Investment choices Northeast Italy

Macroeconomic conditions and new development path

Dominick Salvatore
Distinguished Professor Fordham University

Fred Campano
Former Professor Fordham University

Alessandro Minello
Adjunct Professor Ca' Foscari University

Italy-America Chamber of Commerce
NYC
Piazza Italia
December 2, 2022


GLOBAL MACROECONOMIC SCENARIO

Inflation is the Number 1 Concern Worldwide

High Inflation hurts Households, especially the bottom 60%

Why does the World have inflation at this time?

1. Sacrifices during the Pendemic have led to pent-up demand and supply chain backlogs
2. Energy shortages due to the war in Ukraine compounded by attempts to transition to non-fossil sources of energy

What central banks do to fight inflation - the bitter pill! Raise the Interest Rate

In the USA, the Fed has made it clear that they will keep raising the interest rate until the inflation rate is down to a level they choose, at this time they are shooting for 2%

What are the Risks in raising Interest Rates?

1. A decline in the financial markets
2. A recession in the General Economy

A view of the Macroeconomic Parameters 2000 - 2020

The 2008 - 2009 recession

Latest Official Data from the United Nations

Italy National Accounts Expenditure Table
Millions of 2015 Constant U.S. Dollars

Year	Y	C	G	I	X	M
2000	1.841.388	1.110.065	333.805	383.475	428.265	414.222
2001	1.877.320	1.116.968	352.177	393.191	439.277	424.292
2002	1.882.088	1.114.952	356.905	409.954	426.957	426.680
2003	1.884.697	1.121.801	361.903	409.415	421.413	429.836
2004	1.911.527	1.133.538	364.205	416.033	447.244	449.493
2005	1.927.161	1.149.657	366.261	414.569	461.630	464.957
2006	1.961.669	1.164.798	364.537	434.302	499.993	501.961
2007	1.990.841	1.177.958	366.391	444.852	530.979	529.339
2008	1.971.688	1.165.335	371.243	428.995	514.152	508.036
2009	1.867.565	1.149.724	370.926	365.758	422.548	441.391
2010	1.899.562	1.162.502	373.474	386.434	472.247	495.095
2011	1.912.998	1.163.004	365.868	384.167	497.842	497.883
2012	1.855.973	1.121.999	359.140	324.333	507.959	457.458
2013	1.821.804	1.095.168	355.030	306.842	509.860	445.097
2014	1.821.721	1.096.253	352.802	309.934	523.194	460.463
2015	1.835.899	1.115.650	350.847	314.072	545.555	490.225
2016	1.859.646	1.129.562	353.183	330.645	555.733	509.477
2017	1.890.662	1.147.567	352.998	344.663	585.945	540.511
2018	1.908.166	1.158.449	353.259	357.057	598.496	559.095
2019	1.915.995	1.160.981	351.493	350.986	608.006	555.472
2020	1.744.732	1.036.724	358.090	311.058	522.871	484.010

Efficiency of investment in several OECD countries

	Germany				Spain		
Period	R	I/Y	ICOR	Period	R	I/Y	ICOR
2000-2020	1.23	20.9	17.1	2000 - 2020	1.02	21.7	21.4
2000-2008	1.27	21.6	17.0	2000- 2008	3.25	25.1	7.8
2010-2020	1.37	20.6	15.1	2010 - 2020	0.93	19.2	20.8
2009	-6.04	19.1	-3.2	2009	-3.76	21.4	-5.7
2010	4.01	20.6	5.1	2010	0.16	20.5	125.5
	Canada				**USA**		
Period	R	I/Y	ICOR	Period	R	I/Y	ICOR
2000-2020	1.79	23.4	13.1	2000-2020	1.80	20.6	11.6
2000- 2008	2.49	22.6	9.1	2000-2008	2.56	21.1	8.4
2010-2020	1.98	24.0	12.1	2010-2020	2.56	20.6	8.1
2009	-2.60	17.0	-6.5	2009	-2.60	17.0	-6.5
2010	2.71	18.3	6.8	2010	2.71	18.3	6.8
	France				**Italy**		
Period	R	I/Y	ICOR	Period	R	I/Y	ICOR
2000 - 2020	1.04	22.8	21.9	2000 - 2020	-0.17	19.8	-117.9
2000- 2008	1.80	23.0	12.7	2000- 2008	0.93	21.7	23.4
2010 - 2020	0.88	22.8	26.0	2010 - 2020	-0.22	18.2	-83.0
2009	-2.87	21.4	-3.4	2009	-5.28	19.6	-3.7
2010	1.95	21.7	11.1	2010	1.71	20.3	11.9

Why would investors from the USA & Canada invest in Italy when the incremental capital-output ratio is lower than at home ?

Before we answer that question we must distinguish between ***Portfolio Investment*** and ***Direct Investment.***

1. **Portfolio investment** is financial investment as done on Wall Street. It is investment in stock shares, bonds, etc. The investor usually does not have much input in managing the investment unless they have enough shares in a firm to be placed on the board of directors.

2. ***Direct Investment*** is a decision to acquire a substantial stake in a business or to buy it outright. Alternatively, it is a decision to build a business in an area where there are perceived market opportunities.The investor is managing the investment

Direct investment is long-term

The return on direct investment is long-term and is directly related to the **knowledge of the business that the investor has**. This type of investment can withstand short-term recessions or business cycle ups and downs, including stock market surprises.

Portfolio investment is much more sensitive to what happens on Wall street.

On the next slide we see a breakdown of GDP in Italy by major industrial sector.

