

ECONOMIC POLICY TARGETS AND ENTERPRISE STRATEGIES IN ITALY: IMPLICATIONS FOR TRADE FLOWS WITH LDCs

Carlo Secchi
Stefano Mainardi
Università « L. Bocconi »

1. Introduction

In sharp contrast with the theory of comparative advantage, recent development theory has pointed out the phenomenon of increasing structural and economic homogeneity of various countries. According to traditional theories, that see a future of increasing production specialization and differentiation as a necessary precondition to further improvement of world trade flows, the latter should progressively fall if such a phenomenon should prove constant and widespread. On the contrary, also on the side of international trade relations, intra-sectoral flows show on the whole a high rate of increase, especially as far as unstandardized products and high income countries are concerned¹, particularly during the positive phase of business cycles.

Apart from the position of those who reduce the problem to a merely fictitious fact, arising from statistical biases in the methodology or in the empirical context (time span and spatial factors), various theoretical explanations were suggested on this subject. Believing unnecessary to consider them here, it may however be interesting to mention different points of view recently expressed by Italian scholars. In this subject too it is evident how, starting from similar analytical frameworks, final general interpretations may deeply differ from one another.

On the one hand, there are those who present a rather negative attitude. The tendency towards the improvement of intra-industry trade has its roots in the increasing oligopolistic conditions of international trade and in the strictly nationalistic targets of nearly all governments, that have supported their own industries in the respective countries, especially in case of strong competition from abroad. This tendency is

¹ Some authors distinguish also between the export and import patterns of specialization, showing how intra-industry trade seems to be geographically more concentrated in the former, while increasing intra-sectoral demand appears to be an exception only for the least developed countries. H. Glejser, K. Goossens, M. Vanden Eede, *Inter-Industry versus Intra-Industry Specialization in Exports and Imports (1950-1970-1973)* (in: *Journal of International Economics*, Vol. 12, No. 3/4, May 1982).

About the hypothesis on development level and degree of structural homogeneity of the countries concerned with more intra-industry trade, some authors find however higher rates in recent dynamics in trade flows between some industrial countries and some LDCs. L. Gavelin, L. Lundberg, *Determinants of Intra-Industry Trade: the Case of Sweden* (working paper for the Symposium on « Intra-Industry Trade », EIASM, Brussels, 1982, May 13-14), p. 34.

Recent studies finally stress the need to give more importance to the market behaviour of international firms (« oligopolistic market interpenetration hypothesis »). K. Toh, *A Cross-Section Analysis of Intra-Industry Trade in U.S. Manufacturing Industries* (in: *Weltwirtschaftliches Archiv*, No. 2, 1982).

« comprehensible in its motivations, but it appears legitimate to be doubtful on its rationality, above all in the changed conditions of the international context »². Particularly for the Italian case, it seems urgent to make serious efforts for a different pattern, with an increase in the degree of specialization of our foreign trade. This suggestion is based both on the increasing importance of our commercial links with LDCs, and on the growing competition among industrial countries themselves.

It should be therefore desirable to aim at a « concentration of real and managerial resources, in order to strengthen our own position in international trade » and to avoid the dispersive policies that regard as « strategic » whatever sector.

This viewpoint reveals the fear of an ineffective control, if one can so indicate the existence of an economy largely subsidized and protected, but weak in its structure. More optimistic and positive considerations are pointed out by other scholars, that represent a more moderate viewpoint on this subject³. They recognize too that the structure of international trade does not proceed towards specialization in orthodox terms, but rather towards the opposite, even for smaller countries that could be more inclined to production specialization. This process is however neither spontaneous, nor complete, and it depends on specific factors of a microeconomic and a macroeconomic nature. Various criteria may be at the base of a production diffusion process, or of the lack of such a process: technological obsolescence, economic comparative advantages, strategic importance, evolution of world demand, localization and availability of raw materials, etc. This process of progressive homogenization of the production structures of various countries, in particular the industrial countries and the NICs (new industrial countries), appears to be subject to two main constraints that limit its efficiency from a development point of view.

Firstly, it is strictly bound to a strategy that is not in accordance with the real needs of LDCs, both at the consumption level (imitation or « imposition » of certain models) and at the production level (diffusion of a unique dominant technique or set of means of production, notwithstanding the different availability of resources of each country).

Secondly, this homogenization, summing itself up to the continuing efforts of restructuring of technologically advanced economies, should tend to reproduce indefinitely a situation of commercial monopoly of this latter group of countries. In other

2 P. Guerrieri, G. Luciani, *L'Italia e il nuovo ordine economico internazionale*, ETAS, Milan, 1979, p. 120.

3 A. Amendola et al., *Ciclo del prodotto e divisione internazionale del lavoro*, F. Angeli Ed., Milan, 1981, secs. 3-6 (pp. 80-142).

words, the industrial countries are also interested in LDCs' targets of building up a complete production structure, vertically and horizontally integrated, but at the same time they aim at keeping a monopoly position for those goods that are considered strategic, that is necessary for a thoroughly self-sufficient industrial growth, such as some products belonging to the iron and steel industry, heavy machinery and transports, chemistry, etc., that are also those products with a higher income elasticity of demand. In order to accomplish this strategy, industrial countries have adopted economic, technological, as well as political instruments (variation in technology and product quality, import barriers, preferential trade areas, concession of official loans under particular conditions, etc.).

