

FOCUS ON

Beyond the walls: opportunities for the Made in Italy from the new EU agreements

Produced by the Economic Analysis and Research

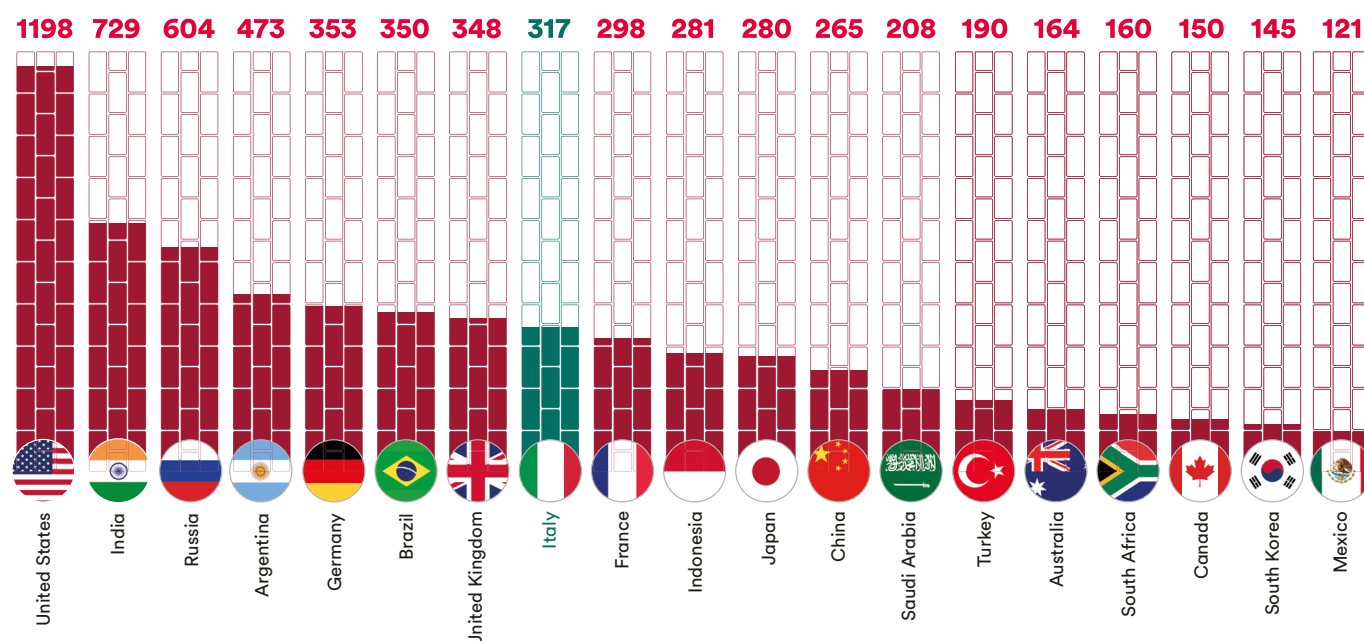
Executive summary

- In recent years, protectionism has become fashionable once again. More than 8 thousand discriminatory measures were introduced globally between November 2008 and June 2017. The most damaged sectors include automotive, metallurgy and instrumental mechanics: these segments account for almost 40% of Italian exports.
- G20 Countries are “responsible” for over two-thirds of the measures implemented, with the USA in the forefront. Since it took office, the new US administration has “thrown three-in-a-row”: it has withdrawn from the TPP, has introduced a wide range of discriminatory measures and has started renegotiating Nafta.
- Renegotiation, not cancellation, as announced during the last election campaign. The importance of the agreement, which supported over 1 million jobs in the United States in 2015, pushed the US towards modernising the treaty also considering the strong synergies consolidated over the years for trade, production chains and company competitiveness.
- While the new US administration has been raising walls, the European Union has been promoting free trade seeking to eliminate most of the duties on the products of our companies. In fact, it signed an agreement with Canada, is close to finalising one with Japan and is negotiating new ones with other important partner countries.
- Many opportunities are opening up for Italian companies, also with SACE SIMEST, like Eurotranciatura in Mexico (a total commitment of over 19 million euro) and MoorER in Japan (a loan of more than 2 million euro).