Value added by sector (IT) - % value

Year	Agriculture	Mining+Man.+ Utilities	Manufcturing	Construction	Wholesale+ Retail trade	Trans./Commu nication	Other Activities	Total Value added
2000	2.3	21.6	17.5	6.0	13.8	8.4	47.9	100
2001	2.2	21.1	17.2	6.2	14.0	8.9	47.9	100
2002	2.1	21.1	17.1	6.4	13.3	9.1	48.0	100
2003	2.0	20.6	16.7	6.5	13.2	9.1	48.5	100
2004	2.2	20.8	16.7	6.6	13.5	9.1	48.1	100
2005	2.1	20.7	16.7	6.7	13.5	9.3	47.8	100
2006	2.1	20.8	17.1	6.7	13.6	9.3	47.8	100
2007	2.0	20.9	17.4	6.6	13.7	9.4	47.6	100
2008	2.1	20.6	17.0	6.5	13.5	9.4	47.9	100
2009	2.2	18.3	14.6	6.2	12.8	9.7	50.1	100
2010	2.2	19.1	15.7	5.8	13.9	9.7	49.6	100
2011	2.2	19.2	15.9	5.5	14.1	9.5	49.5	100
2012	2.2	19.0	15.7	5.2	13.9	9.4	50.0	100
2013	2.3	18.9	15.7	4.9	14.2	9.3	50.2	100
2014	2.2	18.8	15.8	4.5	14.8	9.2	50.5	100
2015	2.3	18.9	16.0	4.3	15.4	9.1	50.2	100
2016	2.3	19.2	16.3	4.3	15.6	9.3	49.5	100
2017	2.1	19.5	16.6	4.3	15.8	9.5	49.0	100
2018	2.2	19.8	16.7	4.3	15.7	9.3	48.9	100
2019	2.1	19.6	16.5	4.4	15.8	9.4	48.7	100
2020	2.2	19.1	16.0	4.5	13.2	9.3	50.4	100

Sample of firms in the Venice area

Firm	Industry	Firm	Industry
Amazon	Internet & WEB Retailers	Decathlon	Sporting Goods
PwC	Accounting	Generali	Insurance
Deloitte	Accounting	Google	Internet & Web Service
KPMG	Business Consulting	Marriott	Hotels & Resorts
McDonald's	Cafes	Zara	Department Store Apparel
Capgemini	Network & Software olutios	Infineon Technology	Electronics manufactures
EY	Accounting	ALDI	Grocery Stores
Lidl	Grocery Stores	Adecco	Staffing & Subcontracting
Accenture	Industry Strategy Consulting	H&M	Department Store
Luxottica	Consumer Products	Apple	Computers
Manpower	Human Resource Consulting	Schneider Electric	Energy & Utilities
Electrolux	Household Products	Randstad	Human Resource Consulting
IKEA	Home Furnishings	Vodafone	Cable, Internet & Telephone

VENETO REGION

Preface

Macroeconomic context

First proposition

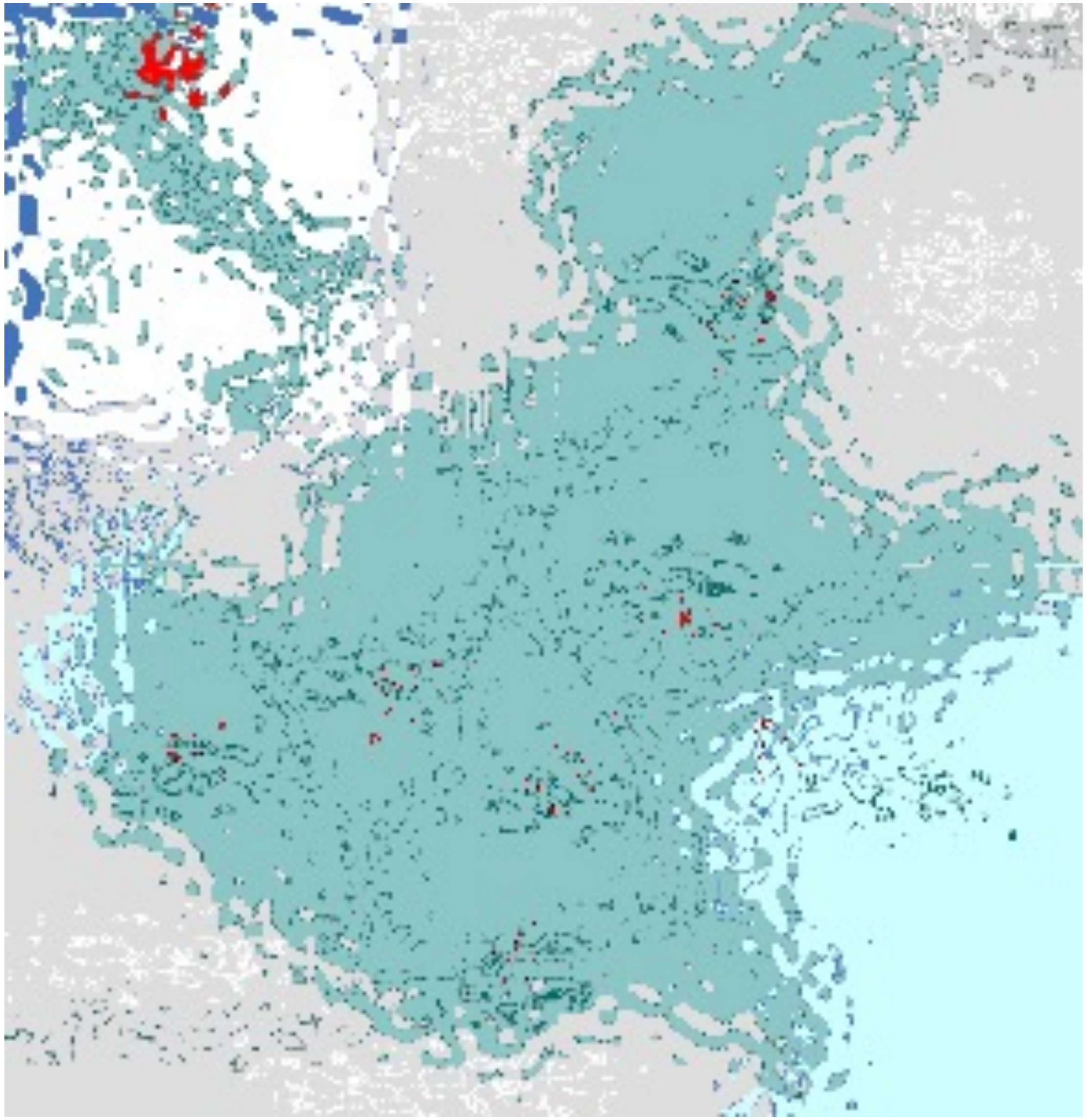
The efficiency of investments in Veneto region is higher than Italy

