ITALIAN NATIONAL STATISTICAL SYSTEM
ITALIAN INSTITUTE FOR FOREIGN TRADE

Italy in the World Economy

Summary ICE Report 2006-2007

The Report was prepared by a working group of the Research and Statistics Division of the Italian Institute for Foreign Trade (ICE).

Coordinator: Giorgia Giovannetti.

Editorial staff: Massimo Armenise, Ilaria Cingottini, Pier Alberto Cucino, Raffaele Fargnoli, Francesca Luchetti, Orietta Maizza, Elena Mazzeo, Roberta Mosca, Giacomo Oddo, Alessia Proietti and Luigi Scorca.

Summary Report: Giorgia Giovannetti and Lelio Iapadre.

Assistance and data processing: Giampiero Testardi and RetItalia Internazionale S.p.A.

The following are thanked for their suggestions and collaboration on the Report: Fabrizio Onida, Sergio de Nardis, Lelio Iapadre, Beniamino Quintieri, Lucia Tajoli, Roberto Tedeschi and Gianfranco Viesti.

Contributors: Paola Anitori, Lorenzo Bacci, Emanuele Baldacci, Luca Bandiera, Ambrogio Brenna, Maria Grazia Calza, Francesca Cavuoti, Lorenza Chiampo, Barbara Clementi, Giancarlo Corsetti, Pina Costa, Stefano Costa, Rosario Crinò, Luca De Benedictis, Pasquale De Micco, Andrea de Panizza, Michele Di Maio, Giulia Di Menna, Andrea Dossena, Natale Renato Fazio, Anna Maria Ferragina, Matteo Ferrazzi, Paolo Ferrucci, Marzio Galeotti, Cristina Giglio, Fabio Giorgio, Andrea Goldstein, Eleonora Iacorossi, Eleonora Lupi, Enrico Marvasi, Stefano Menghinello, Silvia Nicolai, Sara Nocentini, Romeo Orlandi, Pasquale Papa, Carmine Pappalardo, Carmela Pascucci, Gustavo Piga, Fabio Pizzino, Anna Laura Pompozzi, Debora Revoltella, Giorgio Ricchiuti, Davide Riccitelli, Stefania Rossetti, Chiara Salabé, Marco Saladini, Marco Sanfilippo, Alessandro Terzulli, Margherita Velucchi and Juliette Vitaloni.

The Report was made possible by the contribution of the Bank of Italy and the Italian Foreign Exchange Office (UIC) in addition to that of the National Institute for Statistics (ISTAT).

In the Report reference is made to the data published in the ICE-ISTAT Statistical Yearbook, Commercio estero e attività internazionali delle imprese – edizione 2006.

The Report is based on information available at 20 June 2007. In all the tables the data for 2006 are provisional.

CONTENTS

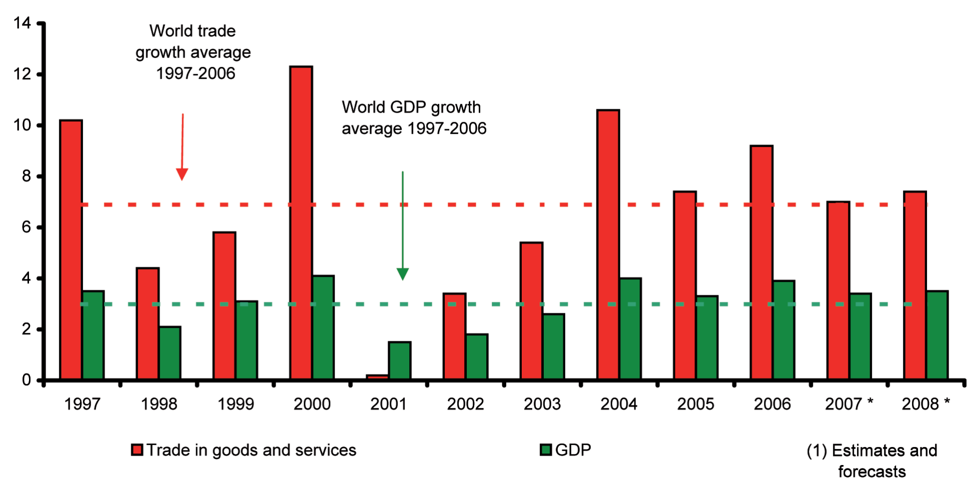
INTERNATIONAL OPENNESS, STRUCTURAL TRANSFORMATION AND ECONOMIC RECOVERY IN ITALY

1. World trade and international investment

World output and trade in goods and services accelerated.

The ever-intensifying integration of international markets continues to propel the world economy on a path of very rapid growth, spreading its benefits widely. After the slight slowdown of the previous year, world output picked up in 2006 to grow by close to 4 per cent,[1] while the volume of trade in goods and services expanded by more than 9 per cent. The value in dollars of foreign direct investment (FDI) rose by 34 per cent, nearly matching the historic peak registered in 2000.

World output and trade
(percentage changes in volume)

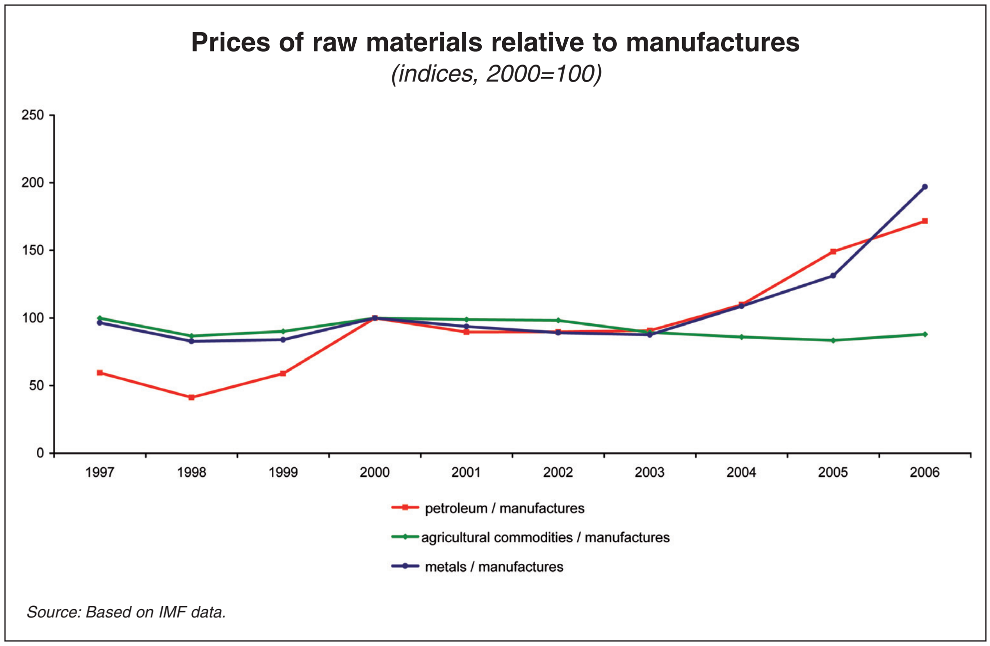


Source: Based on IMF data.

The sharp rises in the prices of raw materials, inevitably spurred by the expansion of production, so far have not had a significant braking effect on economic activity, and in the opening months of 2007 their prices cooled, at least those of energy products. The forecasts for 2007 and 2008 indicate that world output and trade are likely to slow somewhat but still outperform the average for the last ten years.

---

[1] The rate of growth in world output referred to in this section was obtained by aggregating the figures for GDP of the individual countries after translating them into dollars at market exchange rates, so as to be able to compare it with that for trade. Regional GDP growth rates are instead calculated at purchasing power parity. If world GDP is calculated on a PPP basis, its growth in 2006 rises to 5.4 per cent, owing to the greater weight thereby assigned to developing countries, which generally have higher rates of growth.



Trade in goods grew faster than trade in services, where barriers to liberalization remain powerful.

In 2006, for the fourth successive year, world trade in goods outpaced trade in services. The gap is essentially due to the large increase in commodity prices, but it also reflects the major political barriers that continue to curb the expansion of trade in services. On the other hand, the integration of international markets in services is progressing more and more through channels other than cross-border trade, by means of FDI and other forms of international fragmentation of production that involve developing countries to an increasing extent.

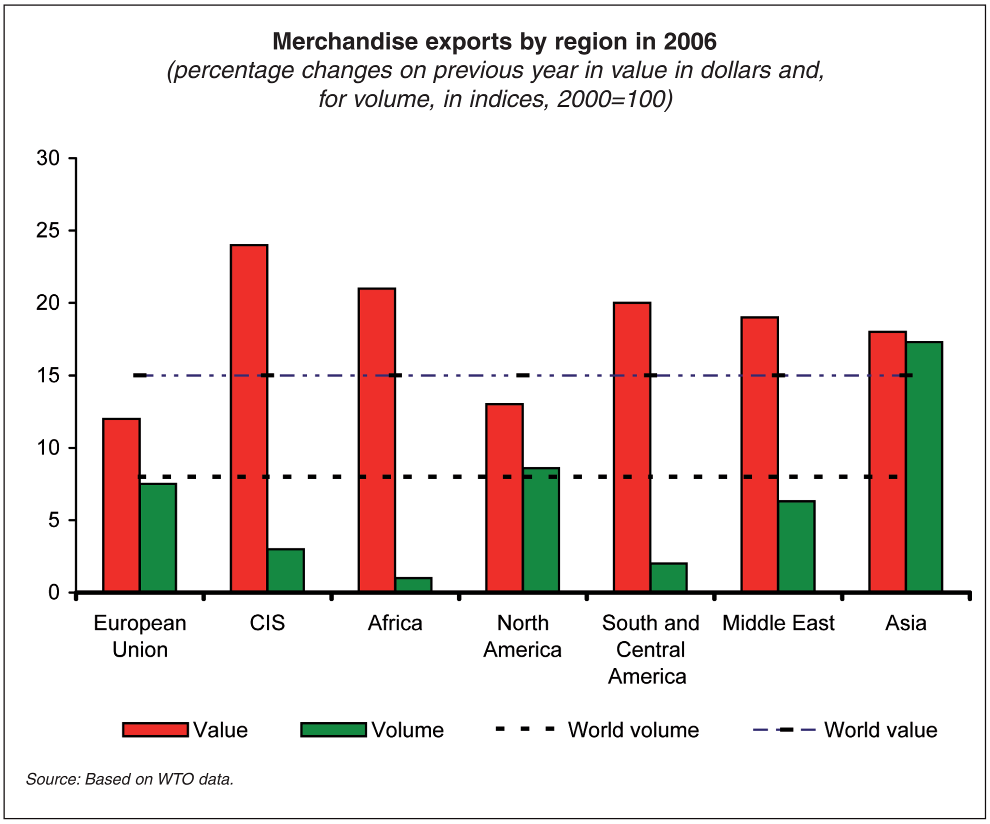
The largest contribution to the growth in trade continues to come from East Asia, thanks in part to regional integration. In the developed countries, the growth in output was more moderate.

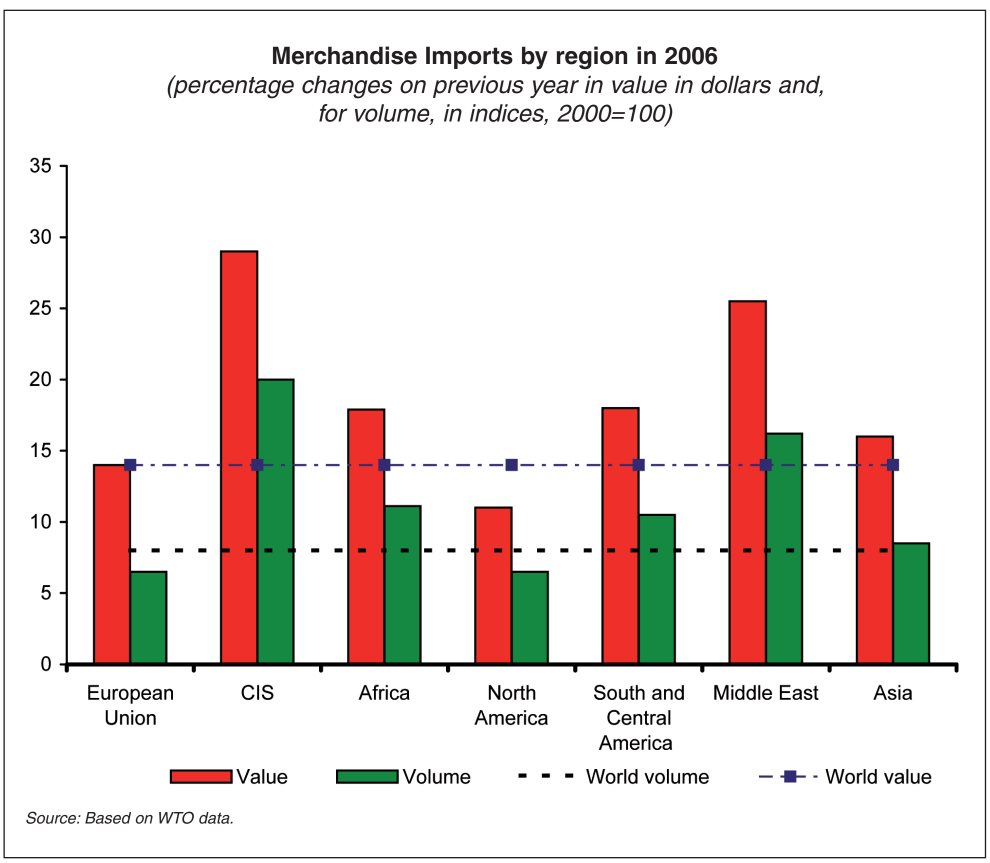
The growth in economic activity, which stimulates imports, is especially rapid in the emerging areas of the world, but it is spreading to all regions. The largest contribution continues to come from Asia, with outstanding high rates of growth in China and India and a pronounced intensification of regional integration. The rise in commodity prices has acted as a supplementary mechanism for the transmission of expansionary stimuli, transferring income to regions - Africa, Latin America, Eastern Europe, the Middle East - that in the past had remained on the sidelines of the world economic cycle and also increasing their import capacity.

Import capacity has increased in the commodity-producing regions and countries (Africa, Latin America, the Middle East, Russia).

In the developed countries output growth was more moderate, but still higher than the average for recent years. The growth gap between the United States and the euro area narrowed, while in Japan economic activity accelerated but nonetheless remained perceptibly slower than in the rest of East Asia.

The acquisition of higher world export market shares by the developing countries continued. In volume terms, the highest export growth rates were recorded in Asia and in Central and Eastern Europe; the exports of commodity-producing countries were curbed by the rise in their prices. The changes in the international distribution of economic activities as a result of FDI and other forms of international production account for a substantial part of those in export market shares. For example, an estimated 60 per cent of Chinese exports are produced by affiliates of foreign multinational corporations.


Merchandise exports by region in 2006
(percentage changes on previous year in value in dollars and, for volume, in indices, 2000=100)
0
5
10
15
20
25
30
European Union
CIS
Africa
North America
South and Central America
Middle East
Asia
Value
Volume
World volume
World value
Source: Based on WTO data.


