International trade, foreign direct investment and global value chains

OECD

2017

ITALY

TRADE AND INVESTMENT STATISTICAL NOTE

International trade and foreign direct investment (FDI) are the main defining features and key drivers of global value chains (GVCs). However, despite their strong complementarities, the two flows are typically presented and treated separately in the statistical information system. Drawing on new and improved measures of trade and investment, this country note provides relevant statistical information from OECD databases on trade, investment, the activities of multinational enterprises (MNEs) and global value chains (TiVA). It sheds new light on the trade-investment nexus by highlighting the interrelationships between trade and FDI, their economic impact in the context of GVCs, and the role of MNEs as the main directors of these flows. The data are as of 1 May 2017. More information and country notes are available at www.oecd.org/investment/trade-investment-gvc.htm.

One-quarter (25% in 2014) of economic activity (GDP) in Italy depends on foreign markets, around the same as in Spain and the United Kingdom. MNEs play a significant role in driving exports, with Italian MNEs accounting for almost 40% of Italy's gross goods exports and local affiliates of foreign MNEs account for almost one-quarter of goods exports. Italy's outward FDI (equivalent to 25% of GDP in 2015) was slightly larger than its inward FDI (19%). Under a broader notion of international orientation that captures the impact on national income of exports and sales through foreign affiliates, Italy's international orientation was equivalent to one-quarter (25%) of GDP in 2014, the same as suggested by trade data alone.

Considering both trade and investment through this broader perspective can also shed new light on Italy's most important partner countries and how they supply the Italian market. For example, while most partner countries supply Italian consumers mainly through trade, the Swiss do a substantial share through sales by foreign affiliates. Furthermore, considering both trade and investment the United Kingdom moves ahead of China as a more important partner due to its more extensive investment links with Italy.

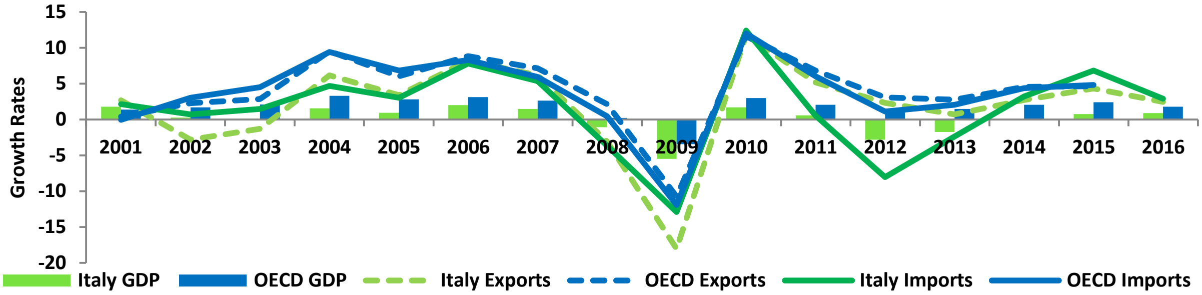
The top manufacturing exporting industries in Italy are machinery and equipment (MEQ), textiles (TEX) and chemicals and chemical products (CHM). The chemicals industry has a high share of value added by foreign-owned firms and a high export orientation illustrating the role inward investment can play in GVC integration. In contrast, the textiles industry has a low share of value added by foreign-owned firms, but a high export orientation showing the strength of Italian enterprises. Both the services content of its exports and the share of inward investment in the services sector for Italy are in the mid-range of OECD economies.

Trade and investment in Italy

Growth in trade has recovered since the global and euro crises but slowed slightly in 2016

Like many European economies, Italian trade contracted significantly at the height of the global crisis and again during the euro crisis, with imports particularly shrinking in 2012. Italian trade growth was below the OECD average in the pre-crisis years but export growth has tracked OECD rates since the crisis. However, in 2016, export growth slowed to 2.4%.