An increasing number of obstacles

Global Trade Alert (GTA) data indicate that from November 2008 to June 2017 more than 8 thousand policy measures¹ were introduced globally, which can be defined as protectionism. We are faced by one of the factors that can explain the slowing down in global trade observed in the post-crisis period and that represents a cause of concern, also due to its possible repercussions on global growth. The most protectionist geographies include the G20 countries, responsible for about 70% of the measures implemented. These markets are also the most affected by the discriminatory measures adopted. In fact, the GTA reveals that a growing percentage of exports from those countries has met some sort of distortion, reaching about 73% in 2016². **The United States are still leading this ranking with about 1,200 measures** (Figure 1). This shows that US protectionism is not a recent trend, though recent figures³ for the first semester 2017 show that the new US administration is following in the wake of previous governments. In fact, there have been 189 new measures adopted by the United States against other G20 Countries (+26% compared to the same period in 2016). On the contrary, the other G20 members reduced the number of actions taken against American products in the same period (-29%). India and Russia are in second and third place in this ranking; Italy is eighth⁴.

FIGURE 1. G20 member states for number of protectionist measures implemented from November 2008 to June 2017



Source: Global Trade Alert

¹The figure reflects the new classification available on the website www.globaltradealert.org

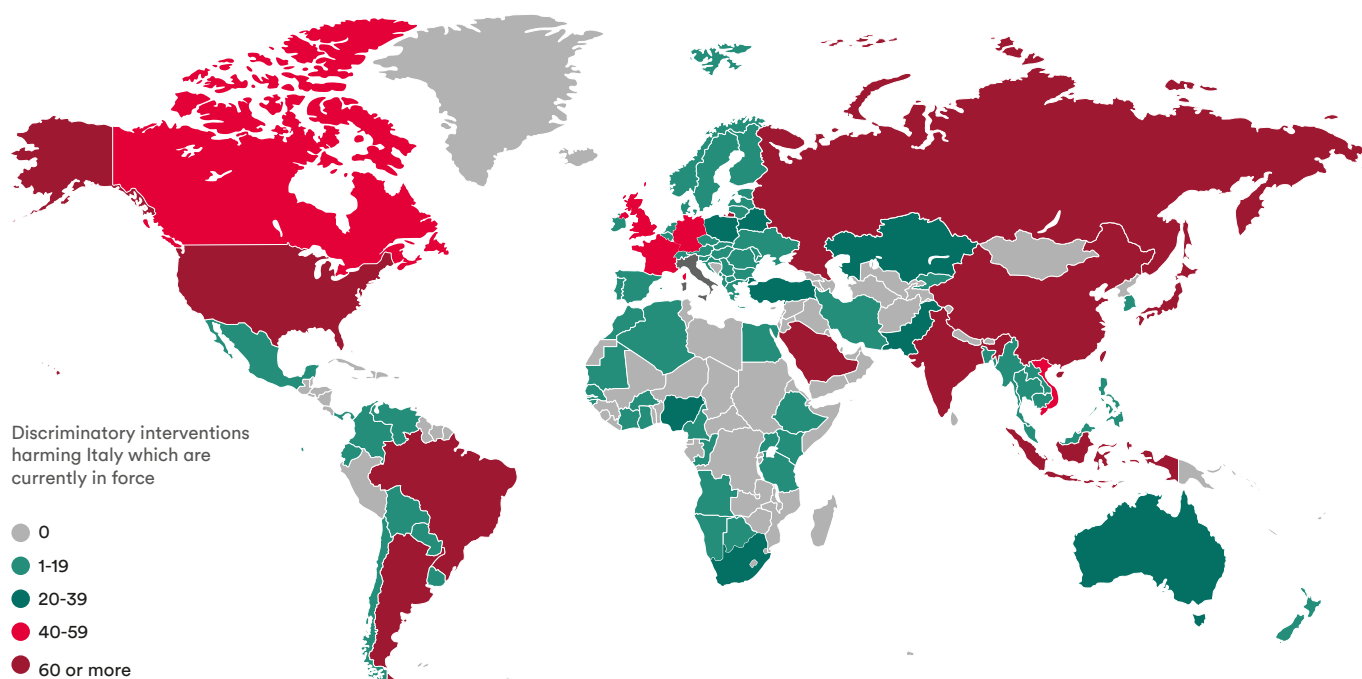
²Percentage calculated considering only the measures introduced as of November 2008.