This strategy of the governments is moreover accompanied by the parallel behaviour of multinational companies (MNCs). The activity of MNCs in Third World countries is largely in accordance and even reinforces the above mentioned governmental aims (one could think of the unbalanced relationships between parent companies and their subsidiaries⁴ or refer to the tighter linkages established for raw materials supply). Subcontracting with assembly abroad was initially favoured by preferential tariff treatment granted by a few industrial countries, with duties imposed only on the amount of added value produced abroad and re-imported⁵. More recently, some new and stricter regulations were applied, under trade union pressures. Divergent interests now do not only arise from considerations concerning the present recession climate and the particular groups of enterprises and workers most hit by the crisis, but they derive also from the tendency to displace the whole production process immediately after the pure research phase, in sectors that require a massive amount of basic R&D, but whose production is relatively labor-intensive and easily standardizable (e.g., electrical machinery in South-East Asian and Latin American NICs). What the MNCs gain in production costs and other advantages with this behaviour, their (industrial) countries may lose in terms of balance of payments deficit, efficiency in internal resources allocation, and international power relations.

Thus MNCs seem to have « overcome » the efforts of industrial countries' governments to give rise and to maintain a process of trade and production restructuring; this fact, that someone calls multinationalization of world production,

4 L. Grunberg, *Failed Multinational Ventures*, Lexington Books, Lexington, 1981. Among others, particularly interesting from the Italian point of view is the Leyland Innocenti case, ch. 4.

5 D. Germidis (Ed.), *International Subcontracting. A New Form of Investment*, OECD Development Centre, Paris, 1980.

does not mean anyhow that the direction is the right one from the point of view of LDCs, even if one takes into account the most recent evolution of MNCs/LDCs relations⁶. Among the drawbacks that are there for LDCs, these aspects can be mentioned: repayment obligations for capital transfer from industrial countries through MNCs are often higher than those for governmental loans; displacement of local plants, for substitution with new plants, may generate negative net effects on employment (e.g., « MNCs' package » including technology transfer); wages in many operations often account for a very modest share of the product price and expected contribution to foreign exchange earnings may be offset by MNCs transfer pricing; possible market sharing arrangements together with distortions due to different priority scales for the production decisions may seriously restrict export potentialities of LDCs and in the meantime have a negative impact on internal consumption and income distribution patterns.

In front of the partly contrasting theories and opinions above outlined, we do not want to propose with this paper a further step toward the support of an intra-sectoral trade model, vis-à-vis the inter-sectoral or neoclassical one. Our intention has been to try to show how far economic strategies at the government and enterprise level are moving in this direction within a particularly delicate and for several aspects atypical context, that is in the Italian case. The analysis is preceded by a short outline of the general framework.

2. Preliminary remarks on economic policies influencing the volume and the composition of foreign trade: the Italian case in the international context

Recent projections for the 1980s of global economic trends for different groups of countries show a supposed increasing gap between the poorest group (LLDCs) and the other countries, while the gap between industrial countries and the NICs is likely to reduce itself⁷. It is not possible here to go into details. However it is important to notice two aspects connected with the issue discussed in this paper.

6 R.H. Ballance, J.A. Ansari, H. Singer, *The International Economy and Industrial Development: Trade and Investment in the Third World*, Wheatsheaf Books, Brighton, 1982, secs. 6-7 (pp. 223-285).

7 The World Bank, *World Development Report (1981)*, Washington D.C., 1981.

Less pessimistic views are expressed by some authors, that believe in a constant appearance of new « waves » of NICs, with a gradual sectoral and geographical enlargement of LDCs' trade. A.J. Yeats, *Trade and Development Policies: Leading Issues for the 1980s*, McMillan Press, London, 1981 (last chapter).

On the one hand, if one considers the remarkable efforts in the latest years of a few industrial countries in order to improve and to implement their development assistance system for LDCs, one should also bear in mind the corresponding evolution of trade and industrial policies in these countries and that of international institutions too. New forms of protectionism are added to the traditional ones consisting in trade-restricting and trade-expanding devices. In fact, direct subsidies or preferential taxes and credit treatment are equivalent to indirect protectionism to domestic industry by reducing production or sales costs. They are often bound to employment schemes benefiting labour-intensive activities that would have otherwise higher rates of unemployment. This so-called adjustment assistance amounts to an increasing share of GDP in various countries (in 1976 it was approximately 6% in Norway, 4% in Belgium, 3% in France, Great Britain and the Netherlands): it is difficult to separate within this amount what should be better to call adjustment resistance⁸.

In the same time this logic seems to prevail also within international fora (GATT, Tokyo Round): during the period envisaged for progressive reductions (1980-'87, for the Tokyo Round Agreements), the least substantial reductions should concern labour-intensive products⁹.