Merchandise Imports by region in 2006
(percentage changes on previous year in value in dollars and, for volume, in indices, 2000=100)
0
5
10
15
20
25
30
35
European Union
CIS
Africa
North America
South and Central America
Middle East
Asia
Value
Volume
World volume
World value
Source: Based on WTO data.

Among the developed countries, it is hard to trace the performance of market shares to the movements in real exchange rates. For example, despite the overall weakening of the real exchange of the dollar over the past five years, the growth in the volume of US exports of goods and services (4.7 per cent per year on average in 2002-06) fell well short not only of the world average (7.2 per cent) but also of the figure for Germany (7.1 per cent). This gap, too, may be partly explained by the different strategies adopted by multinationals for the international integration of production. In particular, it is likely that German companies are continuing to export products made in Germany that incorporate an increasing percentage of imported intermediate goods, while US corporations have gone further in shifting their activities to export platforms located in emerging countries. In a context of marked vertical decentralization, moreover, one must not overlook the fact that the appreciation of the euro reduces the costs of imported intermediate goods, thereby boosting the competitiveness of companies that make largest use of them.

External current account imbalances grew more acute in 2006, fuelling concern about their sustainability and the economic and financial implications of their adjustment. In the last three years current account balances have been strongly affected by the rise in the prices of raw materials and the consequent change in the terms of trade to the detriment of the countries that import them.

The further slight worsening of the US current account deficit, for example, was essentially due to the deterioration in relative prices, while in volume terms US exports outpaced imports. Still, the deficit remains enormous. According to some estimates, adjusting it would require massive international transfers of demand, induced by enormous variations in interest rates. According to other models, the extent of the depreciation of the dollar needed to adjust the current account balance could be contained by a greater qualitative differentiation of supply, which would stimulate net exports even if exchange rates are held constant.

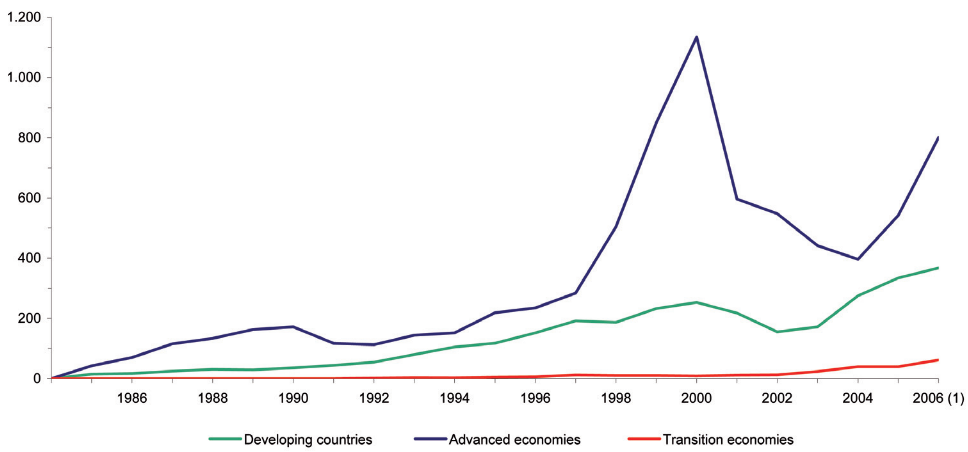
Up to now the US deficit has been financed in good part by sales of government securities to the Chinese authorities. This situation of net capital outflows from a developing country to the United States may appear paradoxical. Still, according to some observers it is intrinsically stable and could last for years without requiring dollar depreciation, at least as long as China needs foreign direct investment. On this view, US government securities represent credible collateral to offer to those making productive investments in China, given America's reputation for its ability to freeze others' financial assets in the event of a crisis. However, the willingness of the Chinese authorities to continue to invest their monetary reserves in these securities indefinitely cannot be taken for granted. A telling sign of possible changes is their recent decision to transfer a significant portion of the reserves to a state agency charged with allocating their investment on the basis of expected financial rates of return.

Nevertheless, China's surplus continues to expand, reflecting an export- and manufacturing-led development model, unlike that of other emerging countries, where the external constraint on growth is more cogent. In India, for example, economic development is based to a greater extent on domestic demand and the service sector, and rapid growth has resulted in a widening current account deficit.

Unlike the patterns observed for world output and trade, in 2006, for the second consecutive year, inward and outward FDI grew more rapidly in the developed than the emerging countries. The growth in corporate profits drove up the value of mergers and acquisitions, which account for a very substantial portion of FDI and mainly involve the developed countries. The value of such transactions tripled in 2006. The FDI flows to the developing countries were concentrated towards the countries with the greatest riches of raw materials, while they held steady in China, where a more selective approach towards foreign capital is taking hold, and diminished elsewhere.

For the second consecutive year, inward and outward FDI grew more rapidly in the developed than in the emerging countries.

Flows of inward foreign direct investment
(in billions of dollars)



(1) Provisional
Source: Based on UNCTAD data.

Although in the aggregate they do not match those of the developed countries, flows of direct investment abroad by (often state-owned) multinational corporations based in the emerging countries continue to grow. Most of these investment flows are intra-regional, spurred by economic and cultural affinities and the benefits of existing bilateral and regional integration agreements. For China, investment abroad, facilitated by enormous foreign exchange reserves, underpins the country's drive to further expand its global economic and political role.

2. The European Union

The position of the European Union (EU-25) in the international economy can best be gauged by focusing on its relations with the rest of the world and excluding intra-regional transactions. Viewed in this light, the EU-25 is the leading world exporter of goods and services and also ranks at the top in outward foreign investment.

In 2006 the rise in the prices of imported raw materials led to a further widening of the trade deficit of the European Union, whose share of world exports contracted again.

In 2006 rise in the prices of imported raw materials caused the EU-25's trade deficit to widen further. The EU-25's share of world exports contracted again, for the third year running, whereas up to 2003 the Union had shown greater resilience than the United States and in the face of the advance of China.

Together with raw materials, electronics and clothing made the largest sectoral contributions to the Union's deficit, in particular vis-à-vis China. The strengths of its model of international specialization, even after the recent enlargements, remain medium-technology sectors such as mechanical machinery, motor vehicles and chemicals, while no significant comparative advantages have emerged in more knowledge-intensive sectors.

The weight of China and Eastern Europe among the EU-25's export markets has grown considerably, not least as a result of the flows of intermediate goods and investments aimed at fueling international transfer of production through both FDI and cooperation agreements between firms.

The fiftieth anniversary of the Treaty of Rome offers the occasion to reappraise the depth of integration achieved in Europe. Despite the progress made in the past decades, the free movement of goods, services, capital and persons is still far from being accomplished, especially as regards trade in services and the circulation of workers. A more far-reaching liberalization of the service sector, going beyond that provided for in the so-called Bolkenstein directive, could bring large benefits for consumers and further stimulate the competitiveness of European firms. However, more freedom of movement for workers is an essential condition for the actual integration of the European markets for services, given the crucial role of direct contacts between producers and consumers in this sector.

3. Trade policies

The trade talks of the Doha Development Agenda are still blocked on the most hotly disputed issues that divide the developing and the developed countries.

The outcome of the negotiations within the World Trade Organization (WTO) under the Doha Development Agenda seems to hang on an increasingly slender thread following the failure of the attempts to bridge the differences between the positions of the main actors, especially amidst the mutual recriminations set off by the unsuccessful top-level meeting in Potsdam between Brazil, India, the United States and the European Union. The talks have now returned to the formal multilateral path, given the leading actors' evident inability to exercise hegemony over the other countries.

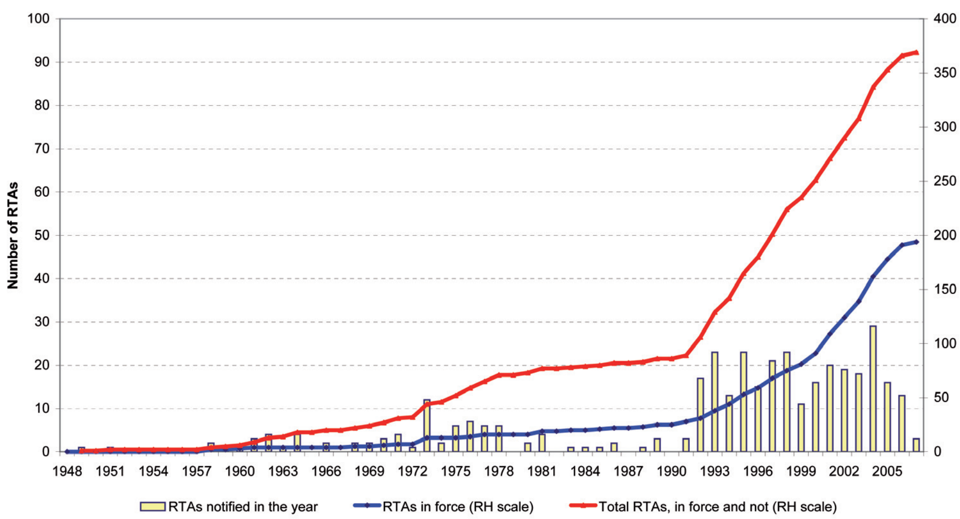
In particular, the United States and the European Union at present appear unable to find the political courage needed to offer their partners more incisive liberalization measures that would not only benefit their economies but also concretely embody the development goals of this round of trade talks. Domestic political considerations, reinforced by growing concern about the social effects of international integration, lie in the way. On the other side, the principal emerging countries – Brazil, China and India – seem to be willing to use tactical skirmishes with the developed countries to conceal their own unwillingness to make significant reductions in the strong barriers that still limit access to their domestic markets, thereby also clouding the growth prospects of the least developed countries. Meanwhile, the explicitly antagonistic stance they have taken with respect to the developed countries, especially in the case of Brazil, does not help the search for a compromise solution.

Consequently, the traditional game of give and take, of concessions in return for access to markets, that in the past had been the engine of multilateral negotiations risks being replaced by a perverse relationship of reciprocal tolerance for the protectionist demands of a “triangle” of interest groups formed about the most hotly disputed issues: domestic support for US agriculture, access barriers to European agricultural markets, and import duties on manufactures in the emerging countries. What is more, the negotiations on services remain in the shadow despite their enormous economic importance and the shared interest of many countries in further liberalization of trade in services as a means of enhancing the efficiency and growth potential of the entire productive system.

The difficulties of multilateral talks have caused a proliferation of preferential agreements, often on a bilateral basis. These accords risk being dominated by the stronger countries and rendering the framework of trade rules confused and uncertain.

The problems besetting the multilateral negotiations further spur the movement, under way for a number of years now, towards preferential trade agreements concluded on a regional or, increasingly, bilateral basis. Factors in this trend are not only the greater controllability of negotiations limited to a small number of countries but also political competition in building or consolidating spheres of influence. In the face of US activism on the bilateral front and the proliferation of preferential integration accords in Asia, the European Union too appears to be oriented towards strengthening its longstanding network of bilateral agreements and extending it to other countries, de facto diminishing the priority still formally accorded to multilateralism.

Regional trade agreements (RTAs)
(notified to the WTO up to March 2007)



Source: Based on WTO data.

Regional agreements, under certain conditions, can be a useful laboratory for integration experiments that are not practicable at multilateral level, and it can even be argued, generalizing the principle of subsidiarity, that some questions can be dealt with better at regional than global level. Nevertheless, bilateralism is fraught with risk. In the context of separate negotiations the stronger countries can wield their bargaining power more easily, imposing their interests to the detriment of those of the developing countries. Moreover, the multiplication of regulatory and jurisdictional levels complicates the framework of legislation in which firms must act, jeopardizing full exploitation of the opportunities offered by trade liberalization.

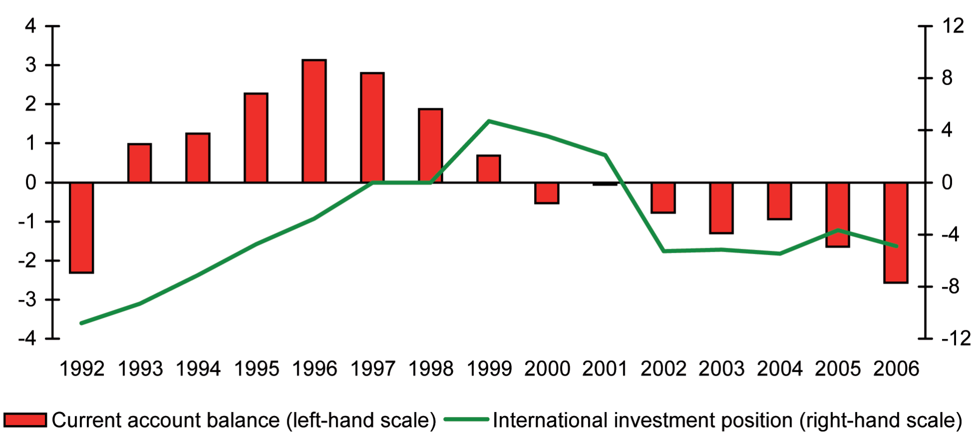
4. Italy: macroeconomic analysis

The economic expansion also took hold in Italy. The balance of payments on current account worsened, owing to the deterioration of the terms of trade due to the rise in the prices of raw materials.

The long-awaited economic expansion finally began in Italy in 2006, on the heels of the upswing in the euro area albeit at a more moderate pace. In parallel, the Italian economy's international openness began to increase appreciably again in terms of both export propensity and import penetration.

The external current account deficit widened again, reflecting the deterioration in the terms of trade due to the rise in raw materials prices, to reach 2.6 per cent of gross domestic product (GDP). In volume terms, although the growth in imports of goods and services was buoyed by the recovery of production, it did not match that in exports (4.3 per cent, as against 5.3 per cent).

Italy's current account balance and international investment position
(as a percentage of GDP)



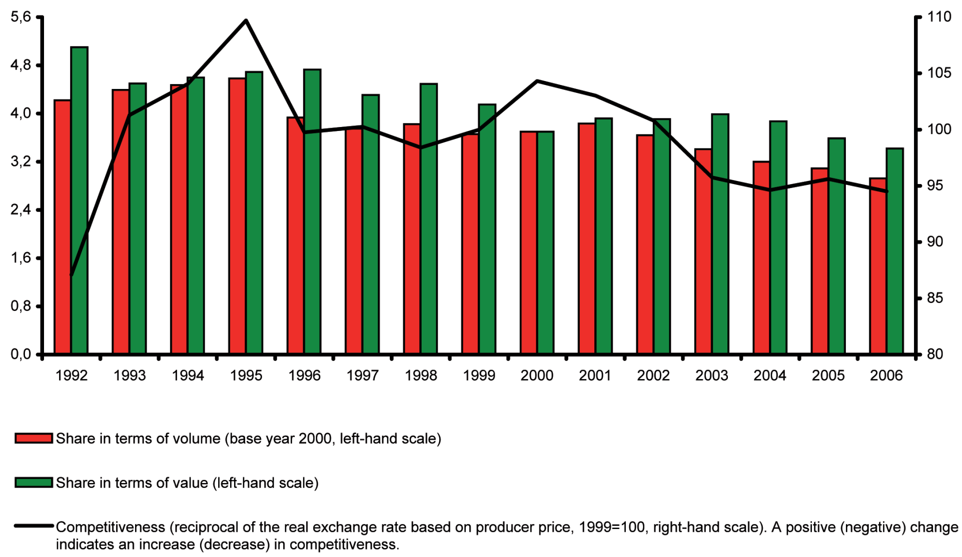
Source: Based on Bank of Italy and ISTAT data.