³Global Trade Alert, "Will Awe Trump Rules?", 2017.

⁴There have been some curious changes compared to the previous edition of the GTA report ("FDI Recovers?", 2016): Germany has overtaken Brazil, due, according to the authors, to the growing use of state subsidies (and this despite Community regulations on State aid); Japan has overtaken China following growing financial support for the overseas operations of Japanese companies; South Africa has overtaken Canada due to adoption of measures guaranteeing tax facilitations for domestic companies, discriminating foreign ones, for example in the public tenders field.

Protectionism has obviously affected also Italian exporters: Brazil, China, India, Russia and the United States are some of the Countries that have introduced the greatest number of discriminatory measures against our companies (Figure 2). The most affected sectors include **automotive, metallurgy and instrumental mechanics**: these segments account for some 40% of total Italian exports. Nevertheless, in the first eight months of the year, our exports performed very positively (+7.6% year-on-year), with good trends even in Countries that have discriminated Italian products to a greater extent than others. There are, in fact, some factors that can mitigate trade restriction effects: for example, the ability of exporters to find solutions to overcome obstacles, the quality of products and margins of action on the price side. Moreover, the impact on exports can vary based on the sectors hit by the partner Country (hence the specialisation of the damaged country).

FIGURE 2. Discriminatory measures currently in force introduced by third party countries against Italy from November 2008 to June 2017



Source: Global Trade Alert

While some countries are still riding the "protectionist wave", at times through facts (see in this respect the United States withdrawing from the Trans-Pacific Partnership), at times with announcements (just think of the start of renegotiation of Nafta, and not cancellation, as initially contemplated by the president Donald Trump), the European Union has signed the Comprehensive Economic and Trade Agreement (Ceta) with Canada and is close to finalising the Economic Partnership Agreement with Japan.

⁵The treaty is currently at a deadlock as the United States has not ratified it.

Nafta: “renegotiate or cancel... that’s the dilemma”

Last May, the US Trade Representative notified the Congress of the intention to renegotiate Nafta, approving the start of negotiations as from 16 August. Till now the first four rounds have taken place and the goal is to quickly reach a consensual renegotiation of the agreement. **The main points being discussed are rules of origin, digital trade and dispute settlement mechanisms, as well as increased intellectual property protection, the environment and workers’ rights.**

The route to “renegotiation and modernisation” seems the most plausible. But that does not make it the most obvious, since **a marked reduction/interruption in trade flows, in particular, between the United States and Mexico could have a number of relevant effects** considering the strong synergies that have consolidated over time for trade, the labour market, production chains and company competitiveness (Table 1).

TABLE 1. The main synergies generated by Nafta in relations between the United States and Mexico



⁶Moody's, "FAQ on Nafta Renegotiation, US-Mexico Trade and US Economy", 2017.

⁷The Conference Board, Hourly compensation costs (database, 2014).

⁸Between 1994 and 2015 US FDI stock in Mexico increased by 75 billion dollars. In 2015 FDI stock was 92.8 billion dollars.

⁹The main sectors of US exports to Mexico are computers and electronics (18.6%), transport vehicles and relative parts and components (13.7%), chemical products (9.4%) and machinery (8.2%). With respect to imports, vehicles, parts and components alone represent 33.8% of the total US imports from Mexico. Moreover, a significant share of imports of electrical machinery (8.9%) and instrumental mechanics (5.8%) is linked to the automotive industry. The other large import sector is computers and electronics.