However, this set of disincentives to production diversification in LDCs is not broad and spread enough as to impede that, in those LDCs that can afford it, the movement of resources into new industries reaches a pace higher than the corresponding one in developed countries. More precisely, this shift towards diversification in some NICs may be even encouraged in this way (thus creating in turn other adjustment problems). In conclusion, at an aggregate level of analysis, trade and industrial policies in industrial countries appear to sustain or at least not to impede a process of growing interdependence between these countries and the NICs¹⁰, while for most other LDCs, especially the poorest ones such as those in Africa, one could speak of increasing net dependency with a serious growth slow-down and growing necessity of external financing.

This unbalanced situation is also reflected by figures and trends regarding single sectors, for capital-intensive as well as labour-intensive productions¹¹.

8 The World Bank, *op. cit.*, 1981 (pp. 28-29).

9 E. Marelli, *Il neoprotezionismo, le barriere non tariffarie e gli accordi del «Tokyo Round»* (in: Commercio, No. 6, 1980).

10 R.H. Ballance et al., *op. cit.*, 1982, p. 150 and p. 307.

11 These countries however represent a serious threat for industrial countries' economies not just for the

For iron and steel products, 79% of Third World production in 1978 was concentrated in six countries (Brazil, India, Mexico, South Korea, Argentina and Turkey, in decreasing order). Now industrial countries are confronted with overcapacity problems and rationalization efforts in moving downstream into specialty steels and steel-using activities where they could be more competitive.

For chemicals and petrolchemicals recent evolution is still more striking, since this was the fastest growing industrial branch in western countries till the late 1960s and the early 1970s, when both activities began to show signs of maturity, as a consequence of shifts in government financial support towards other priority sectors (electronics, aerospace, etc.) and for their high energy-intensity. This feature brought to a variation in public and enterprise strategies, aiming at less energy-intensive production processes (more product-oriented research, particularly in pharmaceuticals) and favouring reallocation into LDCs (such as in Saudi Arabia, Mexico, Singapore, South Korea).

The case of food processing industries constitutes perhaps the clearest example of structural disequilibria not only as far as geographical and corporate concentration is concerned, determining a near-monopolistic situation coexistent with the lack of protectionist initiatives (major producers are represented by vertically integrated MNCs operating in Argentina, Brazil, USA and USSR), but also dramatically connected with the dilemma for LDCs between short-term and unstable gains (industrial employment generation of exports and foreign exchange earnings due to higher income-elasticity products) and long-term more balanced development programmes (basic needs strategies with cheaper and often higher nutritional content products).

Another sector with relatively low growth effectiveness due to similar structural demand and supply features is the textile industry, which moreover, because of the stronger and more widespread diffusion and export-orientation in international markets, is offered tight defensive measures in industrial countries. A major exception is represented by Japan, that stimulates a regional development strategy of market integration within the Eastern Asian area (similarly to what it does in other sectors).

above mentioned asynchronism, but also for their foreign trade policies oriented toward « breaking » with single products or groups of products of some of them, in spite of the intra-industry trade tendencies, and for their competition on third markets, especially in specific LDCs areas. Ten countries that can be listed among the NICs are responsible for 70% of the industrial growth registered in LDCs on the whole after 1960. UNIDO, *A Statistical Review of the World Industrial Situation (1980)*, IS/214, Vienna, 1981.

As anticipated earlier, the next sections will deal with specific economic policies implemented in Italy and having relevant direct or indirect effects on the composition of trade flows with LDCs, beside influencing international trade flows in general.

3. Italian industrial co-operation policy

It is increasingly difficult to distinguish clearly between this theme and the two following ones (secs. 4 and 5). One reason lies in a better integration between private and public efforts, which give more flexibility and potentiality to development co-operation instruments. Another more specific reason is to be found in recent changes of the requests coming from LDCs. This is not so much in the sense of more technology appropriateness and safeguard of local environmental characteristics (still far to be reached), but rather of the increasing active role of LDCs institutions and enterprises themselves, often requiring also precise guarantees at the economic and financial level.

In this context, the present Italian development co-operation policy seems to consider too these new priorities, at least in its general orientation. Recent legislative regulations (law No. 38 of 9 February 1979) establish a more comprehensive framework on this subject than the previous one and fix general priority schemes of geographical and sectoral nature, according to political and economic motivations¹².

Here it is important to focus on the « supply criteria » that guide this co-operation policy, in order to see how far economic complementarity which is pursued favours traditional or more satisfactory trade patterns with LDCs¹³. These criteria aim at the choice of particular priority groups of production:

- (a) local market needs without re-exportation possibility, either for sufficiently high share of transport costs on the goods value, or for specific technical features tied with the market concerned (heavy prefabrication and building materials, de-saltation plants, certain beverages, etc.; in this perspective LDCs with rather

12 G. Giacomelli, *Strumenti e prospettive della cooperazione italiana allo sviluppo* (in: Cooperazione, Min. degli Affari Esteri, No. 23, Dec. 1981); S. Alessandrini (Ed.), *La politica italiana di cooperazione allo sviluppo*, Giuffrè, Milan, 1983; Ipaimo, *Cooperazione allo sviluppo: una sfida per la società italiana*, F. Angeli Ed., Milan, 1982 (proceedings of the first national Conference on Development Co-operation).