Second proposition

Internationalization help us face «black/green/grey swan»

Aim

Develop a sustainable and digital internationalization



Veneto macroeconomic context

Population
4,8 million inhabitants (8% of IT)

Economy

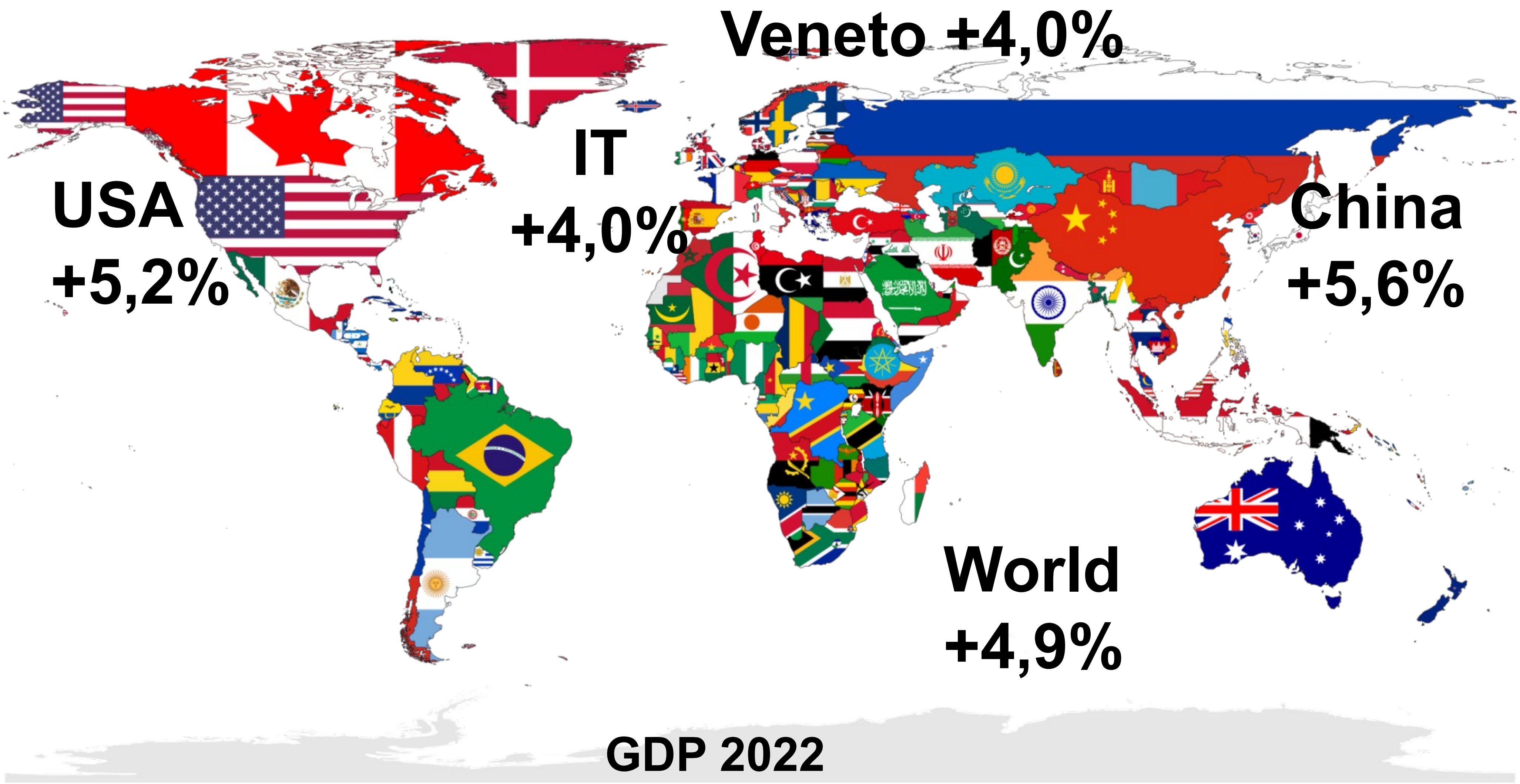
- GDP 160 billion €
- GDP per capita 33,000 € (+20% of IT)
- Export 70 billion € (13% of IT)
- Unemployment 5,8% (IT 9,2%)

Entrepreneurial system

- Firms 430,000 (8,3% of IT)
- 90% SME
- Employee (1,8 million)