Sectors most exposed to radical changes in Nafta include automotive and components industries, due to trade flow volumes and the complexity and integration between regional production chains. For example, the three countries produce and assemble automotive parts and components and these elements can cross the borders of Nafta members at least 8 times before being finally installed in a factory in one of the three countries.

Other companies that could suffer are to be found in the computers and electronics, chemical products, machinery and electrical machinery segments. Also the farming sector - especially commodities such as corn, soy, rice, pork by-products, milk and beef - is very vulnerable to a stop being put to Nafta because Mexico is the third market for the exports of US agricultural products. The tariffs the country could impose on the sector under World Trade Organisation rules, if Nafta should no longer be in force, are more penalising than those the United States could charge Mexico.

The three countries are an important destination for Italian companies and keeping Nafta alive is fundamental to further invest in this area and to take part in the value chains. An “interruption” of trade could have negative impacts on the light vehicle, commercial vehicle and component (airbags, chassis, gaskets, suspensions, electrical parts and lights) sectors, but also on several other sectors, both of traditional Made in Italy and instrumental mechanics, where Italian products are much requested and appreciated for their technology, efficiency and precision.

In fact, **Nafta is Italy’s second outlet market** after Germany, weighing about 10.6% of the total. In 2016 exports to the area grew by 2.8% and exceeded 44 billion euro. According to SACE estimates, Italian exports to the area will record an average growth of 5.5% in the 2017-20 period. At sector level, the first four segments are instrumental mechanics products (about 21.2% of the total), means of transport and related parts and components (20.2%), food and beverages (10.3%) and textiles and clothes (10.2%).



SACE SIMEST support in the automotive sector

In a dual operation, SACE and SIMEST supported the growth plans in Mexico of Eurotranciatura (main production structure of Euro Group), which is active in components for electric motors and generators. SIMEST acquired a 29.1% share in a newly-incorporated subsidiary in Mexico, through a direct investment in capital amounting to 4.4 million dollars, plus a 1.1 million dollars indirect investment in the “Venture Capital Fund” (activated in cases of direct investments in geographical areas of strategic interest). On the other hand, SACE guaranteed a 14.5 million euro loan (in respect of which Eurotranciatura will benefit from SIMEST interest rate subsidy) to support R&D investments and the purchase of machinery and equipment for the new Mexican subsidiary.

EU “champion” of free trade: foster trade is the watchword

The European Union is increasingly becoming a promoter of free trade and is launching signals against protectionism, trying to define global trade standards.

The best known agreements include CETA (Comprehensive Economic and Trade Agreement): the agreement **came into effect temporarily** on 21 September 2017 and, once the favourable vote of all EU Member States has been obtained, will be fully valid. The term “comprehensive” reflects its reach: not only the exchange of goods and services, but also investments and the free circulation of people. The European Commission estimates of the agreement’s impact indicate an increase in EU GDP of about 12 billion euro per annum (almost 0.1% of GDP) and **an increase in trade with Canada for an almost 25% overall. Italy will definitely benefit from it, as it is the third European trading partner of Canada**, after the United Kingdom and Germany: in 2016 Italian exports to the country increased by 0.7% (+18.9% in 2015), reaching about 3.7 billion euro. According to SACE estimates, the positive dynamics will continue in the 2017-20 four-year period thanks to an average annual growth of 4.9%¹⁰.