13 M. D'Angelo, G. Sacco, G.A. Sandri, *La cooperazione industriale tra Italia e pvs*, IAI (Roma), Il Mulino, Bologna, 1979.

ample internal market or potential economic integration schemes among LDCs should receive more benefits);

- (b) supply strengthening or supply stabilization (due to price or non-price factor convenience) in products for which Italy is structurally dependent from abroad (food processing industry, non-ferrous metal working) or seeking to assure import supply (leather and skins, wood processing, primary stages of oil refinery and petrochemicals). In some cases there is the danger to be compelled to « barter » this supply with import obligations of high energy and raw materials-intensive goods and moreover to develop agreements also with countries controlling the transit of this supply (the most typical examples are the Maghreb for gas supply and the Mashreq for oil supply);
- (c) foreign demand restructuring: this aspect is equivalent to the previous one, in the sense that it aims at satisfying needs of other countries with substitute products with reference to Italian demand (e.g., development of local energy supply alternatives in LDCs, such as hydroelectric and geometric resources), although it appears to have a lower degree of generality and only longer-term effectiveness;
- (d) competition diversion, in order to protect employment of a few sectors in Italy and to orient industrialization policies of LDCs towards products not directly competitive (among the light industries, for instance, food processing is privileged if compared with clothing and footwear);
- (e) re-location according to factor costs advantages, avoiding excessive dispersion of single initiatives in order to maintain a balance of bargaining power with few LDCs also in the long run (similarly to the experience of other industrial countries with limited political influence in the international context, such as the case of Holland with a great deal of textiles redeployed in Tunisia).

In summary, in spite of its recent quantitative and qualitative improvements, the Italian development co-operation apparatus reveals its high dependence on the rather rigid industrial system of the country, which appears hardly inclined to accomplish a physiological elimination of entire phases or groups of products (such as it has happened for the textile industry in Germany and Holland) and to try to cover new spaces at technologically and qualitatively higher levels. This weaker international flexibility is largely due to the absorption of a great part of technological transfers from the industrial « core » through an internal mechanism consisting in production decentralization to the eastern and southern backward regions and to the « informal »

sector (so-called « submerged » economy)¹⁴, as well as an extensive involvement of the public sector in supporting unproductive private initiatives¹⁵.

The following sections will examine to what extent this particular production structure is able to integrate itself within North-South trade relations and to evolve under the influence of new economic policy instruments.

4. Italian industrial restructuring and international production reallocation

In the period following the oil crisis, the process of modernization of the industrial structure in Italy has aimed at the renewal of the existing structure, while disregarding its enlargement through investments in new industrial plants.

This recent phenomenon explains the particularly negative effects on the peripheral backward regions; on the other hand, restructuring has been often interpreted as a plain resource transfer from a sector to another, without trying to tackle the problems at the base, through technological, marketing and basic research improvements¹⁶. These general features of the Italian restructuring policy have contributed in this way to maintain the dualisms that characterize our country, concerning disparities in regional income distribution, labour conditions, enterprise and sector performances, preferential export outlets, etc.

A meaningful comparison can be made here with the corresponding evolution of another country which initially presented similar dualistic conditions in its production system: Japan¹⁷. A short mention has been already made on the success of this country in shifting internal production toward world demand-oriented and

14 B. Dallago, *Aspetti ed interpretazioni dell'economia sommersa in Italia* (in: *Economia, Banca e Congiuntura*, No. 1, 1983).

15 A contrasting case in this framework is represented by the recent experience of the north-eastern region Friuli Venezia Giulia, where great management responsibility has been committed to a private financial trust led by the Zanussi concern. C. Albanese, E. Pontarollo, *Continuità e innovazione nelle politiche locali di salvataggio industriale* (in: *L'industria*, No. 3, July-September 1982).

For a general presentation of these problems, also with regard to other European countries, see: G. Fuà, *Problemi dello sviluppo tardivo in Europa. Rapporto su sei paesi appartenenti all'OCSE*, Il Mulino, Bologna, 1980.

16 R. Prodi et al., *La ristrutturazione dell'industria italiana*, ISVEIMER, Naples, 1979 (p. 12 and following).

17 P. Alessandrini (Ed.), *Specializzazione e competitività internazionale dell'Italia*, Il Mulino, Bologna, 1978 (pp. 16-17; p. 55 and following); G. Fodella, *Giappone e Italia. Economie a confronto*, ETAS Libri, Milan, 1982.

technology-intensive industrial goods and expanding direct investment and foreign trade links especially in South-East Asia¹⁸. The phenomenon of progressive homogeneization of the industrial production and export composition of developed economies seems therefore to have regarded less the Italian case, as a consequence of different public policy measures and enterprise strategies.

In the rest of this section we will briefly deal with the process of re-allocation of resources tied with industrial adjustment mechanisms, while specific economic policy measures will be presented in the next one.