The worsening of the current account deficit was mainly due to merchandise trade, whose FOB-FOB balance swung from a surplus of some € 500 million to a deficit of more than € 9,500 million, but negative contributions also came from the increase of nearly € 1,000 million in the deficit on services and the deterioration of € 3,500 million in the balance on transfers. By contrast, the deficit on income remained virtually unchanged. An appreciable increase in net inflows of foreign direct investment helped to finance the current account deficit, while outflows of Italian direct investment abroad remained stationary.

The growth in merchandise exports - 9 per cent in value and 2.2 per cent in volume[2] - was large by comparison with recent years but nevertheless less than that in foreign demand. Italy's share of both world exports and euro-area exports therefore diminished at current and constant prices, extending a negative trend that dates back many years.

The recovery of merchandise exports was pronounced by comparison with recent years but still not sufficient to recoup market share. By contrast, Italy gained share in trade in services.

Italian exports' competitiveness and world market shares



Source: Based on Bank of Italy and ISTAT data.

By contrast, Italy's share of world exports of services grew, as in 2005, although in the preceding decade it had declined even more sharply than that of merchandise exports. Compared with the situation in analogous countries such as Spain, the contribution of services to Italy's current account balance is still unduly small.

The reduction of the Italian presence in international markets is to some extent the inevitable reflection of the success of the emerging countries in manufacturing and of the rise in raw materials prices, which magnified the value of the exports of commodity producers. However, it also has specific explanations bearing mainly on the characteristics of Italian industry's model of specialization, which is still concentrated in product sectors and markets characterized by relatively slow-growing demand.

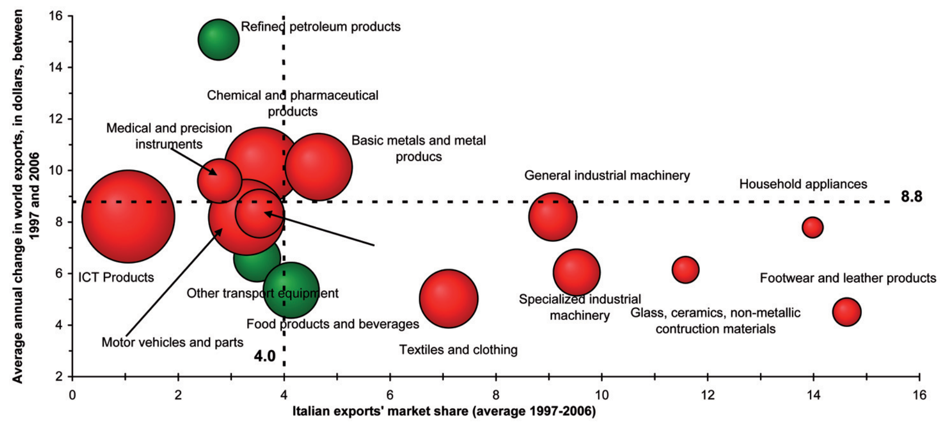
This "dynamic inefficiency" of the model can be held responsible for about three quarters of Italy's loss of share of euro-area exports in the last decade. In 2006 the decline depended exclusively on the negative correlation between the structural characteristics of Italian exports and the trends in de-

The decline in Italy's share was due to the negative correlation between the structural characteristics of Italian exports and the trends in world demand.

[2] In evaluating the growth rates of merchandise trade in 2006, bear in mind that the National Institute for Statistics (ISTAT) compares the provisional data for the last year with the final data for the preceding year. This procedure generally results in considerable underestimation of the variation in trade flows, particularly with the European Union, since the provisional data do not include a series of transactions, carried out by small companies, that are not recorded until several months after the publication of this *Report*.

mand. Excluding these composition effects, the weighted average of the changes recorded in the individual markets and sectors for Italy's share of euro-area exports would have been slightly positive, despite the competitive disadvantage due to a faster rise in labor costs and production prices than those recorded by Italy's main rivals.

Italy's market shares of world exports by sector



The size of each circle represents the sector's average share of world exports in the period 1997-2006. Red (green) circles identify sectors in which Italy's share decreased (increased) between 1997 and 2006.

Sources: Based on data published by Eurostat and national statistical institutes.

Vis-à-vis non-euro-area countries, this unfavorable trend of costs and prices was compounded by a slight nominal appreciation of the euro, further eroding Italian firms' margins of competitiveness. However, it is worth noting that Italy's share of world exports at current prices held up better in the years of rapid euro appreciation (2001-03) than in those of depreciation (1999-2000) or in the last three years of broad stability. The nominal impact of exchange rate variations on relative prices is evidently stronger than the substitution effects they generate on volumes. From this standpoint, there has been a repetition of the experience observed with the lira between 1992 and 1996.

The fact that the share in terms of value has declined less than that in terms of volume since 2000 reflects, arithmetically, a larger increase in the unit values of Italian exports than in those of other countries. However, it would be improper to regard this difference exclusively as a sign of loss of competitiveness, since unit values are calculated ex post on goods that, as their having been sold abroad shows, have already stood the test of competition on the strength of qualitative factors. For example, a direct comparison between the unit values of Italian and Chinese exports in such important markets as France and Germany confirms that the difference between these indicators essentially expressed the qualitative advantages of Italian products.

For some years the unit values of Italian exports have been outpacing the producer prices of manufactures, despite the appreciation of the euro, reflecting among other things the processes of selection among firms and upgrading of their products.

For some years now the unit values of Italian exports have also been rising faster than the producer prices of manufactures sold on the domestic market, in spite of the appreciation of the euro. This phenomenon, analyzed in previous editions of this *Report*, reflects a series of different factors including:

– the intense processes of selection under way among Italian firms, leading to the exit from export markets of the less productive, less innovative companies positioned in lower-unit-value market segments;

– the strategies adopted by export-oriented firms that survive in this selection, to defend themselves from the competition of the emerging countries by upgrading their own production towards higher-unit-value market segments and possibly by transferring the manufacturing of lower-quality products abroad;
– the market power some of these firms enjoy thanks to the quality of their products and brand image, making it profitable for them to raise prices in the more dynamic markets without incurring excessive losses in the volume of sales;
– problems of data quality, which could result in an overestimation of the increase in unit values.

Available data for the first quarter of 2007 show that exports of goods and services are continuing to grow, albeit at a twelve-month rate (4.1 per cent) slightly below that of last year and lower than the forecast growth in world trade this year (7 per cent). Imports are slowing too, with a twelve-month rate of growth (3.2 per cent) only slightly higher than that in domestic demand. The main new development is the clear-cut improvement in the terms of trade, which was favored by the reduction in the prices of energy products. The persistently high rate of growth in merchandise exports (9 per cent) confirms the trends and interpretative issues referred to above.

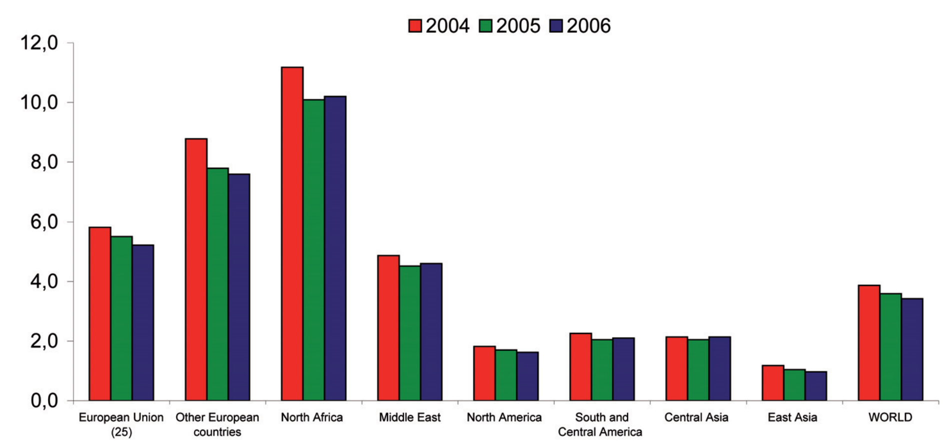
By contrast, this year is unlikely to see a repetition of last year's large rise in inward foreign direct investment, judging at least from the data now available on cross-border mergers and acquisitions, which show Italy fairly well behind in the first half of 2007.

5. Regions and countries

Against a backdrop of intensifying trade with almost all regions, the deterioration in Italy's balance of trade in 2006 was mainly in respect of the commodity-producing countries of North Africa and the Middle East, the countries of Asia and those of the European Union (especially Germany), while the balance with North America improved further.

The deterioration in Italy's balance of trade in 2006 was mainly in respect of the commodity-producing countries, Asia and the EU, while the balance with North America improved further.

Italy's market share by world region
(percentages of world merchandise exports)



Source: Based on IMF-DOTS data.

A major boost to Italian merchandise exports came from the German market, which has resumed its propelling role. The highest growth rates for Italian exports were registered in Russia, China, the new members of the EU and commodity-producing developing countries.

The geographical origin of Italian imports was also strongly influenced by the rise in the prices of raw materials, which expanded the market shares of Africa (Libya in particular), the Middle East, Russia and Latin America. Asia's share also increased as did that of the new members of the European Union (Poland's above all), partly as a result of the production partnerships established with Italian firms that have transferred processing phases to them. By contrast, the share of the United States contracted further in both volume and value notwithstanding the depreciation of the dollar.

A major boost to Italian merchandise exports came from the German market, which has resumed its propelling role for the entire euro-area, even if Italy's share of sales to Germany shrank sharply again in all sectors except motor vehicles. The highest growth rates for Italian exports were registered in Russia, China, the new EU members and commodity-producing developing countries (for example, the United Arab Emirates), whose purchasing power rose along with the prices of raw materials. In some of these markets (Russia, North Africa and the Middle East) Italy's share of exports rose slightly, interrupting the declining trend of the past few years. The growth of Italian exports remained weak instead in some major markets, including France, the United Kingdom, the United States and Japan.

Data for the first four months of 2007 show brisker growth in merchandise exports both to the European Union and to the other regions as a whole and a slowdown in imports, especially those from commodity-producing countries.

Last year also saw an intensification of Italian trade in services with almost every region and, in particular, with countries outside the European Union, prolonging the trend towards a greater geographical diversification of service trade flows.

As regards direct investment abroad, the European Union remains the region of choice for Italian firms. However, in the last two years direct investment has expanded considerably in Central and Eastern Europe and in Asia, while the share in the United States has declined.

The latest enlargement of the European Union involved two countries, Bulgaria and Romania, that figure prominently in Italian firms' internationalization strategies and have low, though rising, labor costs. It is likely that the economic structure of these countries will evolve on the pattern observed in the countries that joined the EU in 2004, moving towards less labor-intensive sectors and prompting an inflow of foreign direct investment motivated more by the prospect of better access to dynamic local markets than by the quest for cheap labor. However, the gap to be filled is wide indeed and evolution in this direction will take considerable time. Looking ahead, the creation of the Euro-Mediterranean free trade area, scheduled for 2010, could open up new prospects for trade and production integration of great interest for Italian companies, which are already turning increasingly towards those countries.

The multinational corporations that are present in Italy come mainly from other developed countries, but the incidence, in terms of sales revenues, of those based in the Far East has increased considerably. India is an interesting example of a country that not only offers major direct investment opportunities for Italian firms, attracted by the possible cost savings and the projected growth of the local market, but also represents a potential source of foreign investment in Italy, given the increasing activism of its multinationals.

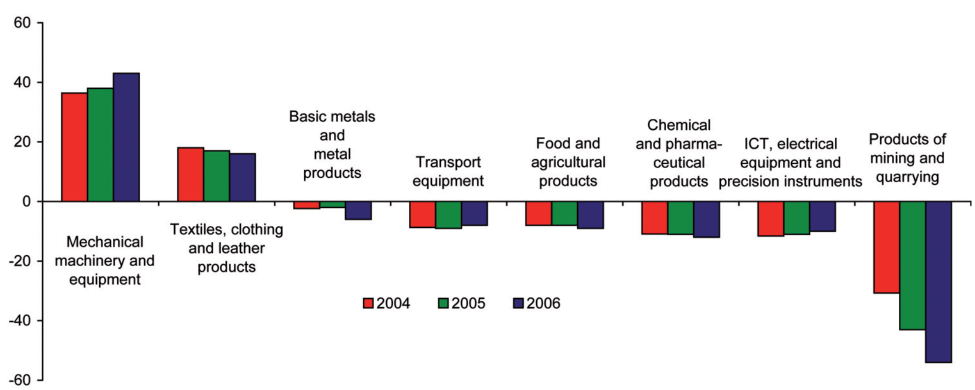
6. Sectors

The deterioration in Italy's balance of trade in 2006 was due almost exclusively to the rise in the prices of energy products. In the last three years the unit values of imports of crude oil and natural gas increased by a total of almost 90 per cent, braking the growth in the volumes imported, which last year was less than 1 per cent despite the recovery in economic activity.

The deterioration in Italy's balance of trade in 2006 was due almost exclusively to the rise in the prices of energy products. The surplus on manufactures remained virtually unchanged.

The surplus on manufactures remained virtually unchanged; despite the further decline in the surpluses on personal and household consumer goods, larger deficits on basic metals and on chemicals were offset by a sharp increase in the surplus on mechanical machinery and equipment and the reduction in the deficits on transport equipment and electronics. The deficit on services widened, despite good results on travel and in the financial sector, owing to the worsening recorded for almost all business services (insurance, communication, transport, operating leasing, professional and technical services, and services between related companies), where export growth was fast but import growth still faster.

Italy's sectoral balances
(billions of euros)



Source: Based on ISTAT data.

Export volumes rose at relatively low rates and were outpaced by imports in the traditional personal and household consumer goods sectors, while they displayed livelier growth in mechanical machinery and equipment (with a conspicuous increase of 19 per cent in exports of motor vehicles), basic metals, electrical equipment and electronics, and food products.

Italy's market share at current prices declined in almost every sector, but the largest losses were again in textiles, leather products and footwear, furniture and construction materials; the few positive changes regarded steel, industrial machinery and motor vehicles. Similar trends prevailed for the entire five year period 2001-06, reflecting a model of specialization whose essential features remained unchanged but whose comparative advantages weakened in traditional personal and household goods and is tending increasingly to concentrate on mechanical machinery.