Also close to being finalised, after the political understanding reached at the Hamburg G20, is the **Economic Partnership Agreement between the European Union and Japan**. The treaty **should be finalised by the end of the year**, and will then have to be ratified by the national Parliaments of EU Member States. **The agreement will involve an overall “saving” of about 1 billion euro per annum for European exporters thanks to lower customs duties**. In exchange, Japan would benefit from abolition of customs duties on Japanese cars (currently 10%), with the guarantee of transition period to safeguard European companies. **The sectors that will benefit most from this agreement include agri-food, footwear, clothes, chemical-pharmaceutical and medical devices**, worth 58% of Italian exports. **European Commission estimates indicate that the long-term impact on EU GDP will be about 0.8%, while European exports to Japan will grow an overall 34%**. Thanks to the agreement, European exports to Japan of packed foods could increase up to 180%, whereas that of chemical substances by over 20%. **Tokyo is the second Asian market for Italian exports** with over 6 billion euro of goods sold in 2016 (more than 10% of EU exports) and with a growth estimate, in the 2017-20 period, of about 3.8%¹¹.

The strategic partnership with Japan has the potential to strengthen Europe’s leadership over defining global rules and international standards: **for the first time the commitment to respect the Paris climate agreement is specifically included**.

¹⁰Estimates do not consider the coming into force of the agreement, which will definitely generate a positive impulse. For further details please visit the Country Report on Canada in the Risk & Export Map tool on SACE website.

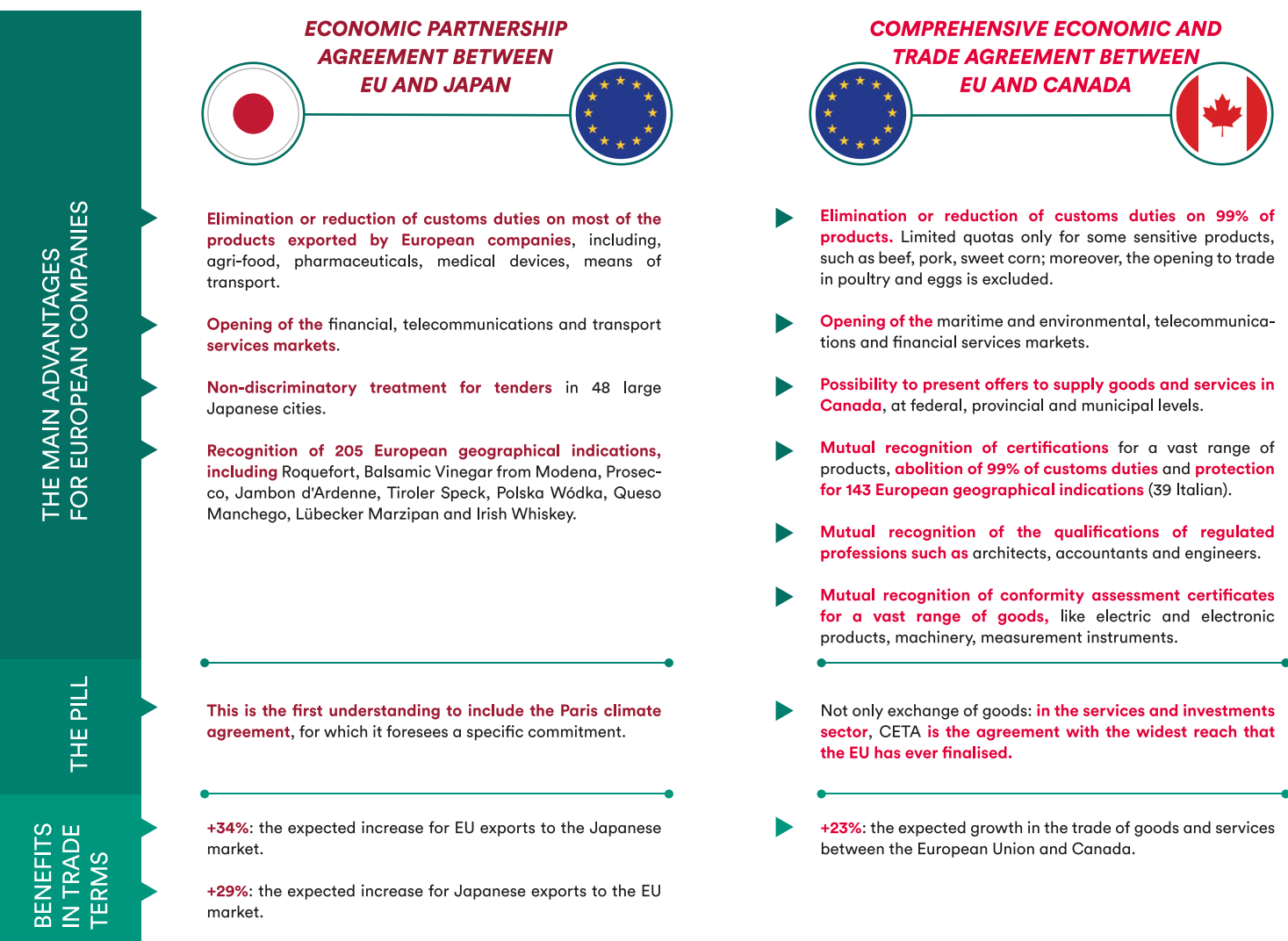
¹¹The first Made in Italy product exported to Japan is textiles and clothing and accounts for 20%. For further details please visit the Country Report on Japan on SACE website.