International re-allocation initiatives may either concern certain production phases, in order to improve internal production, or they may consist in direct investment more of a commercial nature. Implications for trade flows are different in the two cases, since the first one has an influence on the exchange of raw materials, intermediate goods and components, while the second one (which covers at least half of international intra-firm trade for Japan and USA) activates more exchange in consumption and investment final goods. Both types of trade may arise moreover also from coproduction and subcontracting agreements signed between formally independent partners. It is evident that in the case of subsidiaries located in industrial countries and/or belonging to the same sector and operating in the same area, the probability of horizontal trade flows is higher¹⁹.

The possibilities of quick decentralization due to the appearance of economies of scale in some even distant countries, as mentioned in the introduction, have shortened the time lag of the product-cycle phases.

The extent to which intra-firm trade arising from an international re-allocation process with reference to LDCs may contribute to an improvement of intra — or inter — industry trade depends however also on the field of activity of the MNC operating there. MNCs normally produce in foreign markets either components for which they find local comparative cost advantages, or goods substituting their export flows towards these markets. There are however also MNCs with such a wide and solid

18 In the particular case of Japan, moreover, there has been also a change in forms of direct investment to the neighbouring LDCs: with increasing sponsorship of the Japanese government in regional development programmes in the host countries (« from a microeconomic-motivated, geocentric type to a macroeconomic-motivated, polycentric type »). T. Ozawa, *A Newer Type of Foreign Investment in Third World Resource Development* (in: *International Review of Economics and Business*, No. 12, Dec. 1982).

19 F. Grassivaro, *La componente intra-firm nel commercio orizzontale*, (in: R. Camagni - Ed. - *Il commercio orizzontale. Stato della teoria e verifiche empiriche*, CLEUP, Padova, 1981).

international articulation of production as to allow a diversification of markets in whatever sector and country.

As far as Italy is concerned, it may be interesting to give the results of a recent research carried out on the activity of industrial relocation and subcontracting initiatives in a few countries of the Mediterranean Basin (Malta, Tunisia, Morocco and Egypt)²⁰. In general, it appears a far more limited presence of Italian investors in comparison with those of other countries, such as French, German, and Dutch, and the main motivations and forms of these initiatives differ from those generally supposed. While direct investment from other industrial countries seems to prevail for export-oriented products, Italian enterprises (which find a partial solution to their problems of labour costs already inside the country, with local and regional decentralization) decide to re-allocate production to LDCs more for commercial reasons, for an easier access to the market concerned or to markets of third countries in the area, and import-substitution oriented investment prevails. Beside this, Italian enterprises prefer to realize less binding re-allocation forms than traditional direct capital investments, such as simple transfer of technology and know-how or various agreements with other local or foreign firms. These forms have the advantage of reducing cost and risks deriving from a possible disinvestment.

These results, although obtained in a rather limited geographical framework²¹, show again the lack of an efficient and dynamic adjustment mechanism, which could be integrated with long-term and stable development perspectives of LDCs and provide a more harmonious insertion of the country within the group of the most advanced European countries. Italy is still in that critical phase in which innovation transfers from abroad are becoming more and more insufficient, but at the same time its internal innovation capacity does not succeed in reaching an appropriate and solid shape²².

20 C. Secchi, « Nuova » divisione internazionale del lavoro, rilocalizzazione produttiva e joint ventures (working paper for the Symposium on « Joint Ventures and International Development Cooperation », Chamber of Commerce, Milan, 1982, November 29-30), sec. 9.

21 Another recent research carried out on a broader geographical extent gives similar indications, concerning the relatively greater local demand-orientation of Italian foreign subsidiaries in LDCs, in sectors other than mining and oil. It suggests also however that « the smaller scale of LDCs markets could result in under-utilization of existing productive capacity », which might lead in its turn to switch from demand-oriented to supply-oriented direct investment. Hence the necessity to plan more efficient adjustment policies in Italy and to favour an increased rate of economic integration and development in LDCs. Cf.: N. Acocella, R. Schiattarella, *Italian Direct Investment in Developing Countries* (in: *Lo Spettatore Internazionale*, No. 1, January-March 1982).

22 Technology transfers cover an important share of trade flows both in the import from other industrial countries, and in the export, especially of intermediate technology to LDCs and Eastern European countries.

5. Innovation supporting industrial policy in Italy

After 1974, following a period of rather generalized and long-term industrial support policies, European countries seem to address their industrial policies towards more selective programmes, directly linked with enterprise strategies and with more specific vertical — cut or horizontal — cut interventions (high technology sectors and re-industrialization of mature sectors; energy savings and innovation transfers), even if often less ambitious in comparison with the preceding ones (short-term and cost reduction strategies). The renewed collaboration between public administration and private concerns appears to be particularly effective in new projects of large-size enterprises (telematics, microelectronics, software, biotechnologies).

Italy, as already previously seen, represents a partial exception to this general tendency, since it seems to maintain a strong dispersion of official industrial assistance in a large number of projects and institutions, while the proper R&D sector remains almost exclusively limited to large-scale enterprises and few sectors (electronics, pharmaceuticals).