Despite the only slight appreciation of the euro, the unit values of exports continued to grow rapidly in nearly all product sectors, outpacing the corresponding producer prices for goods sold on the domestic market. In the main sectors of specialization (mechanical machinery and equipment, textiles and clothing, leather products and footwear, and furniture), the differential amounted to about 4 percentage points in 2006 alone, confirming a well-established trend that is attributable at least in part to the processes of selection and upgrading under way in Italy's productive fabric.

The decline in market shares at current prices involved almost all sectors, most notably textile, leather products and footwear, furniture and construction materials, while the few positive changes regarded steel, industrial machinery and motor vehicles.

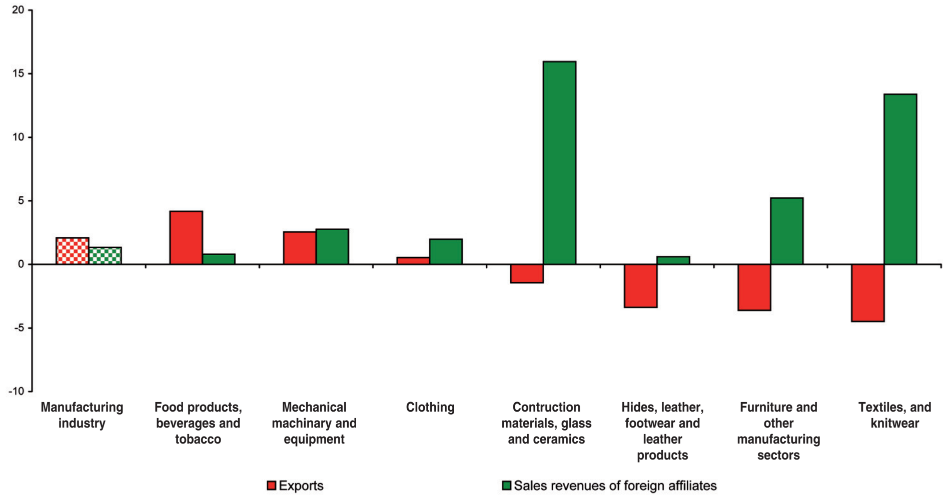
A new development in 2006 was that the unit values of imports rose more rapidly than those of exports not only in the sectors most heavily affected by the prices of raw materials, but also in the typical Italian export goods sectors, particularly in textiles and clothing and in furniture. If this pattern is confirmed, it could be explained both by the success of the efforts by emerging countries to upgrade the quality of their exports to the rich markets and by a further maturation of the internationalization strategies of Italian firms, which would tend to transfer high-quality production abroad too while leaving only the product design and marketing phases in Italy. As these processes develop, imports from low-cost local producers could be replaced by higher-unit-value imports turned out by Italian firms' foreign affiliates.

The data for the first four months of 2007 reflect the steep drop in the prices of imported energy products, while imports of metal products continued to rise in both value and volume. On the export side, the trends of 2006 carried over, with vigorous growth in foreign sales of machinery and transport equipment and much slower expansion in Italy's traditional export sectors, including food products.

The changes taking place in Italy's position in world trade are closely interwoven with the development of different forms of international fragmentation of production, shaped by firms' response to the transformation of the competitive environment. Many of these forms are not picked up by official statistics, especially the loosest arrangements, those based on cooperation agreements with foreign firms that do not involve changes in ownership structure. However, the past few years have also witnessed growth in the closer and more challenging forms of internationalization, which imply direct investment in foreign firms.

Sales revenues booked by the foreign affiliates of Italian firms have accelerated progressively in the past few years. Over the period 2001-05, the growth of these revenues was comparatively stronger not only in Italian industry's main sectors of specialization, where they appreciably outpaced exports, but also in some branches of industry characterized by large economies of scale and more sensitive to the rise in commodity prices, and in some branches of services. It is worth recalling that investment abroad in service firms, especially those operating in distribution and logistics, is often traceable to manufacturing companies, which use the acquisition of equity stakes as a means of consolidating their market power abroad.

Exports and sales revenues of Italian firms' foreign affiliates in typical Italian product sectors
(Average annual percentage changes in euros values, 2001-2005)



Source: ICE - Reprint, Politecnico di Milano.

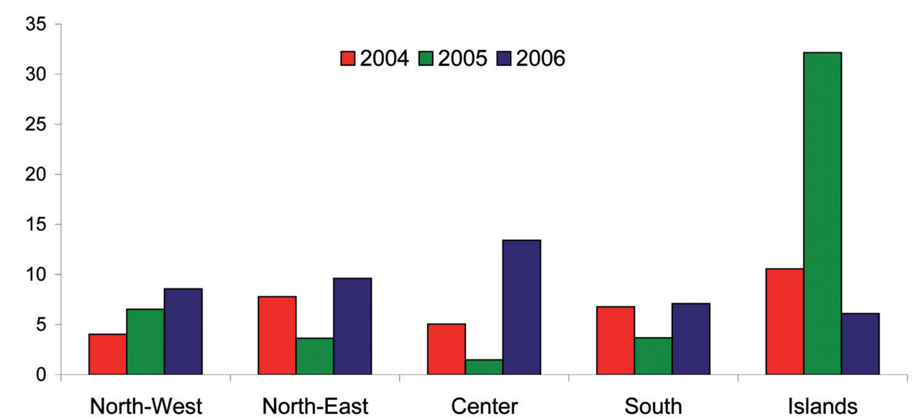
As to foreign firms' affiliates in Italy, in the period 2001-05 the largest gains in sales revenues came in services (in particular, energy, gas and water-supply services and wholesale trade) and the food products industry. In these sectors direct investment from abroad is attracted by the domestic market shares that can be acquired. Inward direct investment remains insufficient in technology-intensive and leading-export sectors.

7. Italian regions and industrial districts

Turning to the geographical distribution of exports, 2006 saw a recovery of central Italy's share, to the detriment of the South and Islands, which gave up part of the ground they had gained in 2005, and to the North-West, which resumed a decade-long downtrend.

Central Italy recovered share to the detriment of the South and Islands, which gave up part of the ground gained in 2005. The North-West lost share, resuming a decade-long downtrend.

Italy's merchandise exports by geographical area
(percentage changes)



Source: Based on ISTAT data.

The exports of Marche grew by 21 per cent and the region increased its share of the national total by 0.4 percentage points, thanks mainly to sales of pharmaceuticals. Among the regions of the Centre, high export growth rates were also achieved by Tuscany, which recouped a small portion of its previous-year loss, and by Umbria.

In the North-East the main patterns of the past years were confirmed, with the progressive expansion of Emilia-Romagna's share to the detriment of Veneto's. Friuli-Venezia Giulia largely made good its loss of the previous year.

In the North-East the progressive expansion of Emilia-Romagna's share to the detriment of Veneto's was confirmed.

In the North-West, export growth in both Piedmont and Lombardy was slightly below the national average, but the two regions' respective shares of exports of services expanded considerably, as they have for some years, reflecting the growing services-orientation of their economies.

The regions of the South and Islands showed very disparate results. Striking progress was achieved by Basilicata, where motor vehicles led the 55 per cent growth in exports. Growth rates above the national average were also recorded by Campania, interrupting the downtrend that began in 2002 for that region, and in Sardinia, thanks mainly to the increase in the prices of petrochemicals. Although Sicily too is specialized in petrochemicals, the rise in prices was not enough to prevent a decline in its share. Abruzzo and, above all, Puglia also lost share.

The data now available for the first quarter of 2007 broadly confirm these trends, particularly the loss of share for the South and Islands (although with a recovery for Campania), the regions of the North-West and Veneto, primarily to the benefit of Emilia-Romagna, Friuli-Venezia Giulia and Marche.

In general, it is fair to say that the different results achieved by the regions are correlated with their prevalent sectors of specialization, in that the regions less specialized in personal and household consumer goods and more oriented to making machinery tend to gain share.

Districts that succeeded in renewing themselves, for example the machinery districts and textiles and clothing districts of Lombardy and Emilia-Romagna and the leather products and footwear districts of Marche and Tuscany, achieved better results than others, such as the clothing districts of Abruzzo and the furniture-making districts of Puglia, which are suffering from the competition of emerging countries.

However, in order to grasp the geographical structure of Italian exports, analysis cannot be limited to the regional level but must go into more detail and examine provincial data for traces of the evolution under way in local production systems and, in particular, in industrial districts, which continue to be one of the main strengths of Italy's development model. The results for 2006 appear to confirm the trends of the past few years, with a marked differentiation between districts that have renewed the roots of their success (for example, the machinery and textiles and clothing districts of Lombardy and Emilia-Romagna and the leather products and footwear districts of Marche and Tuscany) and districts that instead are hurt more by the competition of emerging countries (e.g. the clothing districts of Abruzzo and the furniture-making districts of Puglia).

Between 2000 and 2005 the North-West saw its share of the sales revenues of Italian firms' foreign affiliates shrink sharply, to the benefit of all the other areas of Italy and, in particular, to such regions as Veneto, Tuscany, Lazio and Campania. This can be read as a sign of the spread, in the country's productive fabric, of the capacity to adopt more mature strategies of internationalization, based on direct investment abroad. Normally, foreign direct investment activates complementary flows of exports of intermediate and capital goods, but in some cases the sales booked by foreign affiliates substitute for Italian exports both to the markets where the affiliates are located and to other countries. Possibly, the increase in the four above-mentioned regions' shares of the sales revenues of Italian firms' foreign affiliates could explain at least part of the decline in their shares of merchandise exports in recent years. A similar line of reasoning may also hold for Puglia, where exports may have been partially replaced by production abroad under loose internationalization arrangements based on cooperation agreements between companies.

The capacity of Italian regions to attract investment from abroad can be gauged by the geographical distribution of workers in foreign firms' Italian affiliates. In the last five years Lombardy has further increased its already dominant share, while the share of the South and Islands, which had been far below the area's economic potential, has contracted.

Examining the detailed data at provincial level, it can be clearly seen that in many cases the presence of Italian or foreign multinationals has powerful effects, both positive and negative, on the exports of the local systems where they are established. This correlation is very evident, for example, in chemicals and pharmaceuticals, electronics and the transport equipment sector. Its signs are present in all the regions, but they are especially important in some parts of the South and Islands, where the local systems that have grown up around large, externally controlled firms, both Italian and foreign, have a very high incidence on economic activity and, in particular, on exports.

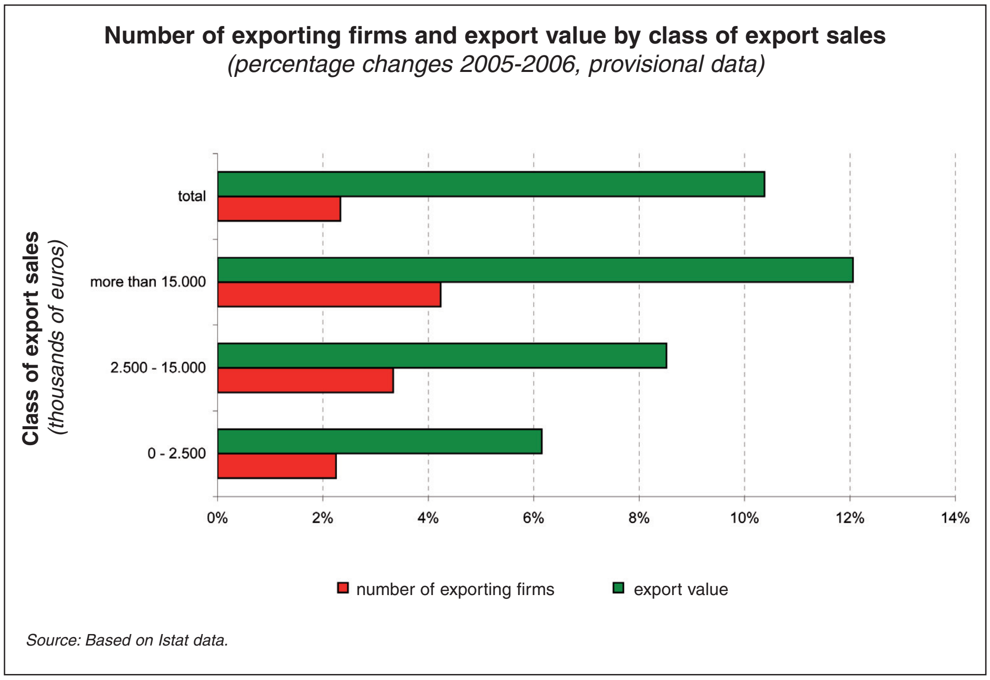
8. Firms

The total number of exporting firms rose by around 2 per cent in 2006. The export recovery was due in good part to the largest companies.

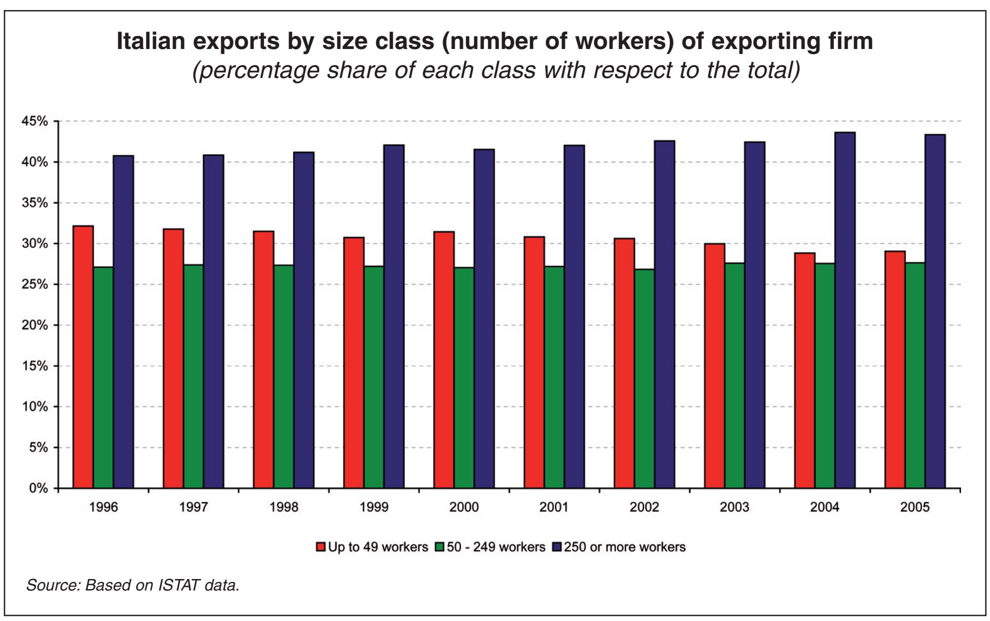
Although the total number of exporting firms increased by around 2 per cent in 2006,[3] confirming the trend towards a greater diffusion of the ability to operate on foreign markets, the export recovery was due in good part to the largest companies. Indeed, it can be argued that in 2006 there was an upward redistribution of the structure of Italian exports by firm size. Examining the data for "inflated" classes of export sales,[4] grouped so as to be roughly similar to the size classes of firms in terms of numbers of workers ordinarily used in analysis of the industrial structure, it can be seen that the growth rate of both the number of exporting firms and the value of exports increases with firm size up to the largest size class (in 2006 comprising some 2,700 firms with sales of at least € 15 million), where the number of firms rose by 4 per cent and the value of exports by 12 per cent.