Source: Statistical Office Veneto Region, 2021

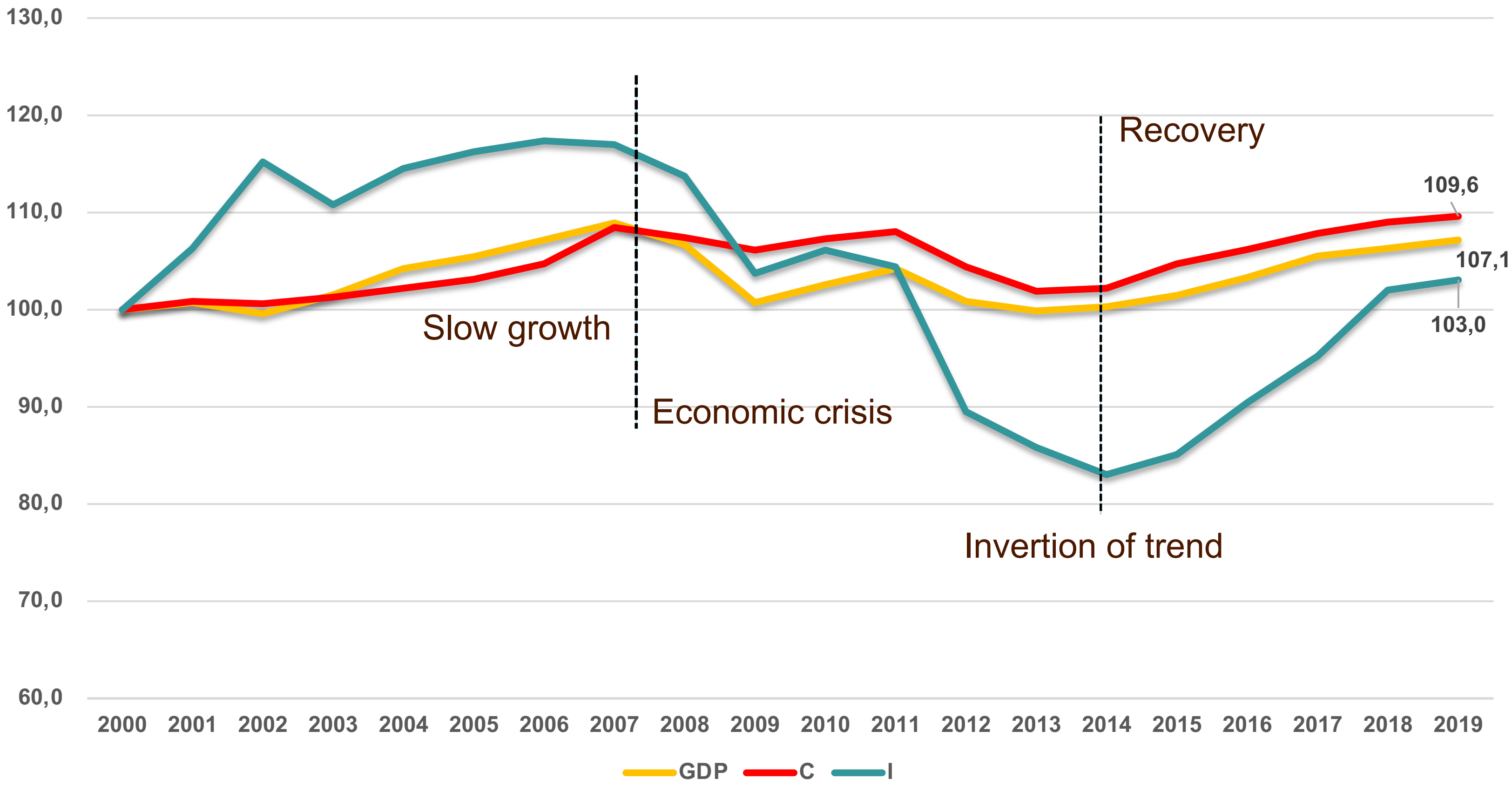
VENETO REGION IN THE GLOBAL SCENARIO 2022



GDP 2022
Expected value

Source: Statistical Office Veneto Region, European Commission, Eurostat, FMI

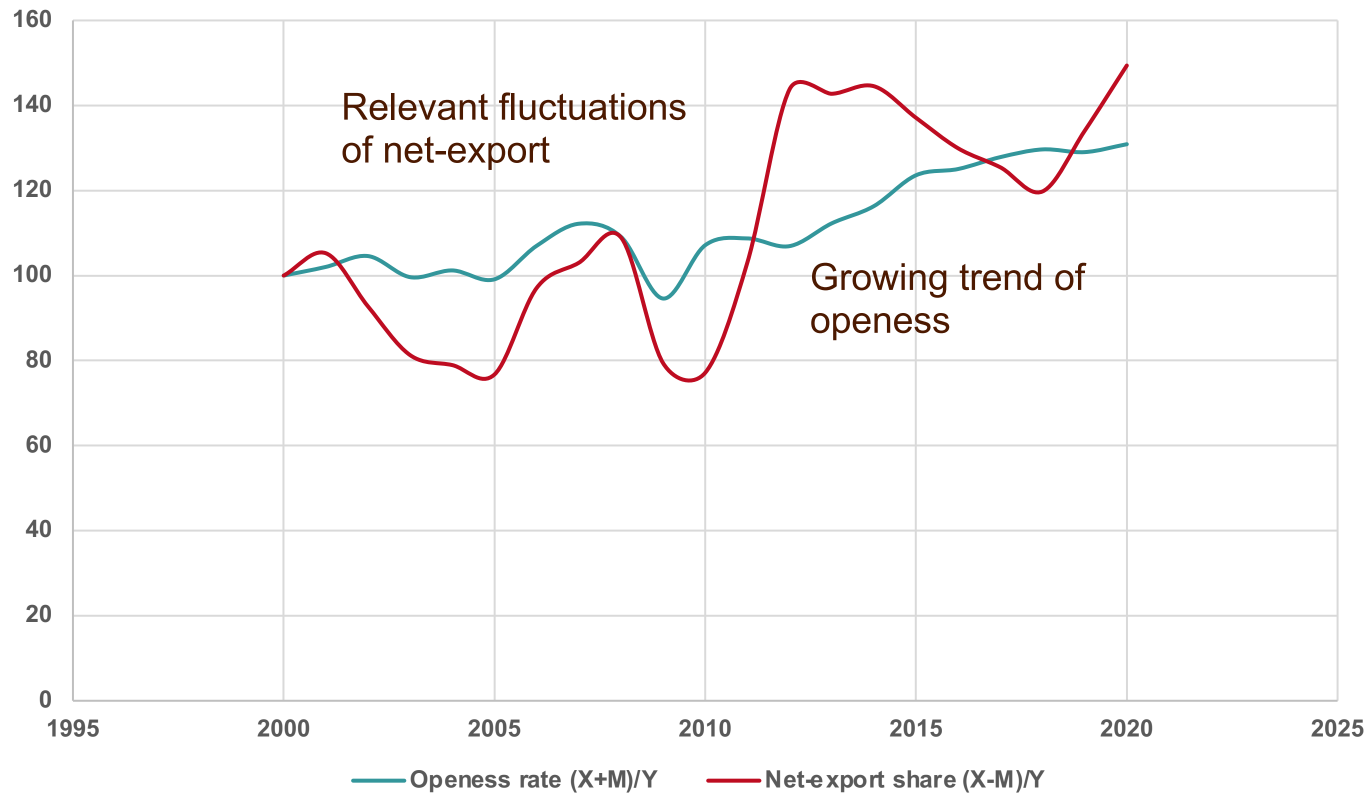
Macroeconomic data Veneto region



Source: Statistical Office Veneto Region

Veneto trade internationalization

(Index value 2000 = 100)