The sectoral planning experience of the late 1970s (law No. 675 of 1977) had already tried to rationalize this uncoordinated and fragmented soft credit policy, seeking to reduce discretionality abuses and to concentrate the legislative apparatus.

The last three-year plan (1981-'84) tries to correct further these lacks²³. Its general objectives are set up in view of a realignment of the Italian industrial system with that of other countries, as far as absolute level of investment and dependency degree of technological balance are concerned: attainment in 1984 of a R&D level equal to 1.5% of the GDP, that is doubling the entity of public expenditures. A more specific and middle-term target is bound to the « re-industrialization » of traditional sectors upon which Italian international specialization is based and the implementation of advanced sectors with strong diffusive fall-out (microelectronics, robotics, industrial machinery). To this aim four new funds have been activated since last year, with the intention to influence separately and selectively each phase of the innovation process: applied research (freely chosen by the enterprises and supported by the IMI fund — Istituto Mobiliare Italiano —), industrial projects (innovation fund of the Ministry of Industry),

Associazione Industriale Lombarda, *L'esportazione di impianti, tecnologie e know-how. L'esperienza di imprese industriali in Lombardia*, Centro Studi, Milan, 1979.

23 G. Caravita, *Un cervello per innovare* (in: *Mondo economico*, No. 40, 21 Oct. 1981).

restructuring (fund of law No. 675) and « technological challenges » (research contracts and commitments).

This new package of funds is however subject to various objections, that substantially see it as a simple prolongation of the assistance logic of the 1960s and 1970s, with its insufficient selectivity: too wide definition of « strategic » sectors (80% of the whole industry); utilization for enterprise crises, rather than for strengthening and diffusing the innovation activity; slow activation procedures of the interventions (32-38 months in the average for the IMI fund); practical exclusion of small — and medium — scale enterprises, especially in the South. In spite of these numerous criticisms, one should also recognize as a merit of these initiatives to have partly filled up the distance with other industrial countries, in the sense of introducing private criteria of comparison of expected costs and results in the planning schemes and of diversifying the instruments of technological innovation support intervention²⁴. After all, it is the first time that a plan for technological innovation is promoted in Italy. This may prove important also in view of the recent evolution in North-South technology transfers, with increasing demand from LDCs of engineering and marketing capacities and of adaptation efforts²⁵, to which the latest Italian experience could bring some useful contributions.

6. Some structural indicators and concluding remarks

Trade and production specialization presents some peculiar and interesting features in the Italian case. In the course of the last decade, on the whole, there is a general orientation towards countries other than EEC, as percentage share of export, and products of low and intermediate technology intensity (in the 1970s, the contribution of traditional sectors — textiles and clothing, wood processing, hides and leather, metallurgical industry — to the Italian trade surplus in manufactures goes from 57% to 70%, while heavy deficits are registered for the chemical and the food processing sectors).

24 « The prospects for the eighties seem to confirm that greater importance will be attached to innovation. This, of course, requires that careful policies be formulated in order to allow or even promote the process ». I. Gasparini, *Economic Trends and Problems in the 1980s* (in: *Giornale degli economisti e annali in economia*, May-June 1981).

25 OECD, *North-South Technology Transfer. The Adjustment Ahead*, Paris, 1981.

The most recent figures on the geographical distribution of export on the principal outlet markets (1981) ²⁶ show a general decrease of industrial countries and among them especially EEC countries, with the exception of the USA, which increase their share in Italian total exports; LDCs and particularly OPEC countries continue to widen their share, also as a consequence of financial incentives of the Italian foreign trade policy ²⁷.

The highest dynamics is shown by semi-processed and food products, both standardized technology productions with relatively high price elasticity and benefiting for this reason of a stronger competitive position from variations in the exchange rate. The investment goods sector still presents the slowest performance.

On the side of imports, on the contrary, there is a general contraction for all areas due to the stagnation of internal demand. This is valid in particular for raw materials, which reach the minimum value of the mean import/production propensity in the whole decade, and for consumption goods.

In Table 1 two export specialization indexes are utilized for a comparison with other two EEC countries (France and West Germany), with reference to various types of products according to technology intensity ²⁸. Normalized export shares higher than one indicate specialization in the sector; normalized balances range from -1 to +1 and increases in values show a growing sector specialization.

From the results reported in the table, concerning dynamics of the early and late 1970s, it is confirmed what above noticed: increasing specialization in « standardized » products and decreasing specialization for other products, in contrast with the tendency toward more balanced specializations of the other two countries.

Considering also the geographical distribution of these groups of products, expressed by Italian export shares on the whole of the industrial countries exports ²⁹, the situation can be summarized as follows. For industrial countries taken together, there are different and cyclical trends, but in general they reflect the aggregate variations above described, especially within the EEC market. For the socialist countries, the global decrease of the Italian share is corresponded by a decrease in each group of products.