[3] The statistical changes mentioned in this paragraph are calculated on the basis of provisional data for 2006 and 2005, despite the intervening publication of final figures for 2005. This method is used because the provisional data on the number of exporting firms are subject to particularly drastic upward revisions. Thus, a comparison between the provisional data for 2006 and the final data for 2005 would show a slight decline in the number of exporters rather than an increase.

[4] The classes of export sales are determined, starting in 2000, by inflating the thresholds on the basis of the average unit values of exports. Here, again, the changes are calculated on provisional data for 2005 and 2006.



With all the caution required by the provisional nature of the data, the figures provide important confirmation of the process under way in the selection and restructuring of the entrepreneurial fabric of Italian exporters. Considering the data for firms classed by number of workers, available up to 2005, the trend was already visible: the share of small firms (up to 49 workers) in the value of Italian exports fell from 31.5 to 29 per cent between 2000 and 2005, to the benefit of medium-sized firms (50 to 249 workers), whose share rose from 27 to 27.6 per cent, and, especially, large firms, whose share grew from 41.5 to 43.3 per cent. Small firms encountered the greatest difficulties in the traditional sectors, where their comparative advantages are concentrated.



Large firm size tends to go together with greater international openness, more investment in research and development and positioning in a non-traditional sector, all factors that appear to have assisted firms' competitive success in recent years. A positive role is also played by the availability of sufficient financing, high-skilled-labor intensity and ownership arrangements not strictly subject to family control. The exporters that have best stood the test of competition tend also to be found among those that have made the largest investments both for rationalization (in particular, automation and process innovation) and to develop and launch new products.

Small and medium-sized enterprises have shown an increasing ability to shift part of the production abroad.

When it comes to the internationalization of production, instead, the weight of small and, especially, medium-sized enterprises has increased in recent years. Small firms are more immediately aware of the competitive pressure of the emerging countries and are sometimes able to react by transferring abroad the phases of production that can no longer be based in Italy at acceptable costs. Medium-sized companies are also able to locate productive investment in distant countries with a view to improving their access to markets.

Empirical evidence indicates that companies that have proceed farthest in rebasing production internationally tend to reduce their domestic workforces less than the average for other companies, but it is necessary to bear in mind the indirect negative effects that the substitution of foreign subcontractors for local suppliers can have on employment, even in industrial districts.

Sectors and other structural factors being equal, the Italian affiliates of foreign multinationals tend to have better characteristics than the corresponding local firms in terms of productivity, skilled-labor intensity, investment and financial soundness, although not in terms of profitability, at least in the manufacturing sector. Together with our earlier observations regarding the exports of local systems in which there is a strong multinational presence, this further confirms the importance of developing more effective policies to attract foreign investment in Italy.

9. Public measures

The instruments of public support for firms' international activities were strengthened and renewed.

The recovery of Italian exports in 2006 was also accompanied by a strengthening of public action in support of firms' international activities, especially as regards the insurance services provided by the Export Credit Insurance Agency (SACE), increasingly geared to market parameters, and financial subsidies provided by Simest in the form of supported loans for export and equity interests in FDI ventures.

The new guidelines issued by the Ministry of Foreign Trade for the three years 2008-10 underscore the need to strengthen and further diversify the Institute for Foreign Trade's network of offices abroad, to carry out special promotional initiatives in the main emerging markets in conjunction with the major governmental missions, to give priority to assistance services tailored to the international activities of firms, to improve cooperation between the central government and regional governments in policies for internationalization, to reinforce the protection of brands and intellectual property, and to cooperate with the university system for the promotion of innovative products.

Policy measures to assist exports can be effective if they are suitably accompanied by economic diplomacy and their design is adequate in terms of support for the image and reputation of Italian products, technical assistance services and the ability to select and assist firms with untapped export potential. The coordination of central government action with regional initiatives is very important. The discussions recently begun by the Ministry of Foreign Trade with the regional governments represents progress in this direction.

10. Concluding remarks

The Italian economy is finally enjoying an expansion that, though still moderate, has ended a five-year stagnation and is proving the business sector's ability to react. Italian firms have also shown signs of making progress even on the more difficult competitive terrain of international markets, upgrading their commercial and productive presence abroad, although not yet succeeding in reversing the decline in their export market shares.

Last years *Report* identified some of the changes underway:

– the capacity of a more vital core of exporters to adopt price and product-quality strategies enabling them to strengthen their market position vis-à-vis competitors from emerging countries;
– the consolidation of the entrepreneurial fabric, with the exit of marginal exporters unable to withstand competition and the emergence of medium-sized and large firms;
– the spread of the capacity to be present on the international markets not only with exports but also with distribution and production activities carried out through direct investment or cooperation agreements with foreign firms;
– the transformation of some industrial districts into transnational production systems that, without losing their ability to draw sustenance from their local roots, are reorganizing the different phases of production processes along lines that are compatible with the trends of international markets;
– a gradual, already evident metamorphosis of the model of export specialization that attenuates Italian producers' comparative advantages in traditional personal and household consumer goods, concentrating them to a greater extent on the capital goods necessary to produce these consumer goods and at the same time reducing the comparative disadvantages in large-scale-economy and knowledge-intensive sectors.

If, as a whole, such important structural changes do not yet show up adequately in the aggregate data, this is evidence of the seriousness of the problems that in past years had braked the international opening and growth of the Italian economy.

An argument perhaps can be made that the necessary price for the renewal of the Italian economy and its adaptation to the current characteristics of the international markets – a price still not fully paid - was a certain quantitative downsizing of its manufacturing base, at least in terms of relative share, as a pre-requisite for reinvigorating its most vital part and relaunching it in a context in which services play an increasingly important role within industry itself.

Still, in no small part this downsizing is the inevitable consequence of the sweeping processes of transformation in the international economy, marked by the shift towards the emerging countries of ever-greater shares of production and exports, above all in the manufacturing sector, and by a gradual, as yet uneven diffusion of the benefits of these processes to other developing regions.

It would be illusory and dangerous to think that these trends can be reversed by resorting to protectionism. What must be done instead is to seize the great opportunities offered by the changes under way, and to do this it is necessary to increase competition in domestic markets, especially in services, and more in general open up economic and social systems further to the stimuli deriving from international movements of goods, capital and persons.

These questions regard not just Italy but the entire European Union. Fifty years after its birth, the particular model of regional integration realized in Europe still exerts enormous attraction, not only on neighboring countries, as seen in the enlargements recently concluded and those being considered, but also on faraway regions, such as Asia, where the experience of financial integration and stability achieved in the euro area is under attentive study. On the other hand, internally, the European Union is increasingly caught between its old institutional problems, exacerbated by the recent enlargements, and the grand ambitions traced out in its strategy documents.

Despite the crisis besetting it, the current round of trade negotiations within the WTO remains an important opportunity to test the ability of Europe's leaders to solve these problems. The goal remains that of relaunching the trade liberalization process in a context of shared rules and thereby offering prospects of economic and social progress to all countries, but above all to the developing countries. The stakes are high, not least in view of the difficult state of international political relations. To squander this opportunity would be a grave mistake.

In resisting the adoption of more open positions in international trade negotiations, it is sometimes argued that a further liberalization of trade can worsen the conditions both of workers in the rich countries, who would be even more exposed to the competition of products made in the poor countries, and of workers in the poor countries, where failure to respect workers' fundamental rights would no longer be sanctioned with trade restrictions. The words Riccardo Faini wrote seven years ago are ever topical in this regard:

"The improvement in wages and working conditions depends mainly on an increase in income levels, but it is also the fruit of a conscious effort by governments and the political forces. Achieving higher labor standards therefore requires, in addition to measures to promote growth, a political commitment to work so that the benefits of development are equitably distributed. The international community can play an important role in this context, but it must avoid using sanctions that could prove ineffective or even counterproductive. An approach genuinely motivated by humanitarian concern cannot be based on instruments, such as trade sanctions, that would end up by harming those who are meant to be protected. A participatory strategy must be sought, one based on the full involvement of the developing countries and their civil society and that provides valid incentives for the adoption of effective measures to promote growth and simultaneously improve working conditions."[5]

[5] Riccardo Faini, "I labour standards. Aspetti economici ed assetti istituzionali", in *Costruire regole nella globalizzazione*, ed. Lelio Iapadre (Bologna: Il Mulino, 2000), p. 214.

STATISTICAL TABLES

World trade and foreign direct investment(1)
(values in billions of dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
					TRADE IN GOODS					
Value(2)	5,590	5,500	5,711	6,454	6,186	6,487	7,580	9,211	10,468	12,062
					Percentage changes in the indices					
Volume index	10.0	4.8	4.6	10.4	-0.6	3.5	5.2	9.5	6.0	8.0
Average unit value index	-6.1	-5.8	-0.6	1.8	-3.8	1.3	10.9	10.8	6.8	6.6
					TRADE IN COMMERCIAL SERVICES					
Value	1,320	1,352	1,406	1,493	1,498	1,608	1,842	2,211	2,452	2,711
					FOREIGN DIRECT INVESTMENT					
Value	490	712	1,100	1,410	832	618	558	711	916	1,230
As a percentage of trade in goods and services	7.0	10.1	15.5	17.9	10.9	7.7	6.0	6.3	7.2	8.4

(1) Exports for trade in goods and services, inflows for FDI. The FDI figure for 2006 is estimated.

(2) Includes Hong Kong re-exports.

Sources: Based on WTO data for trade in goods and services and UNCTAD data for foreign direct investment.

Table 1.1

Regional shares of world merchandise exports
(at current prices)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
European Union	39.6	41.9	41.1	37.7	39.7	40.4	41.4	40.7	38.7	37.6
Euro area	*30.5*	*32.5*	*32.1*	*29.2*	*31.0*	*31.5*	*32.5*	*31.9*	*30.1*	*28.9*
New EU members	*1.8*	*2.0*	*1.9*	*1.9*	*2.2*	*2.4*	*2.6*	*2.8*	*3.0*	*3.1*
Other European countries	5.1	4.8	4.7	5.0	5.0	5.4	5.6	5.8	6.3	6.4
Africa	1.6	1.8	1.9	2.4	2.2	2.2	2.3	2.4	2.8	2.9
North America	16.3	16.5	16.4	16.4	16.2	14.7	13.3	12.4	12.2	11.9
South and Central America	5.2	5.3	5.4	5.8	5.7	5.5	5.2	5.3	5.6	5.7
Middle East	3.3	2.6	3.1	3.9	3.8	3.6	3.7	4.2	4.7	5.0
Central Asia	1.2	1.1	1.1	1.2	1.3	1.4	1.4	1.4	1.6	1.7
East Asia(1)	25.6	24.5	25.0	26.3	24.8	25.6	25.9	26.5	26.8	27.3
Oceania and other territories	1.5	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3	1.3
WORLD	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Includes the data for Taiwan (Taiwan Directorate General of Customs) not available in the IMF-DOTS database.

Source: Based on IMF-DOTS data.

Table 1.2

Regional shares of world merchandise imports
(at current prices)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
European Union	37.7	40.1	39.6	37.2	37.9	38.0	39.4	38.9	37.6	36.9
Euro area	*27.9*	*29.7*	*29.7*	*27.9*	*28.5*	*28.3*	*29.6*	*29.2*	*28.2*	*27.4*
New EU members	*2.4*	*2.7*	*2.5*	*2.4*	*2.7*	*2.9*	*3.1*	*3.2*	*3.2*	*3.4*
Other European countries	4.9	4.8	4.1	4.0	4.1	4.4	4.7	4.8	5.1	5.8
Africa	1.7	2.4	2.2	2.0	2.0	2.2	2.3	2.4	2.5	2.6
North America	19.9	21.1	22.1	22.8	22.3	21.8	20.2	19.3	19.3	18.6
South and Central America	6.1	6.5	6.1	6.2	6.3	5.8	5.0	5.0	5.2	5.2
Middle East	2.5	2.5	2.5	2.3	2.7	2.8	2.9	3.1	3.3	3.3
Central Asia	1.4	1.4	1.4	1.4	1.5	1.5	1.6	1.7	2.0	2.4
East Asia(1)	23.7	19.7	20.4	22.6	21.7	22.1	22.4	23.1	23.3	23.7
Oceania and other territories	1.6	1.5	1.6	1.4	1.3	1.4	1.5	1.5	1.5	1.4
WORLD	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) Includes the data for Taiwan (Taiwan Directorate General of Customs) not available in the IMF-DOTS database.

Source: Based on IMF-DOTS data.

Table 1.3

World merchandise trade: top twenty exporters[1]
(shares of world exports at current prices)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	Germany	9.3	10.0	9.5	8.6	9.3	9.5	9.9	10.0	9.4	9.3
2	United States	12.4	12.6	12.2	12.1	11.9	10.8	9.6	8.9	8.7	8.7
3	China	3.3	3.4	3.4	3.9	4.3	5.1	5.8	6.5	7.4	8.1
4	Japan	7.6	7.2	7.4	7.5	6.6	6.5	6.3	6.2	5.7	5.4
5	France	5.3	5.6	5.7	5.1	5.3	5.2	5.2	5.0	4.5	4.1
6	Netherlands	3.1	3.1	3.9	3.6	3.8	3.8	3.9	3.9	3.9	3.9
7	United Kingdom	5.1	5.0	4.8	4.4	4.4	4.3	4.1	3.7	3.6	3.5
8	Italy	4.3	4.5	4.2	3.7	3.9	3.9	4.0	3.9	3.6	3.4
9	Canada	3.9	3.9	4.2	4.3	4.3	3.9	3.6	3.5	3.5	3.2
10	Belgium	3.1	3.3	3.1	2.9	3.1	3.3	3.3	3.4	3.2	3.1
11	South Korea	2.6	2.5	2.5	2.7	2.5	2.5	2.6	2.8	2.7	2.7
12	Hong Kong	3.4	3.2	3.1	3.2	3.1	3.1	3.0	2.8	2.8	2.7
13	Russian Federation	1.5	1.3	1.3	1.6	1.3	1.7	1.8	1.8	2.3	2.4
14	Singapore	2.3	2.0	2.0	2.2	2.0	2.0	2.1	2.2	2.2	2.3
15	Mexico	2.0	2.2	2.4	2.6	2.6	2.5	2.2	2.1	2.1	1.9
16	Taiwan[2]	2.2	2.0	2.1	2.3	2.0	2.0	1.9	1.9	1.8	1.8
17	Spain	1.9	2.0	1.8	1.7	1.8	1.8	2.1	2.0	1.9	1.7
18	Saudi Arabia	1.1	0.7	0.9	1.2	1.1	1.0	1.2	1.2	1.5	1.6
19	Malaysia	1.4	1.4	1.5	1.5	1.4	1.5	1.4	1.4	1.4	1.3
20	Switzerland	1.4	1.5	1.4	1.3	1.3	1.4	1.3	1.3	1.3	1.2
	Other countries	22.8	22.5	22.7	23.7	24.1	24.3	24.7	25.6	26.6	27.8
	WORLD	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) According to the 2006 ranking.
(2) Source: Taiwan Directorate General of Customs.
Source: Based on IMF-DOTS data.