Source: Statistical Office Veneto Region

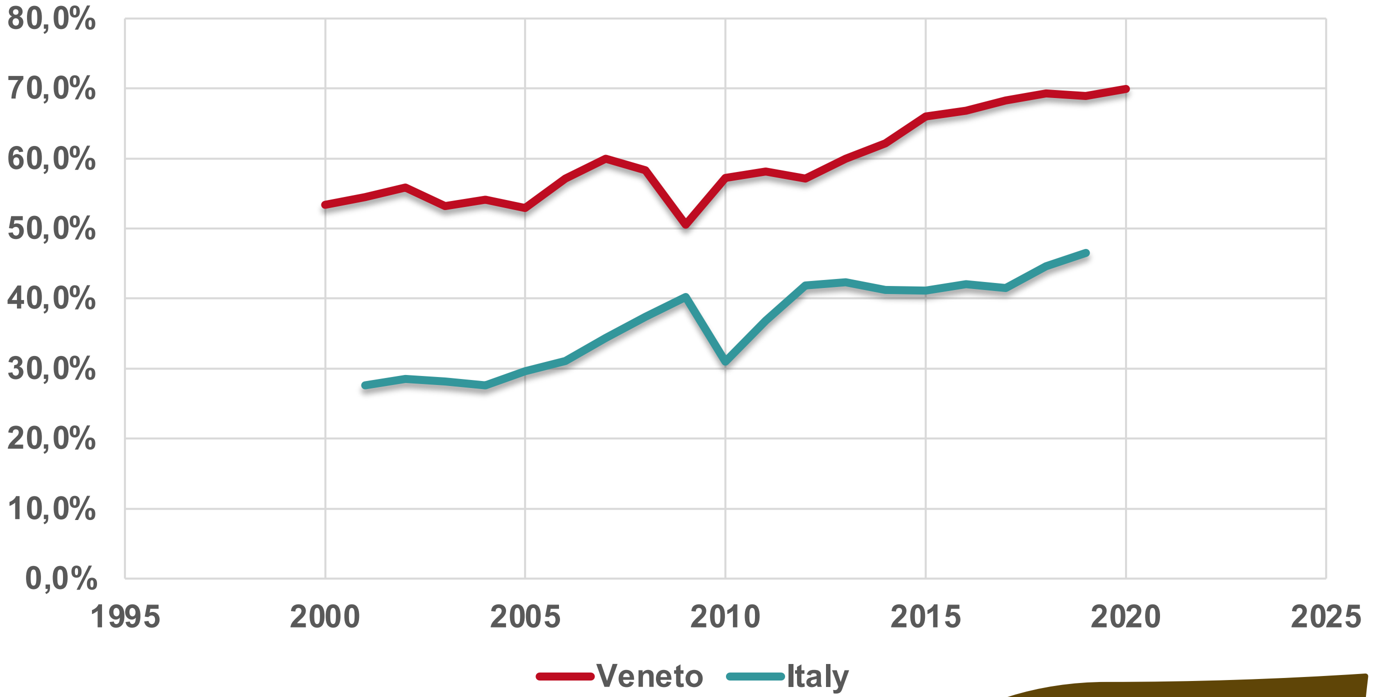
Export by sector – Veneto region

(absolute values in billion euro)

Sector\Year	2008	2021	Delta %
Metal/Machinery	22.2	28.4	27.9%
Fashion system	13.2	17.9	35.6%
Home system	7.4	10.1	36.5%
Agribusiness	4.9	10.0	104.1%
Chemistry	2.3	3.9	69.6%
VENETO	**50**	**70.3**	**40.6%**