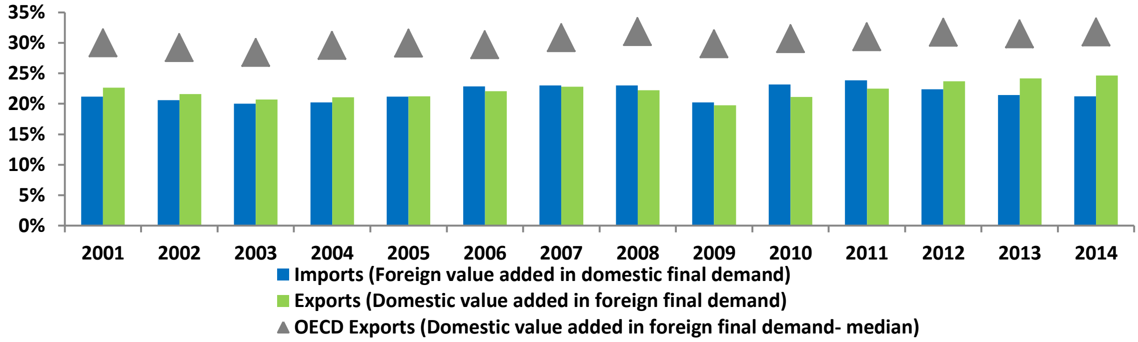
Figure 1. Growth rates of trade and GDP for the OECD and Italy, 2001-2016



Source: OECD SNA

Gross exports amounted to USD 554 billion in 2016 (33% of GDP), and gross imports to USD 491 billion (30% of GDP). Gross trade figures however overstate the 'real' contribution of trade to the economy. In value-added terms, exports contributed 25% of total GDP in 2014, the highest recorded, but below the OECD median (grey diamond). The contribution of direct and indirect imports to domestic final demand measured 21% in 2014.

Figure 2. Trade in value added terms, imports and exports, 2001-2014

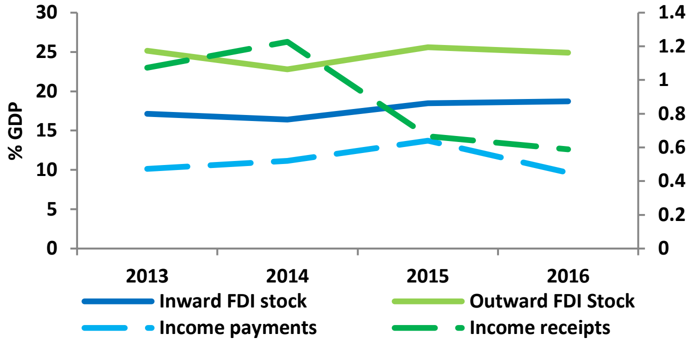


Source: OECD-WTO Trade in Value Added Data

Investment is more outward than inward

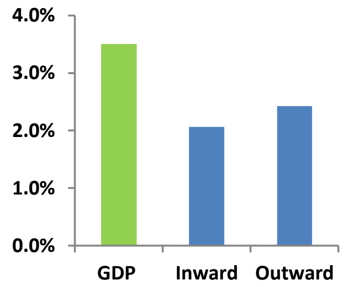
Both outward (equivalent to 25%) and inward (19%) FDI stocks as shares of GDP are low relative to other OECD countries and FDI is more outward orientated (Figure 3). In 2015, Italy's share of the OECD total outward FDI stock (2.4%) and its share of the total inward FDI stock (2.1%) were below its share of GDP (3.5%) (Figure 4).