Table 1.4

World merchandise trade: top twenty importers[1]
(shares of world imports at current prices)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
1	United States	16.1	17.1	18.0	18.8	18.5	18.1	16.8	16.1	16.1	15.5
2	Germany	7.8	8.4	8.0	7.6	7.7	7.4	7.7	7.6	7.2	7.3
3	China	2.5	2.5	2.9	3.4	3.8	4.5	5.3	5.9	6.1	6.4
4	Japan	6.1	5.1	5.3	5.8	5.5	5.1	4.9	4.8	4.8	4.7
5	United Kingdom	5.4	5.6	5.5	5.1	5.1	5.1	4.9	4.8	4.5	4.4
6	France	4.9	5.3	5.4	5.0	5.1	4.9	5.1	5.0	4.7	4.3
7	Italy	3.7	3.9	3.8	3.6	3.6	3.7	3.8	3.8	3.6	3.5
8	Netherlands	2.8	2.9	3.6	3.3	3.3	3.3	3.4	3.4	3.4	3.4
9	Canada	3.8	4.0	4.1	4.0	3.8	3.7	3.4	3.2	3.2	3.1
10	Belgium	2.8	3.0	2.7	2.7	2.8	3.0	2.9	3.0	3.0	2.9
11	Hong Kong	3.7	3.3	3.1	3.2	3.2	3.1	3.0	2.9	2.8	2.7
12	Spain	2.2	2.4	2.3	2.2	2.2	2.3	2.7	2.7	2.7	2.6
13	South Korea	2.6	1.7	2.1	2.4	2.2	2.3	2.3	2.4	2.4	2.5
14	Mexico	2.2	2.5	2.7	3.0	3.0	2.9	2.5	2.3	2.3	2.0
15	Singapore	2.4	1.8	1.9	2.0	1.8	1.8	1.8	1.8	1.9	1.9
16	Taiwan[2]	2.0	1.9	1.9	2.1	1.7	1.7	1.6	1.8	1.7	1.6
17	India	0.7	0.8	0.8	0.8	0.9	0.9	1.0	1.1	1.3	1.5
18	Switzerland	1.4	1.5	1.4	1.3	1.3	1.3	1.2	1.2	1.2	1.4
19	Australia	1.2	1.2	1.2	1.1	1.1	1.2	1.2	1.2	1.2	1.2
20	Russian Federation	0.9	0.8	0.5	0.5	0.6	0.7	0.7	0.7	0.9	1.1
	Other countries	24.8	24.5	22.9	22.2	22.9	23.3	23.7	24.5	25.1	26.2
	WORLD	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

(1) According to the 2006 ranking.
(2) Source: Taiwan Directorate General of Customs.
Source: Based on IMF-DOTS data.

Table 1.5

Inward foreign direct investment: main recipient countries
(amounts in billions of dollars)

Ranking 2005 flows		Flows			Stocks			
		Amount			Amount		% composition	
		Mean 2000-2004	2005	2006(1)	2005	2006(1)	2005	2006(1)
1	United Kingdom	54	165	170	817	987	8.1	8.7
2	United States	145	99	177	1.626	1.803	16.0	15.9
3	China	51	72	70	318	388	3.1	3.4
4	France	43	64	88	601	689	5.9	6.1
5	Netherlands	33	44	…	463	…	4.6	…
6	Hong Kong	29	36	41	533	574	5.3	5.1
7	Canada	25	34	…	357	…	3.5	…
8	Germany	58	33	8	503	511	5.0	4.5
9	Belgium(2)	31	24	…	492	…	4.9	…
10	Spain	32	23	…	368	…	3.6	…
11	**Italy**	15	**20**	**30**	**220**	**250**	**2.2**	**2.2**
12	Singapore	13	20	32	187	219	1.8	1.9
13	Mexico	20	19	19	210	229	2.1	2.0
14	Brazil	20	15	16	201	217	2.0	1.9
15	Russian Federation	6	15	28	132	161	1.3	1.4
16	Poland	7	8	16	93	110	0.9	1.0
17	South Korea	5	7	1	63	64	0.6	0.6
18	Chile	5	7	10	74	84	0.7	0.7
19	Luxembourg(2)	4	4	…	69	…	0.7	…
20	Japan	8	3	-8	101	93	1.0	0.8
	World	**825**	**916**	**1.230**	**10.129**	**11.359**	**100.0**	**100.0**

(1) Estimates.
(2) The mean refers to the period 2002-2004.
Source: Based on UNCTAD data.

Table 1.6

Outward foreign direct investment: main investor countries
(amounts in billions of dollars)

Ranking 2005 flows		Flows					Stocks	
		Amount			% composition		Amount	% composition
		Mean 2000-2004	2004	2005	Mean 2000-2004	2005	2005	
1	Netherlands	44	17	119	5.6	15.3	641	6.0
2	France	85	57	116	10.8	14.9	853	8.0
3	United Kingdom	100	95	101	12.7	12.9	1.238	11.6
4	Japan	32	31	46	4.1	5.9	387	3.6
5	Germany	25	2	46	3.2	5.9	967	9.1
6	Switzerland	23	27	43	2.9	5.5	395	3.7
7	**Italy**	**16**	**19**	**40**	**2.0**	**4.7**	**293**	**2.8**
8	Spain	42	61	39	5.3	4.0	381	3.6
9	Canada	34	43	34	3.7	3.5	400	3.7
10	Hong Kong	28	46	33	3.6	4.2	470	4.4
11	Sweden	20	21	26	2.6	3.3	203	1.9
12	Belgium(1)	28	34	23	3.6	2.9	386	3.6
13	Russian Federation	7	14	13	0.5	1.7	120	1.1
14	Austria	6	7	9	0.8	1.1	67	0.6
15	Taiwan	6	7	6	0.8	0.7	97	0.9
16	Singapore	8	9	6	1.0	0.7	111	1.0
17	South Korea	4	5	4	0.5	0.5	36	0.3
18	Luxembourg(1)	4	4	3	0.4	0.4	49	0.5
19	Brazil	3	10	3	0.4	0.4	72	0.7
20	Portugal	6	8	1	0.8	0.1	44	0.4
	World	784	813	779	100.0	100.0	10.672	100.0

(1) The mean refers to the period 2002-2004.
Source: Based on UNCTAD data.

Table 1.7

Shares of world trade and trade balances
(percentage shares and amounts in billions of ecus/euros)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
					European Union(1)					
Exports (%)	19.1	20.0	18.8	17.3	18.5	18.9	19.1	18.0	17.2	16.4
Imports (%)	17.0	18.3	18.2	17.8	17.9	17.6	18.3	18.0	17.9	18.0
Trade balance	48.6	22.9	-19.6	-91.4	-42.6	8.1	-13.1	-63.1	-111.9	-172.1
Normalized trade balance(2)	3.5	1.6	-1.3	-4.6	-2.1	0.4	-0.7	-3.2	-5.0	-6.8
					United States					
Exports (%)	16.1	16.6	16.1	15.5	15.2	13.9	12.5	12.2	11.7	11.5
Imports (%)	20.1	21.7	23.1	23.5	22.9	22.6	21.2	21.4	21.1	20.3
Trade balance	-185.0	-233.9	-341.1	-516.6	-502.3	-536.1	-511.3	-568.5	-666.4	-702.7
Normalized trade balance(2)	-13.2	-16.1	-20.7	-23.4	-23.6	-26.8	-28.5	-30.2	-31.4	-29.8
					Japan					
Exports (%)	9.8	9.4	9.7	9.5	8.4	8.3	8.1	8.5	7.7	7.2
Imports (%)	7.6	6.5	6.8	7.1	6.8	6.3	6.2	6.4	6.3	6.1
Trade balance	72.5	95.8	101.0	107.9	60.7	84.1	78.6	89.3	64.3	55.5
Normalized trade balance(2)	10.8	16.1	14.8	11.6	7.2	10.5	10.4	10.9	7.2	5.7
					China(3)					
Exports (%)	4.3	4.5	4.5	4.9	5.6	6.5	7.6	8.9	9.8	10.8
Imports (%)	3.2	3.2	3.6	4.2	4.7	5.6	6.7	7.9	8.0	8.4
Trade balance	35.6	38.8	27.4	26.1	25.2	32.2	22.5	25.8	82.0	141.3
Normalized trade balance(2)	12.4	13.4	8.1	5.1	4.4	4.9	3.0	2.8	7.2	10.1
					WORLD(4)					
Exports	3,785	3,672	4,049	5,457	5,339	5,282	5,131	5,377	6,250	7,179
Imports	3,952	3,874	4,296	5,793	5,736	5,622	5,426	5,734	6,619	7,514

(1) Excludes intra-EU trade. EU-15 up to 2003, EU-25 from 2004.

(2) Trade balance as a percentage of the sum of imports and exports.

(3) Includes Hong Kong re-exports.

(4) Excludes intra-EU trade. The difference between exports and imports is due to statistical discrepancies.

Sources: Based on WTO and Eurostat-Comext data.

Table 1.8

Italy's balance of payments
on current account
(milions of euros)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Goods (FOB-FOB)	**32,584**	**22,044**	**10,368**	**17,405**	**14,049**	**9,922**	**8,854**	**536**	**-9,532**
Services	**4,386**	**1,125**	**1,167**	**18**	**-3,043**	**-2,362**	**1,179**	**-523**	**-1,474**
trasport	-2,586	-3,898	-4,158	-3,859	-4,190	-4,972	-4,935	-5,247	-5,477
travel	10,964	10,852	12,893	12,427	10,396	9,386	12,150	10,452	11,968
other services	-3,992	-5,829	-7,568	-8,550	-9,249	-6,776	-6,036	-5,728	-7,965
Income	**-9,869**	**-10,392**	**-13,099**	**-11,635**	**-15,396**	**-17,811**	**-14,817**	**-13,643**	**-13,606**
labor income	-65	-329	-473	-68	-900	-1,126	-213	-554	-316
investment income	-9,804	-10,063	-12,626	-11,567	-14,496	-16,685	-14,604	-13,089	-13,290
Transfers	**-6,658**	**-5,085**	**-4,742**	**-6,527**	**-5,624**	**-7,101**	**-8,273**	**-9,774**	**-13,255**
private	-927	-906	-698	-2,764	-4,567	-1,554	-1,477	-1,451	-5,251
workers' remittances	-117	-195	-199	-390	-478	-912	-2,478	-3,668	-4,106
other	-810	-711	-499	-2,374	-4,089	-642	1,001	2,217	-1,145
public	-5,732	-4,179	-4,044	-3,763	-1,057	-5,547	-6,796	-8,323	-8,004
EU accounts	-5,940	-4,684	-4,905	-5,634	-5,727	-6,289	-6,537	-8,143	-8,304
other	209	505	861	1,871	4,670	742	-259	-180	300
Current account	**20,444**	**7,692**	**-6,305**	**-740**	**-10,014**	**-17,352**	**-13,056**	**-23,403**	**-37,869**

Source: Bank of Italy,

Table 2.1

Italy’s foreign trade (FOB-CIF)

	1998	1999	2000	2001	2002	2003	2004	2005	2006(1)
Exports FOB									
millions of euros	220.105	221.040	260.413	272.990	269.064	264.616	284.413	299.923	326.992
% change	4.2	0.4	17.8	4.8	-1.4	-1.7	7.5	5.5	9.0
Imports CIF									
millions of euros	195.625	207.015	258.507	263.757	261.226	262.998	285.634	309.292	348.348
% change	5.9	5.8	24.9	2.0	-1.0	0.7	8.6	8.3	12.6
Balance									
millions of euros	24.480	14.025	1.906	9.233	7.838	1.618	-1.221	-9.369	-21.356
change	-2.139	-10.455	-12.119	7.327	-1.395	-6.220	-2.839	-8.148	-11.987
Normalized balance(2)	5.9	3.3	0.4	1.7	1.5	0.3	-0.2	-1.5	-3.2
Exports: average unit values (% change)	3.4	2.7	8.0	3.6	1.4	0.8	4.2	6.3	6.6
Imports: average unit values (% change)	-1.6	1.7	16.3	2.7	-0.5	-0.3	4.8	8.7	10.4
Exports: volume (% change)	0.7	-2.6	9.0	1.5	-3.1	-2.5	3.1	-0.8	2.2
Imports: volume (% change)	7.6	3.9	7.5	-0.6	-0.5	1.0	3.7	-0.4	2.0
Terms of trade(3) (% change)	5.0	1.0	-7.1	0.9	1.9	1.1	-0.6	-2.2	-3.4
Real cover ratio(4) (% change)	-6.4	-6.3	1.4	2.1	-2.6	-3.4	-0.5	-0.5	0.2

(1) Provisional data for 2006. ISTAT will release final data following adjustments and additions to the data on trade with the EU countries. The data on average unit values remain unchanged.

(2) Trade balance as a percentage of the sum of exports and imports.

(3) Ratio between average unit values of exports and imports.

(4) Ratio between the export volume index and import volume index.

Source: Based on ISTAT data.

Table 2.2

Constant-market-shares analysis of Italy's share of world imports(1)(2)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	1997-2006
Market share	3.98	4.18	3.84	3.40	3.52	3.51	3.58	3.44	3.23	3.11	
Change		0.19	-0.33	-0.44	0.12	-0.01	0.07	-0.15	-0.21	-0.11	-0.87
Competitiveness effect		-0.02	-0.12	-0.09	0.00	-0.04	0.01	-0.03	-0.10	-0.04	-0.42
Structure effect		0.21	-0.20	-0.34	0.14	0.08	0.08	-0.11	-0.16	-0.06	-0.36
sectoral		*0.12*	*-0.10*	*-0.26*	*0.11*	*0.05*	*-0.01*	*-0.09*	*-0.11*	*-0.05*	*-0.34*
geographical		*0.15*	*-0.13*	*-0.13*	*0.05*	*-0.01*	*0.08*	*-0.04*	*-0.04*	*-0.02*	*-0.10*
interaction		*-0.05*	*0.03*	*0.05*	*-0.03*	*0.04*	*0.02*	*0.02*	*-0.01*	*0.02*	*0.08*
Adaptation effect		0.00	-0.01	-0.01	-0.02	-0.04	-0.02	-0.01	0.05	-0.02	-0.09

Constant-market-shares analysis of Italy's share of world imports from the euro area(1)(2)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	1997-2006
Market share	12.58	12.36	11.94	11.68	11.50	11.23	11.15	10.92	10.73	10.61	
Change		-0.22	-0.42	-0.25	-0.19	-0.26	-0.08	-0.24	-0.19	-0.12	-1.97
Competitiveness effect		-0.15	-0.12	-0.02	-0.11	-0.18	0.03	0.05	-0.11	0.10	-0.50
Structure effect		-0.02	-0.25	-0.18	-0.01	0.15	-0.02	-0.25	-0.24	-0.18	-1.00
sectoral		*-0.07*	*-0.22*	*-0.34*	*0.02*	*0.03*	*-0.08*	*-0.18*	*-0.19*	*-0.16*	*-1.20*
geographical		*0.09*	*0.01*	*0.10*	*-0.02*	*-0.08*	*0.03*	*-0.05*	*0.03*	*-0.02*	*0.08*
interaction		*-0.03*	*-0.03*	*0.06*	*-0.01*	*0.21*	*0.02*	*-0.02*	*-0.07*	*0.00*	*0.12*
Adaptation effect		-0.06	-0.06	-0.05	-0.07	-0.24	-0.08	-0.03	0.16	-0.04	-0.47

(1) The "world" consists of the 15 members of the pre-enlargement EU plus Brazil, Canada, China, Japan, Malaysia, Mexico, South Korea, Switzerland, Taiwan and the United States. The results of the constant-market-shares analysis differ in part from those published in the previous editions of the Report in that the imports of the individual member countries of the European Union are now taken into account, whereas in the past the EU was treated as a single market.

