentarily, and these seem to continue even under the new Biden administration, as underlined by the recent investigation launched to verify the nature of the origins of the pandemic, the discussions during the G7 and statements by NATO Secretary-General Jens Stoltenberg. Tensions between the USA and Russia, which also involve the EU and Italy, have not ceased with the adoption of reciprocal restrictions on economic relations. Some of the uncertainties linked to Brexit have vanished with the free trade treaty, but there are still too many factors that can trigger the raising of barriers and obstacles to trade, making the framework of economic relations between the UK and the EU still unstable. Finally, we must not forget the constraints of climate change, which is set to be on the top of the agenda of policymakers and to become a discriminating factor about the competitiveness of businesses.

The effects of the pandemic did not spare *bello e ben fatto* (BBF¹, it stands literally for "beautiful and well-made goods") Although not affected as severely as some service sectors (e.g. Tourism and Catering), BBF goods were severely hit by the crisis. Fashion-related sectors were among those that bore the brunt of both the direct effects (repeated closure of related businesses, the ban on trade fairs, and problems related to travel) and the indirect effects (constraints on mobility and social life) on the change in habits following the Covid-19 pandemic. In addition, the high level of uncertainty and the general slowdown in world demand have not helped exports of consumer goods as a whole, although it is surprising that some Italian-made products continued to grow in 2020, such as the nautical industry, which has been particularly resilient.

The BBF continues leveraging the competitiveness of Made in Italy The easy recognition of the Italian spirit as a feature of a product and its appreciation became well known globally during many years, which is why consumers are willing to recognize a higher value to a Made in Italy product and pay more for it, preferring it to competitors. The BBF and its distinctive features are the flags of the Italian spirit in the world. The BBF includes all those goods that represent Italian excellence in terms of design, attention to detail, quality of materials, and manufacturing. These high-quality products are distributed in all production sectors, but they find their highest expression in the productions most closely linked to taste and creativity. In this respect, BBF is the most easily recognizable expression of Made in Italy, incorporating the most characteristic features of Italy's cultural heritage, traditions, landscapes and works of art, contributing to the image of productive Italy (Chart B). In this sense, *bello e ben fatto* not only accounts for a significant share of Italian exports worldwide but also acts as a driving force for all Italian exports thanks to its economic and intangible value.

THE DISTINCTIVE MARKS OF BBF



QUALITY OF MATERIALS



ACCURACY OF MANUFACTURING



DESIGN



RECOGNITION OF ITALIAN MANUFACTURING

¹ The products included in the BBF are those final consumer goods that Italy exports with high average unit values or which, at similar price levels, Italy exports in significantly higher quantities than its main competitors.

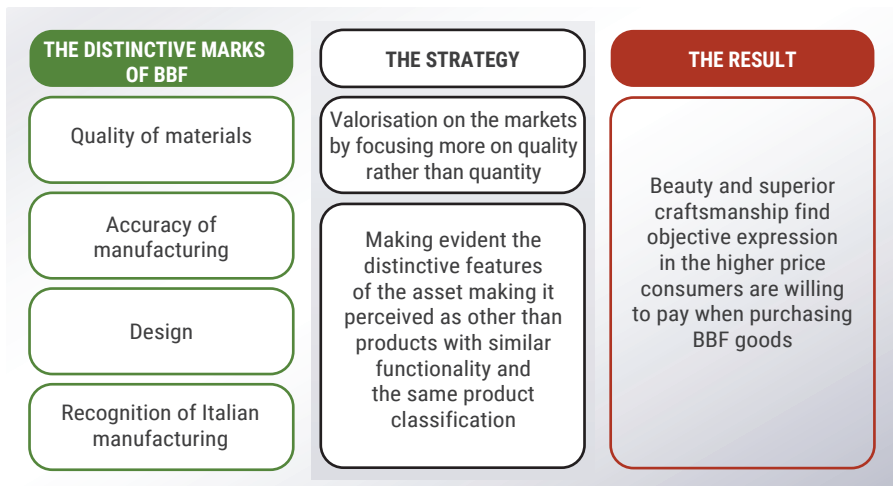


Chart B
“Bello e ben fatto”: Which are the distinguishing features?