SACE SIMEST support to textiles and clothing

The various Group companies intervened to support the sector on several occasions. For example, last April SIMEST supported the expansion of MooRER, a company based in Verona operating in the Personal Luxury Goods sector and world leader in the production of top-range quilted jackets and outerwear 100% Made in Italy. Thanks to SIMEST loan of 2.4 million euro, MooRER will be opening a mono-brand store in the centre of Tokyo.

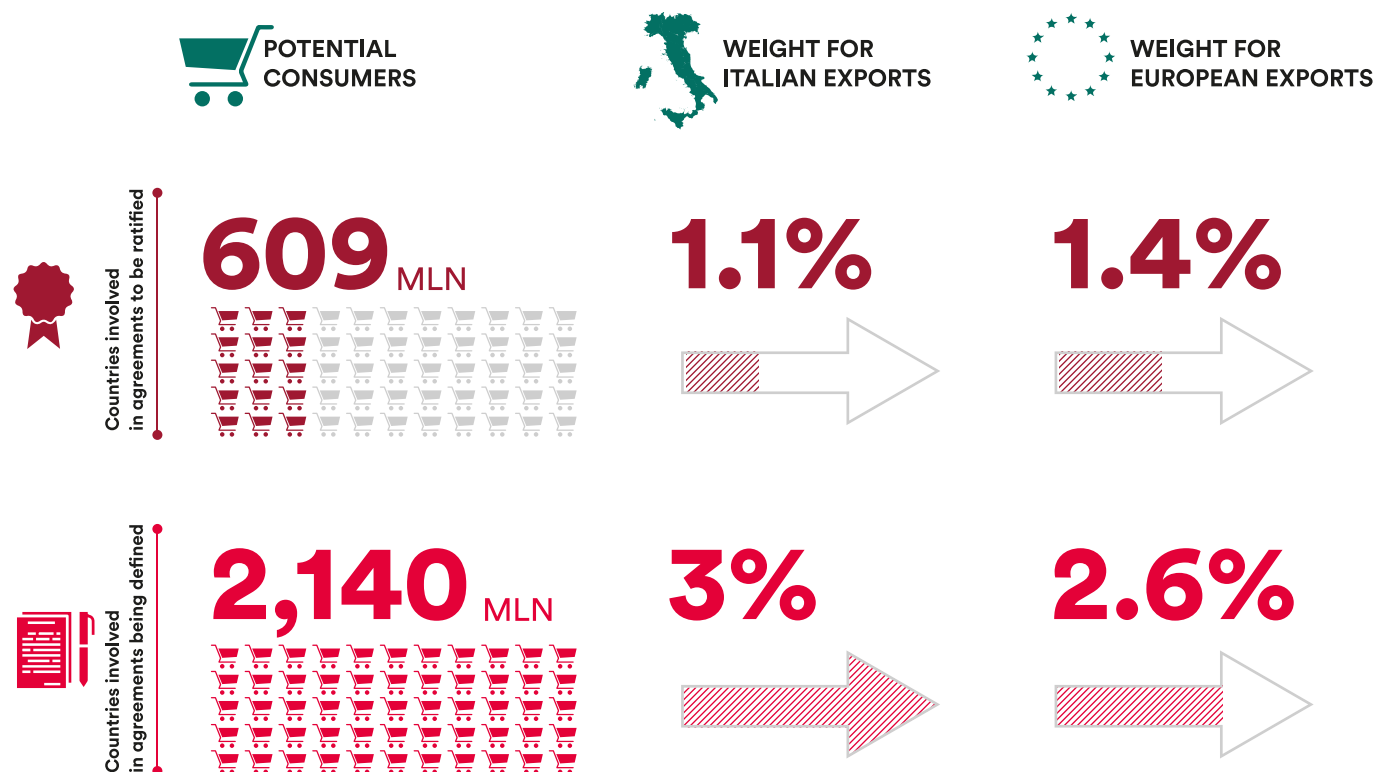
FIGURE 3. Agreements summary



Sources: World Bank, European Commission, Eurostat.

Then there are agreements that have already been finalised awaiting to come into effect and others still being negotiated. The former include the Economic Partnership Agreements with the Countries of the East African Community¹² and Western Africa¹³ and the Free Trade Agreements with Singapore¹⁴ and Vietnam¹⁵. Many of these areas are growing and already represent markets of over 600 million consumers and are the destinations of more than 1% of Italian exports (3.8% of what goes towards emerging countries) and of 1.4% of European exports. **Agreements are also being negotiated with important regions such as India, Asean members** (Brunei, Cambodia, Philippines, Indonesia, Laos, Malaysia, Myanmar, Thailand, as well as Singapore and Vietnam) **and Mercosur** (Argentina, Brazil, Paraguay and Uruguay, plus Venezuela currently suspended). These geographic areas are even more important: over 2 billion citizens and a weight for Italian exports that is almost three times higher (3%), higher than the European one (2.6%; Figure 4).

FIGURE 4. Italy and European Union: markets that are opening



Source: Eurostat, Istat

¹²Negotiations were finalised in October 2014, but the signatures of Burundi, South Sudan, Tanzania and Uganda are still missing for ratification.

¹³The agreement must be signed by Nigeria and The Gambia before being ratified. At present, it is temporarily applicable to Ivory Coast and Ghana.