Source: Statistical Office Veneto Region

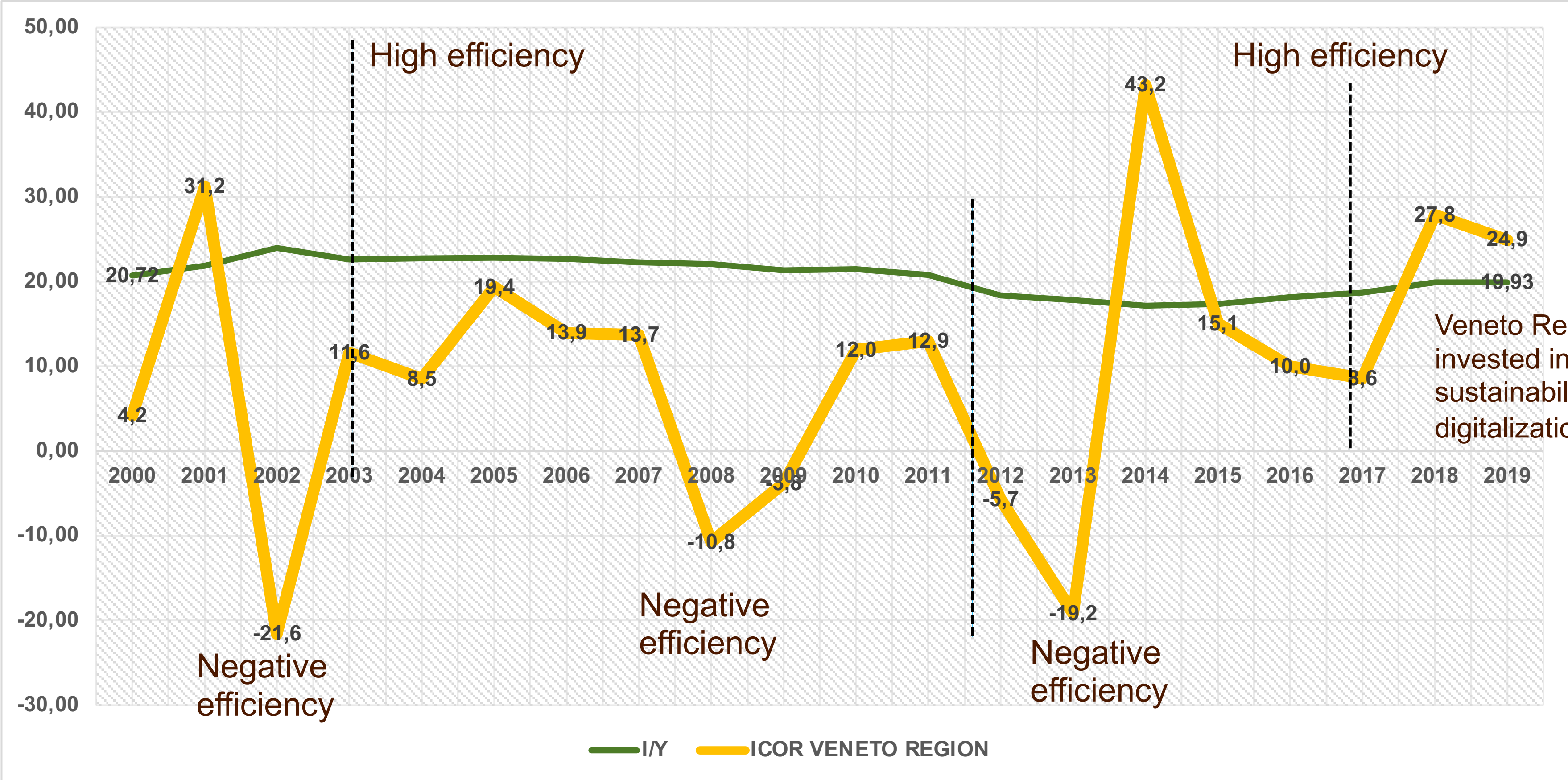
Trade openess level



Growing and 50% higher than Italy

Source: Statistical Office Veneto Region

The efficiency of investments in Veneto



Veneto Region has invested in sustainability and digitalization

Efficiency shows a cyclical dynamic every 5-6 years

Source: Statistical Office Veneto Region

Efficiency of investments: Italy vs Veneto

	2010-2019		
	GR	I/Y	ICOR
ITALY	0,05	18,2	399,9
VENETO	0,24	19,0	**80,6**

	2015-2019		
	GR	I/Y	ICOR
ITALY	0,9	18,0	20,7
VENETO	1,1	18,8	**16,8**

	2010-2014		
	GR	I/Y	ICOR
ITALY	-1,02	18,7	-18,3
VENETO	-0,65	19,6	-30,2

First proposition

The efficiency of investments in Veneto region is higher than in Italy

Source: Statistical Office Veneto Region

Why ICOR of Veneto is Higher than the one of Italy?

The competitive advantage of the so-called “third way of development”

- «Strong innovator» (RIS, 2021)
- Economy entrepreneurial-oriented
- Skilled workforce and Highly professional
- High level of internationalization
- High skill and customized products and services

Why ICOR of Veneto is Higher than the one of Italy?

The competitive advantage of the socalled "third way of development"

- Good «quality of life»
- High level of creativity
- High level of cluster presence
- Excellent institutional and educational system
- Good accessibility (Venice/Treviso airport system, third hub in IT)

INTERNATIONALIZATION AFTER PANDEMIC SHOCK

The six dimensions of the complexity
“Never been so high”