Quality remains the key to stand out in an increasingly competitive environment

BBF goods’ distinctive quality acts as a defence from fierce price competition from competitors (e.g. from Chinese exports) and places them in a different market environment than other goods formally classified in the same product categories. In fact, in many cases these products represent a market by themselves, being placed in areas with a restricted number of competitors, mostly located in advanced countries with cost structures like the Italian ones. In this sense, the BBF goods exported from Italy (characterized by their orientation towards an evolved consumer, from attention to quality and the transfer of an emotional value) compete with those produced by more developed competitors, operating in market niches protected by countries with lower costs.

The BBF is worth 135 billion euros² The BBF accounts for a large part of Italy’s total exports and involves all the main sectors of Italian manufacturing, although in a more marked way in the sectors related to the 3Fs of Fashion, Food, and Furniture. Italian excellence is mainly directed to advanced markets, which together absorb about 114 billion euros. On the other hand, the amount of excellence exported to emerging countries amounts to over 20 billion euros. Due to their dynamism (both demographical and economical), and despite their still limited weight, emerging countries offer relatively higher growth margins but with higher risks. Chart C provides an overview of the geographical distribution of BBF worldwide.

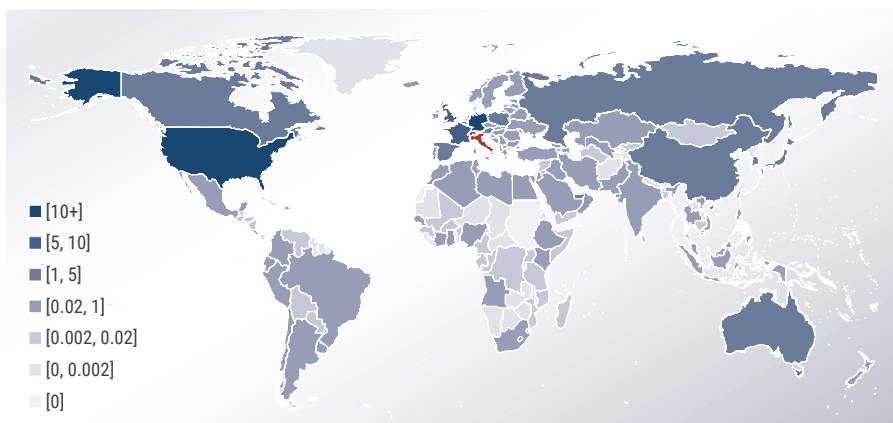


Chart C
The destination markets of the BBF

(Exports of goods in current dollars, shares %, average 2017-2019)

Source: Centro Studi Confindustria elaborations on UN-Comtrade data.

² The statistics reported in this volume are the result of an average of the 2017-2019 three-year period to cleanse cyclical effects and, most of all, to represent a basis to assess the potentials that are not affected by the temporary 2020 shock related to Covid-19.

EXPLOITABLE POTENTIAL OF ITALY



62 billion
in advanced
countries

20 billion
in emerging
countries

There is a potential 82 billion euros increase in exports The analysis contained in the report could give an assessment of Italy's market potential within the BBF, which could be useful to assess the improvement in the positions acquired so far. The potential is calculated by assessing the possible expansion of current market shares compared with those of competitors who, in terms of production cost structure and quality of exported products, have characteristics similar to the Italian ones. More than three-quarters of the potential is allocated to advanced countries (62 billion euros) while emerging countries take the remaining share (20 billion euros).

Advanced and emerging countries pose different challenges Advanced countries represent larger markets and demand BBF goods more intensively (their per capita income is higher). The mature economies of these countries, however, have relatively slow demographic and economic trends, and growth is achieved by trying to erode share from competitors or, alternatively, by not losing any: in large-volume contexts, even low growth rates can represent big gains and strong expansion for companies, especially if they are small or medium-sized.