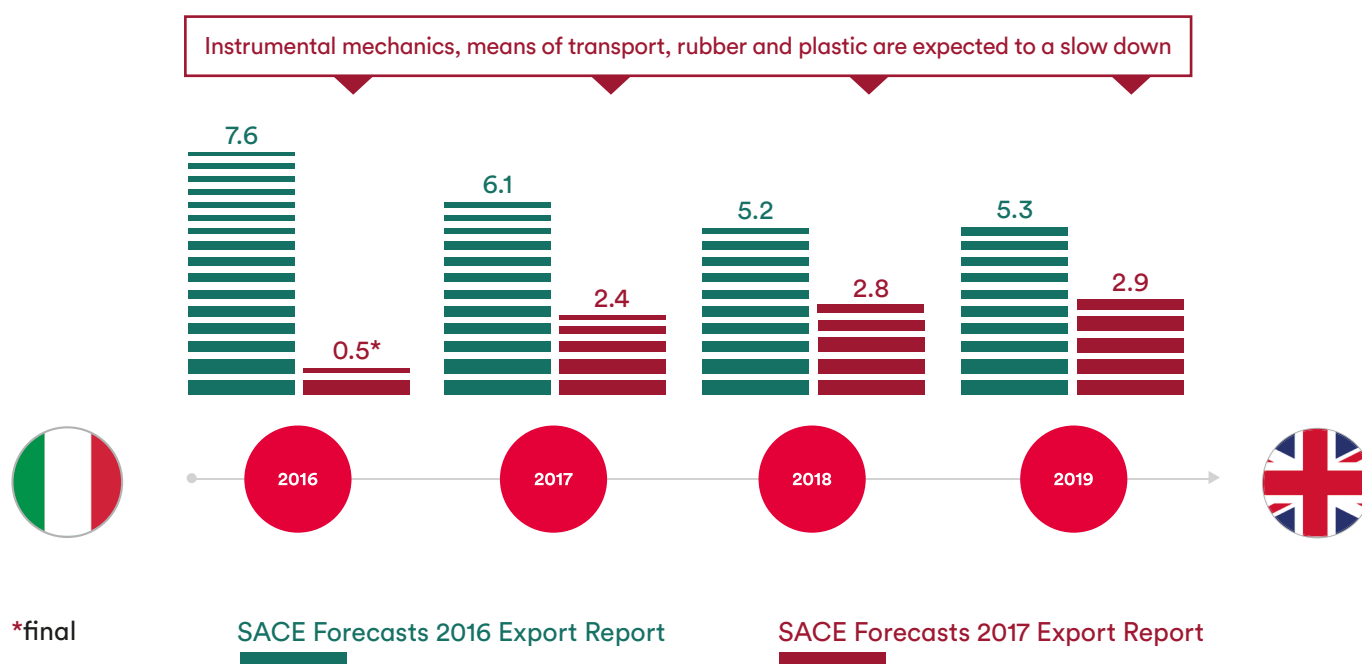
¹⁴Negotiations have been concluded but the agreement has to be ratified by the 28 EU Member States because it includes some provisions on protection of investments and settlement of disputes between investors and States which are not the sole competence of the EU.

¹⁵The end of negotiations was announced in December 2016 and the document is being analysed by lawyers.

Moreover the 28 countries are working to finalise an investment protection treaty with China that should replace the 26 Bilateral Investment Treaties currently in force between single member states and Beijing. This treaty could facilitate the Italian presence in the country and push the Chinese to invest in Italy, rebalancing the current difference (in 2014, according to Ice Reprint figures, there were 1,273 Chinese firms controlled by Italians, while there were 196 Italian ones in Chinese hands).

The United Kingdom leaving the European Union is in contrast with this strong integration context. The European Union is an essential trading partner for London, being the destination of 47.5% of UK exports and origin of 50.5% of UK imports (Italy is the eighth supplier, with an export of 22.5 billion euro, i.e. 3.9% of total imports). The short and medium-term scenario for exporters is uncertain: relations between the United Kingdom and the EU will probably be defined by a Free Trade Agreement (FTA). Between March 2019 and the time of ratification of the FTA, an «interim» or «transitional» agreement will be in force (de facto preserving the status quo). The uncertainty is already affecting Italian exports: 2016 closed a lot below expectations and forecasts show a slowdown compared to a year ago (Figure 5).

FIGURE 5. Forecasts for Italian exports to the United Kingdom (var.% on previous year)



Source: SACE

If there should be strong contrasts between the two sides (so-called worst case scenario) leading to WTO rules being applied, the worst affected Italian export sectors will be food, clothes and footwear, automotive. In fact, average tariffs of 5% could be applied for industry products, up to almost 10% for cars¹⁶.

¹⁶For further information please consult Bank of Italy, "Brexit: estimating tariff costs for EU countries in a new trade regime with the UK", 2017

Conclusions

Trade barriers block Italian companies. Knowing them and where they are is indispensable, as well as knowing how an agreement, Nafta, is evolving as it involves three key geographical areas for our exporters. However, for markets trying to close their doors others are opening. These Countries already represent, including Canada and Japan, over 6% of the total of Italian goods exports (almost 15% of non-EU exports) and an enormous potential for Italy, still to be discovered. With the European Union moving to encourage free trade, Italian companies can grasp opportunities in the markets involved, now easier to explore. Thanks to its insurance-financial products and services, SACE SIMEST can make this path even easier to travel.

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