26 Banca d'Italia, *Annual Report*, Rome, 1982.

27 O. Astuti, *Nuovi orientamenti del sostegno pubblico nel commercio con l'estero* (in: *Commercio*, No. 2, 1979); Ministero dell'Industria, *Programma Finalizzato, Potenziamento delle strutture organizzative per la commercializzazione all'estero dei prodotti dell'industria manifatturiera*, Roma, 1980.

28 For the detailed list of the three product groups, see Appendix to the volume cited at note 26 (Tab. aF5).

29 Appendix to the volume cited at note 26 (Tab. aF5).

Table 1

EXPORT SPECIALIZATION OF THREE EEC COUNTRIES
(ITALY, WEST GERMANY, FRANCE)

Type of products	High technology-intensive products		Middle technology intensive products		Standardized products		Total manufactures	
	A	B	A	B	A	B	A	B
Italy								
1970-72	0.61	-0.05	0.96	0.29	1.30	0.35	1.00	0.26
1978-80	0.51	-0.15	0.89	0.22	1.55	0.46	1.00	0.25
West Germany								
1970-72	0.93	0.28	1.13	0.43	0.83	0.02	1.00	0.28
1978-80	0.95	0.18	1.08	0.36	0.88	0.02	1.00	0.22
France								
1970-72	0.89	-0.02	0.96	0.12	1.13	0.03	1.00	0.07
1978-80	0.97	0.03	0.99	0.16	1.03	-0.01	1.00	0.08

A = Normalized export shares: $(X_i/P_i) / (X/P)$ B = Normalized balances: $(X_i - M_i) / (X + M)$

(X = export; M = import; i = sector i)

Source: Banca d'Italia, *Assemblea Generale Ordinaria dei Partecipanti* (31 maggio 1981), Centro Stampa, Rome, 1982.

OPEC countries show the opposite situation, with an increasing share particularly for the third group (« standardized » products); for the NICs there is a stable situation on the whole, with negative changes for the second group and positive changes for the first and particularly the third group, while for LDCs the net positive changes are to ascribe to the excellent dynamics of the third and especially the second group, that more than compensate the contrasting trend of the high technology-intensive products on the same markets.

These products, in conclusion, appear to gain outlet shares only on the NICs and OPEC markets, while in other areas, even in the Third World markets, there is a general restriction of the Italian exports vis-à-vis other industrial countries. « Standardized » products offer on the contrary a generally satisfactory performance on practically all markets, revealing a rather interesting phenomenon of trade specialization.

A similar comparison of production specializations can be accomplished through the analysis of employment shares by industrial branch on the total industrial employment.

Table 2

DISTRIBUTION OF OCCUPIED POPULATION BY INDUSTRIAL BRANCH IN THREE EEC COUNTRIES
(ITALY, WEST GERMANY, FRANCE)

	Italy		West Germany		France	
	1970	'77	1970	'77	1970	'77
Ferrous and non-ferrous ores and metals, other than radioactive	4.4	5.2	4.6	4.6	4.7	4.7
Non-metallic minerals and mineral products	7.8	7.3	5.0	4.9	5.7	5.4
Chemical products	5.1	5.4	5.6	6.2	5.8	6.0
Metal products, except machinery and transport equipment	7.5	7.7	11.3	11.4	13.0	12.6
Agricultural and industrial machinery	6.5	6.9	12.2	13.0	6.8	6.7
Office and data processing machines, precision and optical instruments	1.5	1.4	3.1	3.4	2.1	2.3
Electrical goods	6.0	7.1	11.5	12.0	7.6	8.9
Transport equipment	6.1	6.6	7.4	8.1	11.1	12.8
Food, beverages and tobacco	8.7	8.3	9.8	10.2	10.7	10.3
Textiles and clothing, leather and footwear	28.0	25.3	12.5	9.7	16.2	13.4
Paper and printing products	4.4	4.6	6.2	6.1	6.3	6.1
Rubber and plastic products	3.2	3.8	3.9	4.3	3.5	4.0
Other manufacturing goods	10.6	10.3	6.5	5.7	6.4	6.6
Total manufactured products	100	100	100	100	100	100

Source: Eurostat, *Comptes Nationaux SEC. Tableaux détaillés par branche 1970-1979*, Luxembourg, 1981.

Tab. 2 shows how this is much more concentrated in Italy in sectors characterized by a stronger presence of low technology-intensive products (ferrous and non-ferrous ores and metals; non-metallic minerals and mineral products; textiles and clothing; other manufacturing products) and also how, for whatever level of technology intensity, the tendency towards specialization and de-specialization according to the general features of the various sectors does appear less marked than in France and in Germany. At the absolute total levels of industrial employment³⁰, Italy is the only country that does not show a clear decreasing trend since a certain year onwards (on the contrary, it has been increasing up to 1977), while West Germany presents a constant slow-down since 1970 and France since 1974.

An interesting result, apart from the more intra-industry specialization pattern, is that of the main directions of trade flows. In spite of this pattern, Italy succeeds in widening its

30 Eurostat, *Comptes Nationaux SEC. Tableaux détaillés par branche 1970-1979*, Luxembourg, 1981.

share of exports on third countries more than on EEC countries. This fact seems to contradict the often expressed fear of a progressive closing of Italian traditional products within the « protected » market of the Community³¹.