MILLIONS OF NEW RICH BY 2025



CHINA
70













INDIA
30

The greater dynamism of the emerging markets is linked to the strong growth of the wealthy middle class The BBF, by its very nature, is aimed at a segment of wealthy consumers, already numerous but growing slowly in advanced markets and smaller but growing strongly in emerging markets. Asia is the geographic area where the wealthy middle class is spreading most rapidly, driven primarily by China with a stock of over 265 million citizens with incomes and consumption standards in line with those of advanced countries in 2020; this number could grow by another 70 million by 2025. In India, the stock of the newly rich is relatively low as a proportion of the population but is growing rapidly (nearly 30 million more by 2025). Thailand, Vietnam, and Malaysia together account for another 35 million wealthy middle-class people. Other markets with a remarkably wealthy middle class include Russia (50 million), Brazil (42), and Turkey (30).

An overview of the main markets by potential The actual realization of potential passes through commercial penetration in countries and sectors where the margins of growth are greater. These matches are played on different fields and with different opponents, which change from time to time depending on the geographical areas and sectors to be covered. The idea of this volume is precisely to offer a picture of which matches are worth facing and the type of competition we need to deal with. A summary picture of this subject is illustrated in Table A, which shows the top five advanced and top five emerging markets in terms of potential, which sectors count most, and Italy's main competitors in those specific markets. The driving force behind exports in advanced countries is the strong similarity in tastes and standards that reflect a substantial affinity of cultural contexts. These are also the main countries with which Italy establishes economic, political, and strategic relations, and whose geo-economic ties are particularly close. The most important countries are the United States (15.5 billion euros), Germany (5.2 billion), and France (4.4 billion). Among emerging economies, the most important markets are China (3.9 billion euros), the United Arab Emirates (3.2 billion), and Russia (1.3 billion).

Table A - Countries with the highest potential for Italian BBF*

(Ranking of the top 5 advanced and top 5 emerging countries according to Italy's export potential in billion euros)

Country	Exploitable potential	Main sectors	Main competitors by country/sector
TOP FIVE ADVANCED COUNTRIES			
 USA	15,5	Motor vehicles Chemical, pharmaceutical and cosmetics Wood and furnishing Clothing and home textiles	United Kingdom, Netherlands, China India, France, China China, India, Poland China, India, Vietnam
 Germany	5,2	Food Clothing and home textiles	Spain, France, Poland China, Poland, Vietnam
 France	4,4	Motor vehicles Food	Spain, United Kingdom, USA Spain, Germany, Netherlands
 United Kingdom	4,0	Food Jewellery-gold	France, Spain, Denmark India, France, USA
 South Korea	3,4	Motor vehicles Wood and furnishing Ceramic	Japan, United Kingdom, France China, Vietnam, India China, France, Japan
TOP FIVE EMERGING COUNTRIES			
 China	3,9	Motor vehicles Chemical, pharmaceutical and cosmetics Food Beverage	United Kingdom, Finland, Spain Belgium, France, United Kingdom New Zealand, Spain, USA Spain, France, United Kingdom
 The United Arab Emirates	3,2	Jewellery-gold Motor vehicles	India, Hong Kong, South Korea United Kingdom, Romania, India
 Russia	1,3	Chemical, pharmaceutical, and cosmetics Clothing and home textiles	Belgium, France, United Kingdom China, Germany, Vietnam
 Saudi Arabia	1,0	Clothing and home textiles Leather goods	India, Spain, China China, Thailand, USA
 Mexico	0,8	Food Wood and furniture	Spain, USA, Belgium China, Spain, USA

* The potential and identification of the main competitors by the market are carried out according to the *Export Potential Analysis and Development* (ExPANd) methodology of the Manlio Masi Foundation, which was developed by Tullio Buccellato and Enrico Marvasi in a research project launched in 2012 and coordinated by Beniamino Quintieri.

Source: Centro Studi Confindustria and Fondazione Manlio Masi elaborations on UN-Comtrade data.