Uncertainty

Multiplicity

Rapidity

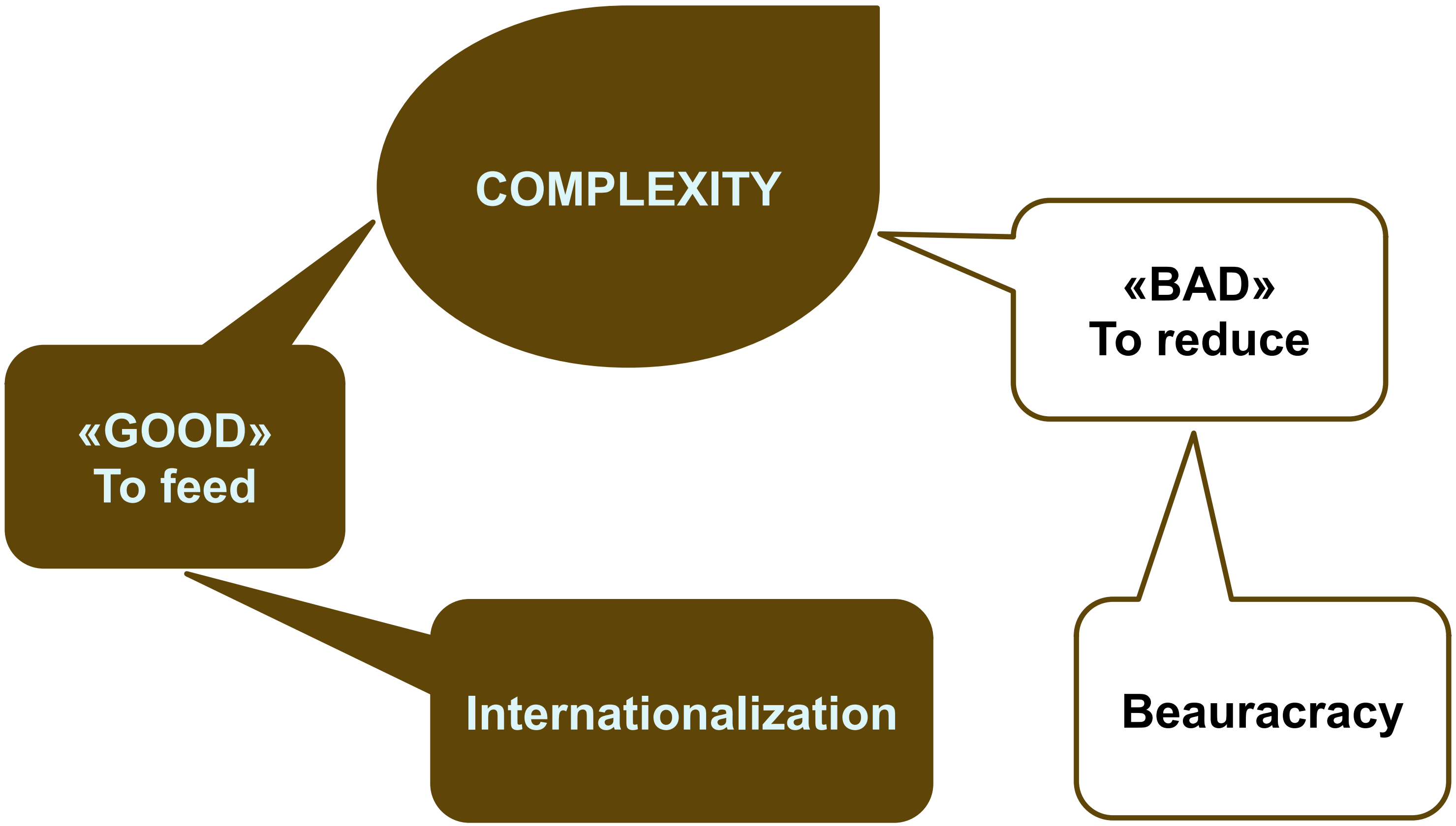
Discontinuity

Entropy

Multidimensionality

Metamorphosis
Not an evolution
but a sudden
change of shape

We need more/different internationalization



The pay-off of openess

Productivity Index
- Non-Exporting companies = **44**
- Exporting companies = **82**
- Foreign-controlled companies = **101**

In the long- term model an increase of +1% point in the ratio of trade to GDP raises income per capita by 0.4%

Average size
- Exporting companies = **40** employees
- Non-Exporting companies = **8** employees

Second proposition

Internationalization help us face «black/green swan-grey rhino»*

32% Exporting companies account for **70%** employees and **81%** of the VA

24%
High export-propensity companies account for **72%** of the total export

3%
Foreign-controlled enterprises account for 13% employees, 20% VA and 32% total export

Source: Statistical Office Veneto Region

*Improbable, unpredictable and far-reaching event

The pay-off of openess

Resilience

Non exporting companies and domestic ones tend to resist exogenous shock and return to their original situation

Domestic company

Antifragility

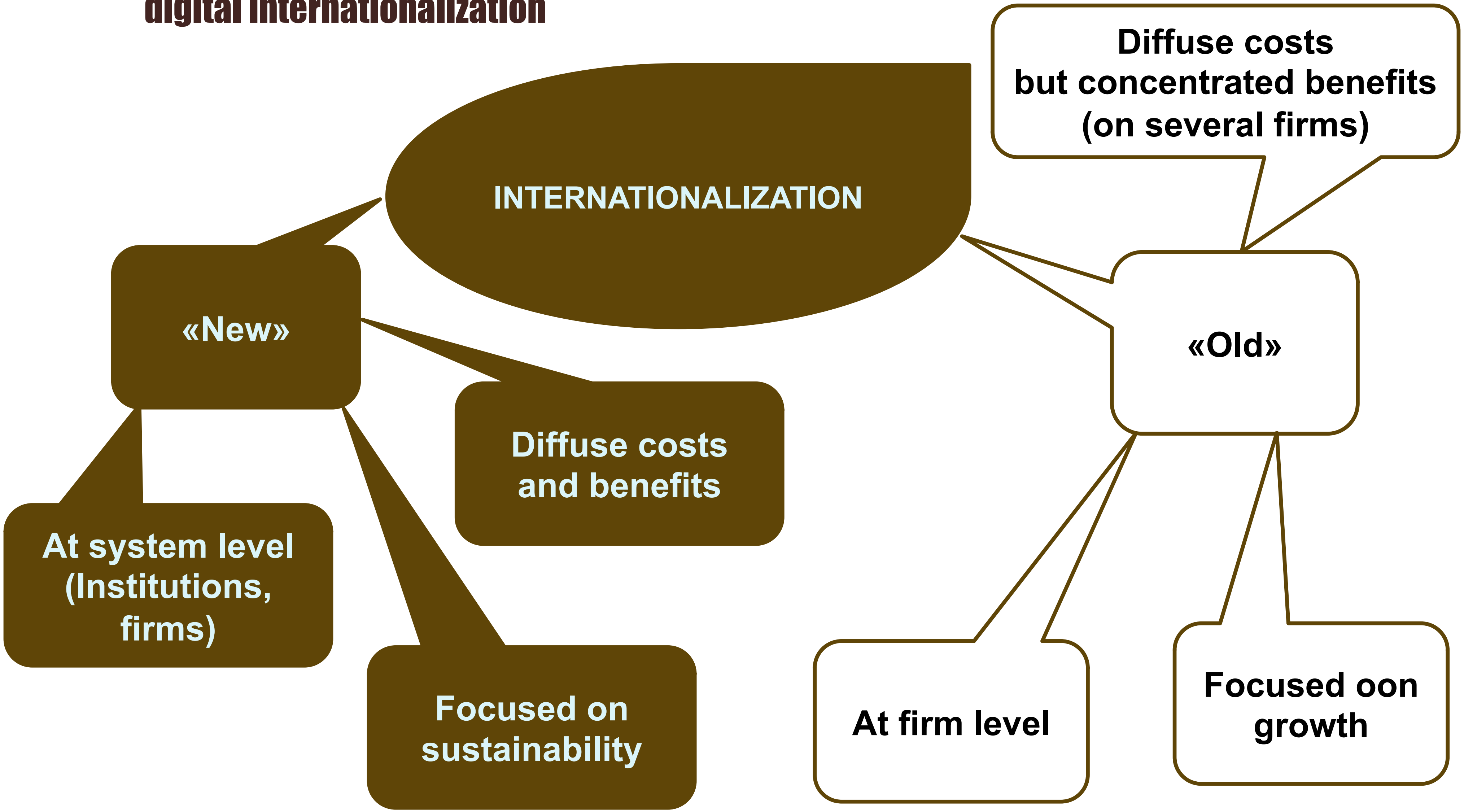
Foreign-controlled companies and those with a high propensity to export have been more responsive to the pandemic shock by accelerating the digital transition, changing sales and sourcing channels, designing a new business model