As already seen in a previous paper on intra-industry trade with LDCs³², while other industrial countries (France, Germany, Japan) appear to be able to avoid the dangerous « asymmetry »³³ of cost and benefit effects due to increasing trade with LDCs, through more specific inter-industry specializations, the Italian production system (analysed in recent empirical studies at both a national and regional level³⁴) reacts with a diversification of flows which keeps intra-industry specialization.

Another question is that about the success of this model in the long run. This success will depend on the capability and willingness of the production structure to substitute certain weak and unstable features, such as those connected with the strategies (or lack of strategies) described in the previous sections, with a more appropriate mix of industrial policy measures, as was above stressed considering industrial development co-operation and restructuring policies.

One of the major long-term objectives of the national policy for industrial restructuring consists in the « reduction of net imports through the development of exports or the substitution of imports with national products, particularly in the agro-alimentary sector and in the sectors connected with agriculture » (art. 2 of the law No. 675): no mention is made on the exploitation and improvement of comparative advantages.

However, it appears now increasingly obvious that the further extension of direct and indirect subsidies in order to safeguard the present industrial employment structure cannot be pursued in the long run, due to public financial constraints³⁵. Higher levels

31 F. Falcone, *La struttura delle esportazioni italiane e la concorrenza dei pvs all'esterno e all'interno della CEE* (in: *Rassegna economica*, No. 4, 1980).

32 C. Secchi, *Intra-Industry Trade with LDCs: a Comparative Analysis with Particular References to the Case of Italy* (working paper for the Symposium on « Intra-Industry Trade », ElASM, Brussels, 1982, May 13-14).

33 H.F. Lydall, *Commerce et emploi*, Bureau International du Travail, Geneva, 1975, pp. 127-128.

34 C. Secchi et al., *L'interscambio di prodotti manufatti tra l'Italia e i paesi in via di sviluppo*, Eurostudio, Milan, 1980; F. Bosello, *Interdipendenza commerciale con i pvs ed effetti regionali. Una verifica* (in: *Commercio*, No. 8, 1981); S. Mainardi, *Rapporti economici con i pvs, concorrenza commerciale e riconversione industriale: il caso lombardo* (in: *Commercio*, No. 13, 1983).

35 E. Grilli, *Le politiche commerciali dell'Italia negli anni '70: un primo saggio interpretativo* (in: *Economia italiana*, No. 3, October 1982), p. 407.

The public sector's deficit is likely to reach 17% of GDP this year, a figure probably overcome only by Belgium among industrial countries.

of intra-sectoral trade may represent a sure asset for the industrial adjustment possibilities only if the latter are correctly implemented, with due respect for market mechanisms. In other words, factor mobility within individual sectors, together with a consistent set of industrial policy interventions aiming at this type of industrial restructuring, should be encouraged in front of the increasing intra-industry trade flows with LDCs, otherwise this strategy could not prove valid in the long run.

LES OBJECTIFS DE LA POLITIQUE ÉCONOMIQUE ET LES STRATÉGIE DES ENTREPRISES EN ITALIE ET LEURS IMPLICATIONS POUR LES ÉCHANGES COMMERCIAUX AVEC LE P.V.D.

RESUME

Le sujet qui suscite le plus d'intérêt pour les économistes s'occupant du commerce international ainsi que pour les opérateurs engagés dans la promotion et la mise en oeuvre de stratégies de croissance du commerce extérieur est sans aucun doute le phénomène du commerce intra-sectoriel. D'une part, ce phénomène a déjà l'objet de remarquables approfondissements théoriques et d'évaluations empiriques; d'autre part, ses connexions avec les choix de politique économique et de stratégie d'entreprise dans un contexte national n'ont pas été suffisamment étudiées, étant donné que l'attention a été surtout portée sur des facteurs de nature structurale et globale.

D'abord on présente brièvement des éléments théoriques divergents sur le rôle du commerce intra-sectoriel au sujet de la position de l'Italie dans la concurrence internationale et des processus de réadaptation structurelle du système industriel. Après, les Auteurs abordent directement le sujet mentionné plus haut. Dans cette perspective sont analysés tout particulièrement la politique italienne de coopération au développement, les processus de restructuration et de re-allocation industrielle et les plus récentes perspectives de politique économique en ce qui concerne l'innovation. Il émerge très clairement dans le cas italien un cadre atypique par rapport aux autres pays industriels et même divergent dans les évolutions respectives. Ceci est révélé aussi à travers les données relatives à la spécialisation italienne dans la production et

dans les exportations industrielles, compte tenu des plus importantes directions géographiques et des différentes catégories de produits plus représentés.

La flexibilité du système productif italien semble donc être maintenue aux dépens des stratégies de nature macroéconomique (au niveau des secteurs ou des zones) et microéconomique à plus long terme, stratégies visant à une meilleure intégration dans les échanges internationaux, soit entre les différents secteurs soit à l'intérieur d'un même secteur.