Asia's growth prospects improve thanks to RCEP... In addition to China, other Asian economies are particularly interesting, not so much because of the extent of export growth as because the market is booming. The recent creation of the RCEP, the world's largest free trade agreement, which includes the ten countries of the ASEAN group³ plus Australia, China, South Korea, Japan, and New Zealand, plays a major role in the growth prospects of Asian economies. The countries involved account for about 30% of the world's GDP and population and more than a quarter of international trade in goods. The agreement will become effective once ratified by at least six ASEAN and three non-ASEAN countries, a process that will most likely be completed after 2021.

³ Brunei, Cambodia, Philippines, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand, Vietnam.

RCEP AGREEMENT INVOLVES



15 countries



30% GDP
and global population



1/4 international
trade in goods

...which poses both advantages and risks for Italy Overall, RCEP countries will benefit from a larger trade area, which is likely to increase their growth and development potential. Italian exports will therefore benefit from a richer market. Furthermore, the adoption of common standards and rules will make the area even more attractive for Italian companies in terms of investments aimed at entering the Asian production chains, representing an opportunity to increase efficiency in participation in global value chains. In addition to the many opportunities, there is the risk that some Italian-made products may face stiffer competition in the same markets, especially in countries such as China, Japan, Thailand, and South Korea.

Asia sends a strong signal in favour of free trade and multilateralism Protectionist impulses have taken a back seat for the moment as the world faced the common enemy of the pandemic. However, trade tensions and the US-China dispute are likely to continue, although the change in the US presidency gives some hope that this will return to the international institutions that guarantee multilateralism. In this climate of uncertainty, Asia has taken a step forward, and Europe can only continue in the wake of the trade agreements made in recent years by the EU, all of which have proved useful in encouraging the activity of (European and Italian) companies into strategic markets. The agreements have positive consequences on trade, particularly for small and medium-sized enterprises, which will benefit more from these agreements, both in terms of simplification of access to the market and lower production costs.

The pandemic has further boosted the use of e-commerce Italy is below the world average in terms of per capita online spending and the small size of the domestic market does not yet allow the opportunities created by e-commerce to shine through. The stop to international trade fairs has also called into question the promotion and distribution strategies of Italian companies, which for decades have relied on in-person events as the main tool for the growth of their exports worldwide. We have now moved from online to *onlife* and omnichannel has become the prevailing strategy in all sectors. It should also be stressed that it is not just Italy, but all Europe is lagging the USA and China, which seems to be unbridgeable.

Recommendations and suggestions for facing the new challenges Based on the analyses carried out in the drafting of this volume, it is considered useful to pursue in parallel three trajectories aimed at improving Italy's competitive outlook on international markets (Table B):

- **Strengthening digital sales channels**, whether this means promoting a greater presence of Made in Italy on existing platforms, or whether it means establishing new ones, including niches where necessary. Moreover, there's the need for an acceleration of the use of e-commerce channels by consumers, to make the Italian market more receptive to the creation of new platforms. It is strategically essential to keep growing the development of digital skills to keep pace with the rapid changes that are taking place.
- **Stabilizing international relations**, even by bringing them back onto the path of multilateral decision-making bodies, as far as possible by promoting new European treaties and strengthening EU-US ties, also in the light of the new Biden presidency. Given the accelerated integration of Asian supply chains through the RCEP, it should be ensured as far as possible that Italian companies can seize the opportunities of the new markets, including through an intensification of internationalization activities towards Asia.
- **Preserving and, wherever possible, increasing the visibility of Italian-made products** by promoting the creation of recognized brands, including for small and medium-sized enterprises, setting up dedicated

showcases and exploiting the omnipresence of physical and virtual locations, encouraging the creation of networks and association of enterprises aimed at extracting greater value from global value chains.