(2) The competitiveness effect is the weighted average of the changes in the elementary shares; it can be considered to reflect the changes in relative prices and other factors of competitive success. The structure effect depends on the degree of conformity between the geographical and sectoral specialization of the country whose share is analyzed and the changes in the composition of demand of the market in question, while the adaptation effect measures flexibility with respect to such changes.

Sources: Based on data published by Eurostat and national statistical institutes.

Table 2.3

Italy's foreign trade by geographical region and with the main countries(1)
(millions of euros)

	EXPORTS			IMPORTS			BALANCE	
	2006	% share	% change 2005-06	2006	% share	% change 2005-06	2005	2006
European Union	190,326	58.2	7.1	192,564	55.3	7.9	-792	-2,328
France	38,211	11.7	3.7	31,913	9.2	3.4	5,997	6,298
Germany	42,964	13.1	8.8	58,133	16.7	8.4	-14,152	-15,169
United Kingdom	19,758	6.0	0.3	12,333	3.5	-1.2	7,226	7,425
Spain	23,631	7.2	5.2	14,336	4.1	9.0	9,308	9,295
New EU members	20,451	6.3	14.9	16,505	4.7	24.1	4,496	3,946
Other European countries	43,847	13.4	16.5	44,131	12.7	16.7	-185	-285
Russia	7,639	2.3	25.7	13,592	3.9	16.1	-5,628	-5,953
Switzerland	12,727	3.9	9.3	10,387	3.0	12.0	2,377	2,340
North Africa	8,302	2.5	9.9	25,525	7.3	30.4	-12,023	-17,224
Other African countries	4,397	1.3	11.3	5,905	1.7	16.4	-1,123	-1,508
North America	27,402	8.4	3.8	12,168	3.5	0.5	14,282	15,235
United States	24,678	7.5	3.0	10,764	3.1	0.4	13,240	13,914
South and Central America	9,919	3.0	18.7	9,435	2.7	23.5	715	484
Mercosur	3,131	1.0	12.4	4,656	1.3	16.4	-1,213	-1,525
Middle East	13,590	4.2	15.0	15,004	4.3	22.7	-408	-1,414
South and Central Asia	3,759	1.1	27.7	7,130	2.0	36.8	-2,269	-3,371
East Asia	21,198	6.5	10.3	34,481	9.9	17.7	-10,081	-13,283
China	5,703	1.7	23.9	17,962	5.2	27.1	-9,531	-12,259
Japan	4,483	1.4	-1.2	5,452	1.6	9.6	-440	-969
DAEs(2)	9,789	3.0	7.7	8,640	2.5	5.2	873	1,149
Oceania	2,975	0.9	-1.8	1,701	0.5	12.9	1,523	1,275
WORLD	**326,992**	**100.0**	**9.0**	**348,348**	**100.0**	**12.6**	**-9,369**	**-21,356**

1) Provisional data for 2006.
(2) Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand.
Source: Based on ISTAT data.

Table 2.4

Size of the markets and Italy's shares
(at current prices)

	SIZE OF MARKET(1)		ITALY'S MARKET SHARE(2)					
	2001	2006	2001	2002	2003	2004	2005	2006
European Union	39.1	38.3	5.9	5.9	6.0	5.8	5.5	5.2
France	5.1	4.6	9.4	9.4	9.7	9.4	9.1	8.7
Germany	7.8	7.4	7.3	7.1	7.1	6.9	6.4	6.1
United Kingdom	5.5	4.5	4.8	5.1	5.4	5.4	5.0	4.6
Spain	2.5	2.7	9.8	9.7	10.3	10.0	9.6	9.1
Other European countries	4.5	5.9	8.8	8.6	8.7	8.8	7.8	7.6
Russia	0.9	1.4	6.0	6.2	5.8	6.0	5.8	5.9
Switzerland	1.5	1.3	9.6	9.4	10.2	11.2	10.0	10.0
North Africa	0.8	0.9	11.6	11.4	12.2	11.2	10.1	10.2
Other African countries	1.3	1.6	3.7	3.7	3.4	3.1	3.2	3.0
North America	21.4	17.8	2.0	2.0	1.9	1.8	1.7	1.6
United States	17.9	14.8	2.1	2.2	2.1	2.0	1.8	1.8
South and Central America	5.7	4.8	2.5	2.5	2.4	2.3	2.1	2.1
Middle East	2.6	3.1	5.4	5.3	5.2	4.9	4.5	4.6
Central Asia	1.2	1.9	2.3	2.1	2.1	2.1	2.1	2.1
East Asia	19.2	21.7	1.4	1.3	1.3	1.2	1.0	1.0
China	3.6	6.4	1.3	1.4	1.2	1.1	1.0	0.9
Japan	5.2	4.4	1.3	1.4	1.4	1.3	1.2	1.1
Oceania	1.3	1.3	2.7	2.9	2.9	2.9	2.6	2.3
WORLD	**100.0**	**100.0**	**3.9**	**3.9**	**4.0**	**3.9**	**3.6**	**3.4**

(1) World exports to each market as a percentage of total world exports.
(2) Italy's percentage share of world exports to each market.
Source: Based on IMF-DOTS data.

Table 2.5

Italian exports: top 20 countries of destination in 2006

		Rank in	Value (millions of euros)	Percentage change	Percentage share	
		2005	2006	2005-06	2005	2006
1	Germany	1	42,964	8.8	13.2	13.1
2	France	2	38,211	3.7	12.3	11.7
3	United States	3	24,678	3.0	8.0	7.5
4	Spain	4	23,631	5.2	7.5	7.2
5	United Kingdom	5	19,758	0.3	6.6	6.0
6	Switzerland	6	12,727	9.3	3.9	3.9
7	Belgium	7	9,415	16.8	2.7	2.9
8	Austria	8	7,996	7.7	2.5	2.4
9	Netherlands	9	7,800	7.2	2.4	2.4
10	Russia	11	7,639	25.7	2.0	2.3
11	Poland	13	6,859	21.7	1.9	2.1
12	Turkey	10	6,780	9.9	2.1	2.1
13	Greece	12	6,507	7.9	2.0	2.0
14	China	15	5,703	23.9	1.5	1.7
15	Romania	14	5,541	18.6	1.6	1.7
16	Japan	16	4,483	-1.2	1.5	1.4
17	Portugal	17	3,601	8.6	1.1	1.1
18	Sweden	18	3,495	13.6	1.0	1.1
19	United Arab Emirates	24	3,315	28.3	0.9	1.0
20	Hungary	21	3,227	10.5	1.0	1.0
	Other countries		82,660	12.6	24.5	25.3
	WORLD		**326,992**	**9.0**	**100.0**	**100.0**

Source: Based on ISTAT data.

Table 2.6

Italian imports: top 20 countries of origin in 2006

		Rank in	Value (millions of euros)	Percentage change	Percentage share	
		2005	2006	2005-06	2005	2006
1	Germany	1	58,133	8.4	17.3	16.7
2	France	2	31,913	3.5	10.0	9.2
3	Netherlands	3	19,316	10.5	5.7	5.5
4	China	4	17,962	27.1	4.6	5.2
5	Belgium	5	14,544	5.4	4.5	4.2
6	Spain	6	14,336	9.0	4.3	4.1
7	Russia	8	13,592	16.1	3.8	3.9
8	Libya	10	12,658	29.2	3.2	3.6
9	United Kingdom	7	12,333	-1.2	4.0	3.5
10	United States	9	10,764	0.4	3.5	3.1
11	Switzerland	11	10,387	12.0	3.0	3.0
12	Austria	12	8,659	11.2	2.5	2.5
13	Algeria	13	8,026	30.6	2.0	2.3
14	Poland	17	5,557	33.6	1.3	1.6
15	Japan	14	5,452	9.6	1.6	1.6
16	Turkey	15	5,433	24.5	1.4	1.6
17	Romania	18	4,319	5.9	1.3	1.2
18	Saudi Arabia	16	4,236	-0.1	1.4	1.2
19	Sweden	21	3,949	6.7	1.2	1.1
20	Iran	22	3,881	31.7	1.0	1.1
	Other countries		82,898	18.7	22.6	23.8
	WORLD		**348.348**	**12.6**	**100.0**	**100.0**

Source: Based on ISTAT data.

Table 2.7

Italy's foreign trade by sector
(amounts in millions of euros)

	EXPORTS			IMPORTS			BALANCE	
	2006	% share 2006	% change 2005-06	2006	% share 2006	% change 2005-06	2005	2006
PRODUCTS OF AGRICULTURE AND FISHING	4,312	1.3	4.4	9,689	2.8	4.0	-5,190	-5,377
PRODUCTS OF MINING AND QUARRYING	1,083	0.3	8.0	55,250	15.9	26.5	-42,691	-54,167
Energy products	*453*	*0.1*	*-0.4*	*50,650*	*14.5*	*28.8*	*-38,881*	*-50,196*
MANUFACTURES	315,533	96.5	9.5	274,266	78.7	10.9	41,024	41,268
Food products, beverages and tobacco	17,672	5.4	7.1	21,886	6.3	6.4	-4,072	-4,214
Textiles and clothing	27,184	8.3	3.9	17,204	4.9	12.4	10,856	9,979
Textiles	*14,275*	*4.4*	*1.7*	*7,758*	*2.2*	*10.1*	*6,987*	*6,517*
Clothing	*12,908*	*3.9*	*6.5*	*9,446*	*2.7*	*14.4*	*3,869*	*3,462*
Footwear and leather products	13,472	4.1	6.1	7,445	2.1	13.8	6,152	6,027
Footwear	*7,577*	*2.3*	*5.3*	*3,988*	*1.1*	*9.6*	*3,554*	*3,588*
Wood and cork products (excluding furniture)	1,480	0.5	8.5	3,960	1.1	10.7	-2,214	-2,480
Paper products, printing and publishing	6,644	2.0	3.8	6,937	2.0	4.1	-265	-293
Refined petroleum products	10,800	3.3	10.5	6,892	2.0	23.2	4,179	3,908
Chemical and pharmaceutical products	32,509	9.9	7.4	44,400	12.7	7.9	-10,865	-11,891
Basic chemical products	*10,774*	*3.3*	*8.1*	*21,271*	*6.1*	*10.1*	*-9,360*	*-10,497*
Pharmaceutical and medical products	*11,768*	*3.6*	*5.5*	*13,592*	*3.9*	*8.7*	*-1,343*	*-1,824*
Rubber and plastic products	11,959	3.7	6.7	6,857	2.0	7.9	4,853	5,102
Glass, ceramics and non-metallic construction materials	9,467	2.9	6.7	3,361	1.0	5.6	5,692	6,106
Basic metals and fabricated metal products	37,382	11.4	23.8	43,086	12.4	34.9	-1,743	-5,704
Iron and steel products	*15,880*	*4.9*	*24.8*	*19,218*	*5.5*	*25.3*	*-2,609*	*-3,338*
Nonferrous metals	*6,769*	*2.1*	*53.7*	*18,293*	*5.3*	*55.6*	*-7,354*	*-11,523*
Finished metal products	*14,733*	*4.5*	*12.8*	*5,576*	*1.6*	*15.1*	*8,221*	*9,157*
Mechanical machinery and equipment	66,223	20.3	10.9	23,452	6.7	8.1	38,000	42,771
General industrial machinery	*31,097*	*9.5*	*15.4*	*12,650*	*3.6*	*8.3*	*15,265*	*18,447*
Specialized industrial machinery	*27,294*	*8.3*	*8.7*	*8,518*	*2.4*	*8.3*	*17,254*	*18,777*
Household equipment and appliances	*7,134*	*2.2*	*1.9*	*2,123*	*0.6*	*10.6*	*5,084*	*5,011*
ICT products, electrical equipment and precision instruments	29,701	9.1	7.7	39,941	11.5	4.0	-10,818	-10,240
ICT products	*9,058*	*2.8*	*-2.4*	*21,717*	*6.2*	*0.7*	*-12,287*	*-12,659*
Electrical equipment and apparatus	*12,532*	*3.8*	*14.2*	*9,201*	*2.6*	*11.4*	*2,719*	*3,331*
Medical and precision instruments	*8,111*	*2.5*	*10.9*	*9,023*	*2.6*	*5.3*	*-1,249*	*-912*
Transport equipment	35,162	10.8	8.4	43,173	12.4	4.9	-8,716	-8,011
Motor vehicles and parts	*26,258*	*8.0*	*11.5*	*37,290*	*10.7*	*6.1*	*-11,611*	*-11,031*
Other transport equipment	*8,903*	*2.7*	*0.1*	*5,884*	*1.7*	*-1.9*	*2,895*	*3,020*
Other manufactures	15,878	4.9	5.0	5,671	1.6	10.5	9,985	10,207
Furniture	*8,761*	*2.7*	*2.5*	*1,667*	*0.5*	*14.8*	*7,092*	*7,094*
Jewelry, gold and silver	*4,425*	*1.4*	*9.7*	*1,183*	*0.3*	*19.6*	*3,045*	*3,242*
OTHER PRODUCTS	6,064	1.9	-7.2	9,144	2.6	1.0	-2,512	-3,079
TOTAL	**326,992**	**100.0**	**9.0**	**348,348**	**100.0**	**12.6**	**-9,369**	**-21,356**

Source: Based on ISTAT data.