Internationalized company

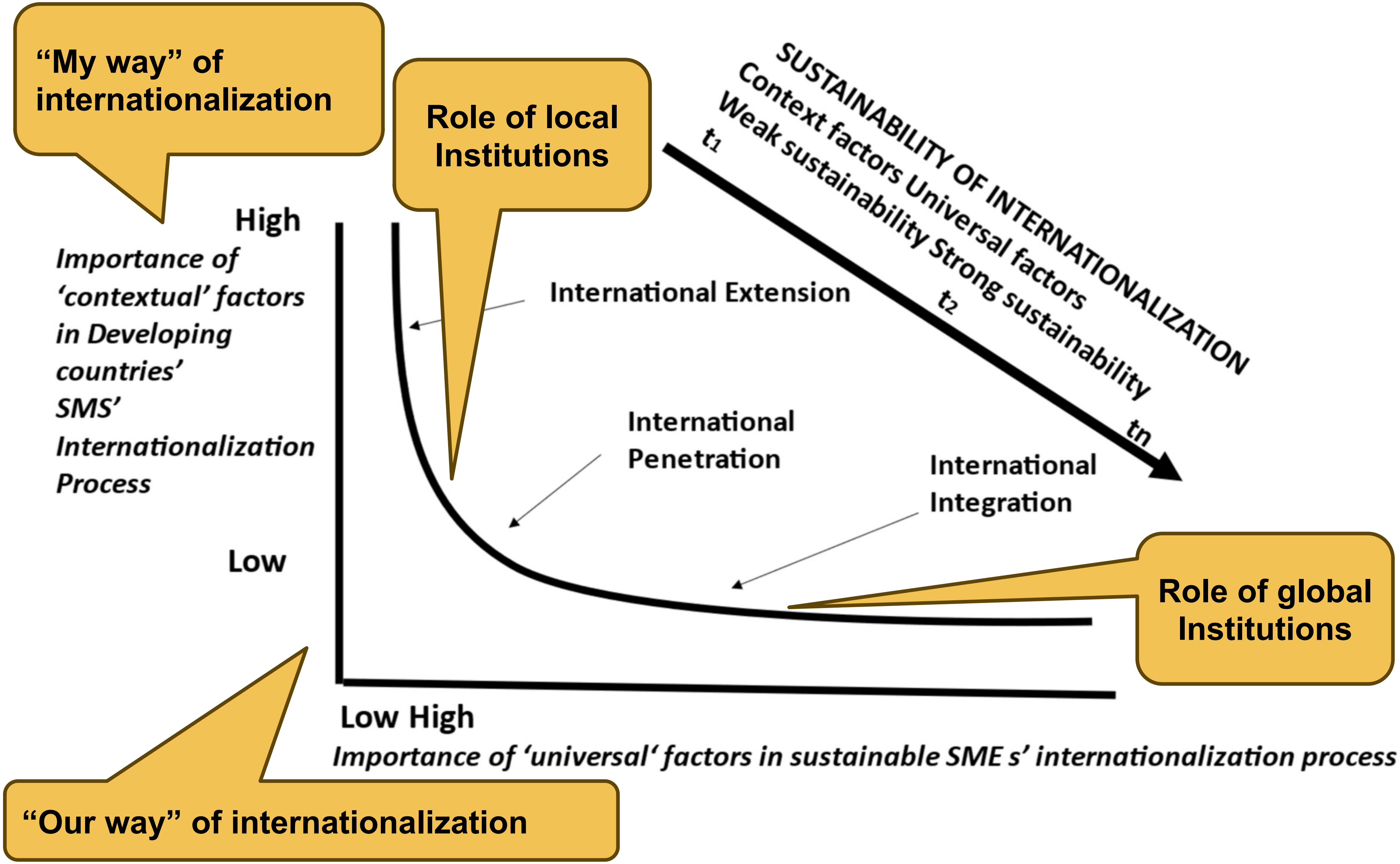
Towards a new internationalization path

Aim

Develop a sustainable and digital internationalization



Towards a more sustainable internationalization



Source: D. Coldwell, R. Venter, T.Joosub and H. Duh, The Tension between SMEs' Growth and Sustainability in Emerging and Developed Countries' Internationalization: Towards a Conceptual Model , 2022

Towards a more sustainable internationalization
Successful factors of internationalization
Lesson Learned

Phase of internationalization	Successful factors
Extension	• Knowledge of the international markets • Business skills • International orientation • Organization perception • Management skills
Penetration	• Strong sustainability orientation • Management and company global mindset • Product innovation
Integration	• Product innovation • Human capital • Social capital

Source: D. Coldwell, R. Venter, T.Joosub and H. Duh, The Tension between SMEs' Growth and Sustainability in Emerging and Developed Countries' Internationalization: Towards a Conceptual Model , 2022

Towards a new sustainability internationalization

The role of digitalization*

Lesson Learned

International Business Competencies

- ☐ Entrepreneurial orientation
- ☐ International knowledge
- ☐ Network
- ☐ Marketing capability
- ☐ Digital capability
- ☐ Innovation capability
- ☐ Learning capability

Speed of internationalization

Digitalization

Digital Internationalization «augmented like a metavers»

Allows a higher speed of internationalization
Enables SMEs to enter international markets

*Y-Y. Lee, M. Falahat, B-K. Sia, Impact of Digitalization on the Speed of Internationalization, 2019

The internationalization dilemma

Think global, act local

To change the “local”

?

Think local, act global

To change the “global”

Source: picture by Network digital 360

Internationalization? Not “everything” but “never without”

«Of course, the rate of **growth** and development of a nation depends not only on **globalization** but also on many other **domestic factors**, such as political stability, improvements in education and labor skills, increasing the rate of investment and absorption of new technologies (…), and so on. **But globalization is certainly a crucial ingredient for growth**».

(D. Salvatore, 2012)

Not “everything” but “never without”

Source: D. Salvatore, Growth, Poverty and Governance in the Age of Globalization, 2012

Towards a new internationalization path

IF SO …. THE NEW INTERNATIONALIZATION (WILL HAVE TO) HELP US THRIVE IN COMPLEXITY

THANK YOU FOR YOUR ATTENTION

EconLab Research Network s.r.l.

Piazza Filodrammatici, 3
31100 Treviso (IT)
tel. +39 0422 591544
fax +39 0422 411830

e-mail: info@econ-lab.eu

www.econ-lab.eu