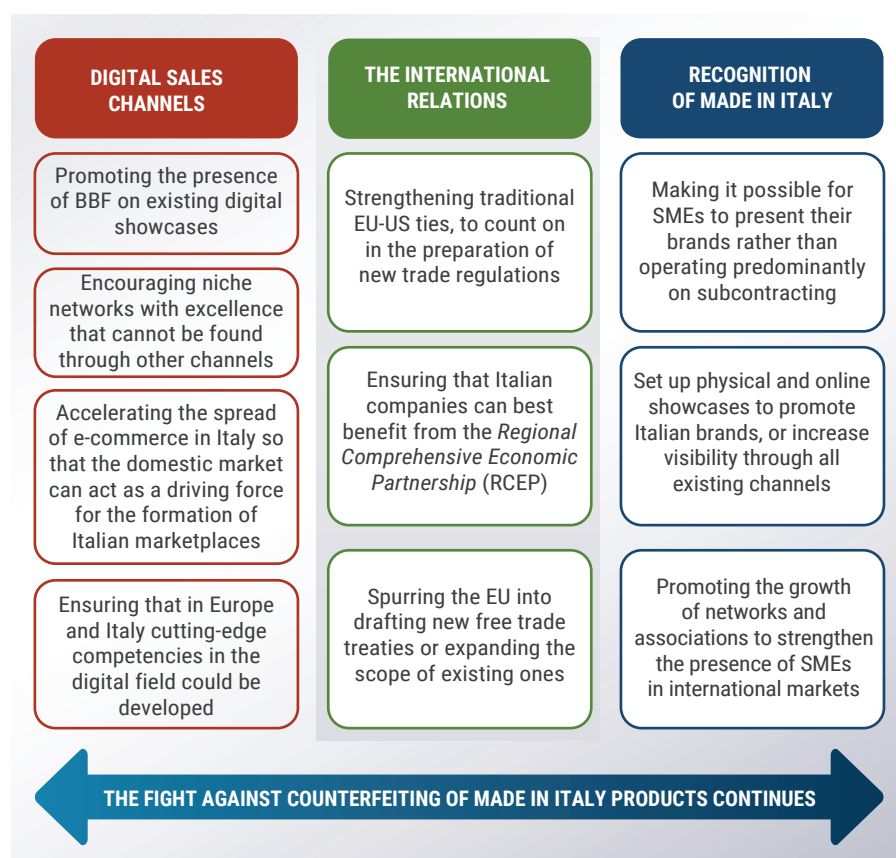
Fighting against the counterfeiting of Italian goods on a global scale Finally, among all the other recommendations, there is the need to fight against the counterfeiting of Made in Italy. Non-BBF goods often include imitations, i.e. counterfeit products that attempt to fraudulently exploit the brand and the trust acquired by certain brands among consumers. The scale of counterfeiting has reached considerable levels, particularly in the Italian BBF sectors. According to a 2018 OECD study, the value of Italian counterfeit products traded worldwide is 32 billion euro, 16.7% of which are clothing products, 15.4% optical and electronic products, and 13.0% related to the food sector⁴. Italian products, in fact, are among the most sought-after in the world, thanks in part to the power of attraction exerted by the Made in Italy brand and are therefore among the most imitated. The phenomenon of Italian sounding, i.e. the imitation of a product, is particularly worrying, especially in the agri-food sector – obtained through a reference to its supposed Italian character in its name or packaging. This practice, which devalues the image of product quality and misleads less attentive consumers into believing they are buying an original Italian product. It means a loss of shares for the BBF (and a deterioration of its image). The counterfeiting of the BBF, as well as causing material damage to Italian companies, also makes it more difficult to measure the phenomenon, making some of the statistics drawn from it less reliable; Italian shares likely are distorted downwards.

VALUE OF COUNTERFEITED ITALIAN PRODUCTS TRADED GLOBALLY IN 2018



32 billion

Table B
The tools to be activated for the realisation of potential



⁴ OECD, "The trade in counterfeit goods and the Italian economy. Protecting Italy's intellectual property", 20 June 2018, OECD Publishing, Paris, <https://doi.org/10.1787/9789264302655-it>.