Table 2.8

Volumes and prices of Italian exports and imports by sector
(percentage changes between 2005 and 2006 for exports and imports; indices. 2000=100. for relative volumes and terms of trade)

	EXPORTS		IMPORTS		RELATIVE VOLUMES(1)		TERMS OF TRADE(2)	
	volumes	prices	volumes	prices	2005	2006	2005	2006
PRODUCTS OF AGRICULTURE AND FISHING	-4.2	9.0	0.1	3.8	82.3	78.8	128.8	135.2
PRODUCTS OF MINING AND QUARRYING	-7.2	16.5	0.7	25.6	119.5	110.1	108.1	100.2
MANUFACTURES	2.8	6.5	3.0	7.7	95.5	95.3	104.1	102.9
Food products. beverages and tobacco	4.5	2.5	2.3	4.0	100.7	102.9	104.4	102.9
Textiles and clothing	-1.9	6.0	3.9	8.2	67.8	64.0	120.5	118.0
Footwear and leather products	0.0	6.1	6.7	6.6	64.9	60.8	122.8	122.1
Footwear	*-1.0*	*6.4*	*5.1*	*4.3*	*53.8*	*50.7*	*124.0*	*126.5*
Wood and cork products (excluding furniture)	5.0	3.4	3.4	7.0	77.7	78.9	110.3	106.5
Paper products. printing and publishing	1.3	2.5	-2.3	6.6	102.1	105.9	114.2	109.9
Refined petroleum products	-8.7	21.1	1.8	24.3	181.4	162.7	111.7	108.8
Chemical and pharmaceutical products	-0.4	7.8	-0.3	8.3	109.8	109.8	92.2	91.8
Basic chemical products	*-0.3*	*8.4*	*2.9*	*6.9*	*101.6*	*98.4*	*98.7*	*100.0*
Pharmaceutical and medical products	*-4.6*	*10.6*	*-6.4*	*16.1*	*109.2*	*111.2*	*75.7*	*72.1*
Rubber and plastic products	1.5	5.1	3.0	4.8	97.4	96.1	103.9	104.2
Glass. ceramics and non-metallic construction materials	1.7	4.9	-1.7	7.4	87.3	90.3	98.4	96.0
Ceramic tiles	*2.4*	*4.6*	*22.5*	*-2.9*	*79.2*	*66.2*	*114.2*	*123.0*
Basic metals and fabricated metal products	11.2	11.3	13.3	19.1	125.1	122.8	93.5	87.3
Iron and steel tubes and pipes	*12.6*	*11.8*	*9.7*	*9.8*	*131.5*	*135.1*	*87.8*	*89.4*
Mechanical machinery and equipment	4.5	6.1	2.3	5.7	108.9	111.3	101.5	101.9
Agricultural machinery	*0.0*	*2.3*	*-3.0*	*8.9*	*118.0*	*121.5*	*95.8*	*90.1*
Household equipment and appliances	*-0.3*	*2.2*	*7.6*	*2.8*	*68.4*	*63.3*	*102.2*	*101.6*
ICT products. electrical equipment and precision instruments	4.0	3.6	1.0	3.0	93.1	95.9	111.9	112.5
Electronic components	*2.7*	*37.4*	*4.6*	*22.5*	*107.4*	*105.5*	*113.3*	*127.2*
Lamps and lighting equipment	*0.6*	*10.1*	*-5.7*	*10.8*	*61.7*	*65.9*	*126.0*	*125.3*
Transport equipment	6.0	2.3	1.1	3.8	90.3	94.7	100.6	99.2
Motor vehicles	*19.2*	*0.3*	*0.3*	*4.0*	*77.4*	*92.1*	*100.0*	*96.4*
Other manufactures	-5.5	11.1	2.0	8.3	71.3	66.1	100.8	103.5
Furniture	*-2.2*	*4.9*	*8.7*	*5.5*	*64.9*	*58.4*	*100.7*	*100.1*
TOTAL	**2.2**	**6.6**	**2.0**	**10.4**	**95.3**	**95.5**	**101.0**	**97.6**

(1) Export volume index as a percentage of import volume index.
(2) Export average unit value index as a percentage of import average unit value index.
Source: Based on ISTAT data.

Table 2.9

Size of sectors and Italy's world market shares

	SIZE OF SECTOR(1)		ITALY'S MARKET SHARE					
	2001	2006	2001	2002	2003	2004	2005	2006
PRODUCTS OF AGRICULTURE AND FISHING	2.6	2.3	2.3	2.3	2.3	2.1	2.2	2.1
PRODUCTS OF MINING AND QUARRYING	6.9	7.8	0.1	0.1	0.1	0.1	0.1	0.1
MANUFACTURES	85.4	85.3	4.5	4.5	4.5	4.4	4.3	4.2
Food products and beverages	5.9	5.2	4.0	4.3	4.3	4.4	4.3	4.2
Textiles and clothing	6.3	5.8	7.1	7.0	7.1	7.0	6.7	6.4
Textiles, knitwear	*3.3*	*2.9*	*8.5*	*8.1*	*8.2*	*8.0*	*7.5*	*7.1*
Clothing	*3.0*	*2.9*	*5.8*	*6.0*	*6.0*	*6.0*	*6.0*	*5.7*
Footwear, hides and leather products	1.6	1.4	15.1	14.6	14.6	14.5	13.6	13.3
Footwear	*0.9*	*0.8*	*15.1*	*14.6*	*14.4*	*14.3*	*13.1*	*12.7*
Wood and cork products (excluding furniture)	1.2	1.1	2.3	2.2	2.1	2.0	2.0	1.9
Paper, paper products and printed products	2.6	2.5	3.6	3.7	3.7	3.8	3.9	3.8
Refined petroleum products	2.4	2.5	2.7	2.6	3.0	2.8	3.2	2.9
Chemical and pharmaceutical products	8.9	10.0	3.8	3.7	3.6	3.4	3.4	3.3
Basic chemical products	*4.3*	*4.5*	*2.6*	*2.5*	*2.4*	*2.3*	*2.2*	*2.1*
Medical and pharmaceutical products	*1.7*	*2.8*	*5.4*	*5.2*	*4.9*	*4.5*	*4.8*	*4.6*
Rubber and plastic products	2.3	2.3	6.3	6.2	6.3	6.3	6.1	5.9
Glass, ceramics and non-metallic construction materials	1.3	1.2	11.7	11.6	11.3	11.0	10.2	9.8
Basic metals and fabricated metal products	7.8	6.8	4.7	4.7	4.7	4.8	4.7	4.6
Iron and steel products	*2.7*	*2.3*	*5.2*	*4.9*	*4.7*	*5.0*	*5.1*	*5.4*
Basic metals	*2.1*	*2.1*	*7.7*	*7.5*	*7.9*	*8.2*	*7.9*	*7.7*
Machinery, mechanical equipment and household appliances	8.9	8.1	9.6	9.6	9.9	9.7	9.2	9.1
General industrial machinery	*3.9*	*3.8*	*8.8*	*8.9*	*9.3*	*9.3*	*8.8*	*9.0*
Specialized industrial machinery	*4.2*	*3.5*	*9.7*	*9.7*	*9.7*	*9.3*	*9.1*	*8.8*
Household equipment and appliances	*0.7*	*0.8*	*14.1*	*13.9*	*13.8*	*13.4*	*12.2*	*11.3*
Electronics, electrical equipment and precision instruments	20.4	21.4	1.8	1.7	1.7	1.7	1.7	1.6
ICT products	*13.5*	*14.2*	*1.2*	*1.0*	*1.0*	*0.9*	*0.9*	*0.8*
Electrical equipment and apparatus	*3.9*	*3.9*	*3.4*	*3.4*	*3.5*	*3.6*	*3.6*	*3.6*
Medical and precision instruments	*3.0*	*3.3*	*2.7*	*2.8*	*2.8*	*2.7*	*2.7*	*2.7*
Transport equipment	12.8	13.8	3.2	3.3	3.3	3.4	3.2	3.2
Motor vehicles and parts	*9.2*	*10.0*	*3.2*	*3.0*	*3.2*	*3.2*	*3.1*	*3.2*
Other transport equipment	*3.5*	*3.8*	*3.1*	*4.0*	*3.4*	*3.8*	*3.5*	*3.2*
Other manufactures	3.0	3.1	8.5	8.0	7.8	7.5	6.8	6.4
Furniture	*0.9*	*1.0*	*14.2*	*13.7*	*13.1*	*12.5*	*11.6*	*10.9*
Jewelry, gold and silver	*0.8*	*1.0*	*8.8*	*7.7*	*6.9*	*6.3*	*5.5*	*5.4*
OTHER PRODUCTS	4.3	4.2	1.5	1.7	2.7	2.8	2.2	1.7
TOTAL	**100.0**	**100.0**	**4.0**	**4.0**	**4.0**	**3.9**	**3.7**	**3.5**

Note: In the absence of updated official data, world trade is approximated by summing the exports of 34 countries (the EU-15 plus Argentina, Australia, Brazil, Canada, Chile, China, Colombia, Hong Kong, Japan, Malaysia, Mexico, New Zealand, Norway, the Philippines, South Africa, South Korea, Switzerland, Taiwan and the United States) with their imports from the rest of the world after multiplying the latter by 1.275, a factor deemed suitable to compensate for the non-inclusion of trade between non-reporting countries. The deviations from the figures published by the UN (Comtrade) for available years vary according to product but are all very small.

(1) World exports of the sector as a percentage of total world exports.

Sources: Based on data published by Eurostat and national statistical institutes.

Table 2.10

Merchandise exports of the Italian regions (1)
(amounts in millions of euros; percentages)

	Amount	% change	Percentage share			
	2006	2006-2005	1997	2001	2005	2006
North-West	132,479	8.5	43.7	41.7	41.5	41.2
Piedmont	34,694	8.4	12.7	11.3	10.9	10.8
Valle d'Aosta	589	19.4	0.1	0.1	0.2	0.2
Lombardy	93,020	9.0	29.3	28.8	29.0	28.9
Liguria	4,176	-1.3	1.6	1.5	1.4	1.3
North-East	101,736	9.6	30.4	31.1	31.6	31.6
Trentino-Alto Adige	5,669	8.9	1.7	1.6	1.8	1.8
Veneto	43,824	7.8	13.9	14.5	13.8	13.6
Friuli-Venezia Giulia	10,982	13.9	3.3	3.4	3.3	3.4
Emilia-Romagna	41,262	10.5	11.5	11.5	12.7	12.8
Center	51,318	13.4	16.2	16.3	15.4	16.0
Tuscany	24,447	12.0	8.3	8.3	7.4	7.6
Umbria	3,214	13.7	0.9	0.9	1.0	1.0
Marche	11,530	21.1	3.1	3.1	3.2	3.6
Lazio	12,127	9.5	3.9	4.1	3.8	3.8
South and Islands	36,048	6.8	9.7	10.9	11.5	11.2
South	24,298	7.1	7.2	8.1	7.7	7.6
Abruzzo	6,652	5.5	1.9	2.0	2.1	2.1
Molise	612	0.8	0.2	0.2	0.2	0.2
Campania	8,330	9.9	2.7	3.1	2.6	2.6
Puglia	6,671	-1.6	2.2	2.3	2.3	2.1
Basilicata	1,707	55.2	0.2	0.4	0.4	0.5
Calabria	326	2.2	0.1	0.1	0.1	0.1
Islands	11,750	6.1	2.4	2.8	3.8	3.7
Sicily	7,411	2.0	1.6	2.0	2.5	2.3
Sardinia	4,339	13.9	0.8	0.8	1.3	1.3
TOTAL REGIONS	**321,581**	**9.4**	**100.0**	**100.0**	**100.0**	**100.0**

(1) Starting in 2004 the data on the regions' trade with the European Unions only include the figures that are recorded monthly. Regional exports therefore do not include the minor intra-Commmunity flows that are recorded quarterly and annually under the item "Sundry and unspecified provinces". In contrast with the procedure used in the Statistical Yearbook that accompanies this Report, the shares are calculated on the sum of the regions excluding "Sundry and unspecified provinces".

Source: Based on ISTAT data.

Table 2.11

Internationalization of Italian firms
(exports in millions of euros)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2005(1)	2006(1)
No. of exporting firms	180,352	182,684	183,250	188,750	190,982	195,905	196,914	198,121	201,431	195,546	200,102
% change	*-1.4*	*1.3*	*0.3*	*3.0*	*1.2*	*2.6*	*0.5*	*0.6*	*1.7*	-	*2.3*
Value of exports	206,760	215,378	216,793	254,079	266,434	266,561	261,898	281,348	296,170	292,011	322,317
% change	*4.9*	*4.2*	*0.7*	*17.2*	*4.9*	*0.0*	*-1.7*	*7.4*	*5.3*	-	*10.4*
No. of foreign affiliates	-	-	-	15,897	16,696	16,928	17,142	17,253	17,200	-	-
% change	-	-	-	-	*5.0*	*1.4*	*1.3*	*0.6*	*-0.3*	-	-
No. of workers abroad	-	-	-	1,109,758	1,177,885	1,175,008	1,153,032	1,123,934	1,120,550	-	-
% change	-	-	-	-	*6.1*	*-0.2*	*-1.9*	*-2.5*	*-0.3*	-	-

(1) Provisional data.

Source: Based on data published by ISTAT and ICE - Reprint, Politecnico di Milano.

Table 2.12

Exports by firm size class and sector of activity
(percentage distribution by size class; millions of euros for sectoral totals)

	2000				2005			
	Under 50 workers	50-249 workers	250 + workers	Total	Under 50 workers	50-249 workers	250 + workers	Total
Manufacturing	24.2	29.4	46.4	212,356	21.9	30.4	47.7	247,429
Food products, beverages	33.6	34.5	31.9	10,885	28.6	36.5	34.9	13,277
Textiles, knitwear	39.2	32.9	27.9	13,449	36.8	33.1	30.1	11,502
Clothing	32.7	30.1	37.2	8,858	29.7	30.3	39.9	9,523
Footwear, hides and leather products	46.9	37.1	16.0	11,083	40.2	36.5	23.3	11,210
Wood and wood products (excluding furniture)	48.2	44.9	7.0	1,732	41.8	38.5	19.7	1,699
Paper, paper products and publishing	19.5	29.2	51.4	5,312	17.1	32.9	50.0	6,098
Refined energy products	1.1	2.0	97.0	4,678	1.6	3.4	95.1	6,805
Chemical products and man-made fibers	18.2	26.4	55.4	21,035	22.5	25.8	51.7	26,425
Rubber and plastic products	22.2	41.5	36.3	10,017	21.2	43.4	35.3	11,512
Glass, ceramics and non-metallic construction products	26.8	31.0	42.2	7,464	23.3	29.8	47.0	7,603
Basic metals, fabricated metal products	21.6	37.8	40.6	21,339	20.2	39.0	40.8	30,952
Mechanical machinery and equipment, household appliances	21.1	32.3	46.6	41,307	20.0	33.4	46.7	49,728
ICT products, electrical goods, precision instruments	15.7	21.4	62.9	21,558	18.0	28.4	53.6	21,514
Motor vehicles	8.1	10.8	81.1	14,382	5.2	9.9	84.9	19,883
Other transport equipment	9.8	10.1	80.1	6,441	11.5	12.5	76.0	7,446
Furniture	40.9	36.9	22.2	7,125	34.2	40.4	25.4	7,226
Other products of manufacturing	51.7	37.6	10.7	5,693	46.5	41.1	12.4	5,025
Wholesale trade	78.7	12.3	9.0	27,249	76.7	11.5	11.9	34,972
Other sectors	54.5	18.2	27.4	11,034	41.5	12.9	45.5	8,487
TOTAL	**31.4**	**27.0**	**41.5**	**250,639**	**29.0**	**27.6**	**43.3**	**290,887**

Based on ISTAT data.

Table 2.13

Printed by
Tipolitografia C.S.R. - Via di Pietralata, 157 - 00158 Roma
Tel. 064182113 r.a. - Fax 064506671, September 2007