Figure 3. FDI stocks and income as a share of GDP total



Source: OECD FDI Statistics (BMD4)

Figure 4. FDI stocks and GDP as a share of OECD total, 2015



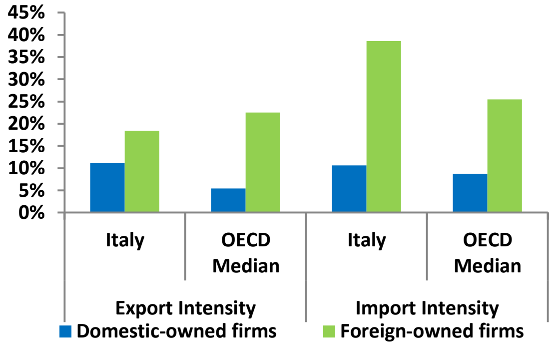
Source: OECD FDI Statistics (BMD4)

Foreign-owned firms directly sustained 8% of jobs in the private sector in 2013….

Reflecting the relatively small size of inward investment compared to other OECD economies, foreign-owned enterprises accounted for 8% of jobs in the private sector in 2013 and 14% of private sector value added produced in Italy, excluding the agriculture and finance sectors.

…and are more export intensive than domestically owned firms

Figure 5. Export and import intensity of domestic and foreign-owned enterprises



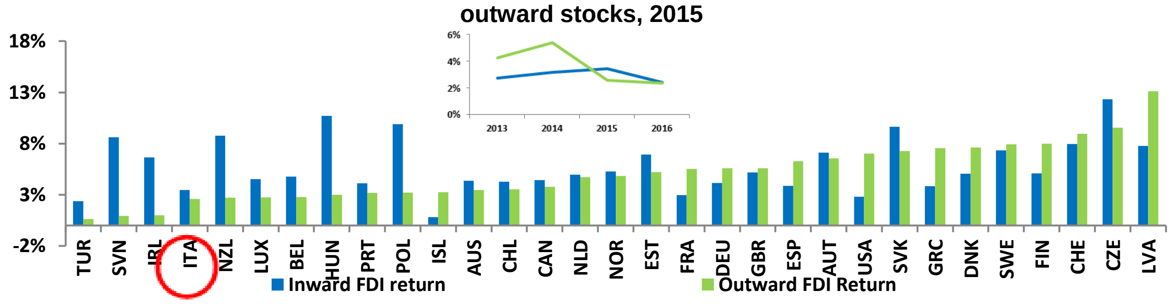
Source: OECD AMNE and Trade by Enterprise Characteristics (TEC) statistics (2011)

On average, foreign-owned firms in Italy are more export intensive (share of exports in turnover) than domestically owned firms; however their export intensity is below the OECD median, partly reflecting a relative orientation towards the large domestic market. The import intensity of foreign-owned firms (share of imports in purchases) is significantly higher for foreign-owned than domestic firms.

Domestic MNEs provide important channels to penetrate foreign markets via affiliates…

In 2015, Italy received USD 12 billion in income from its outward FDI, equivalent to approximately 1% of GDP. Italy's rate of return at 2.6% (green bar) on its outward FDI is at the lower end of OECD countries, and below its 2014 rate (see chart insert). The return to foreign investors in Italy was 3.5% in 2015, also at the lower end of OECD countries.

Figure 6. Return on investment, income receipts and payments as a share of inward and outward stocks, 2015

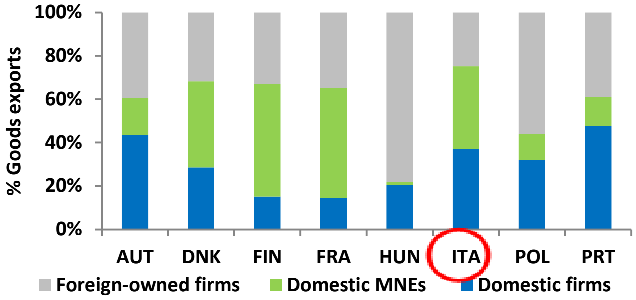


Source: OECD FDI Statistics (BMD4)

…and via exports

Relative to other European economies Italian parent MNEs play a significant role in GVC integration, almost 40% of goods exports are by Italian parent MNEs, and domestic non-MNEs account for a further 37% of goods exports.

Figure 7. Goods Exports by firm type, the role of Italian MNEs

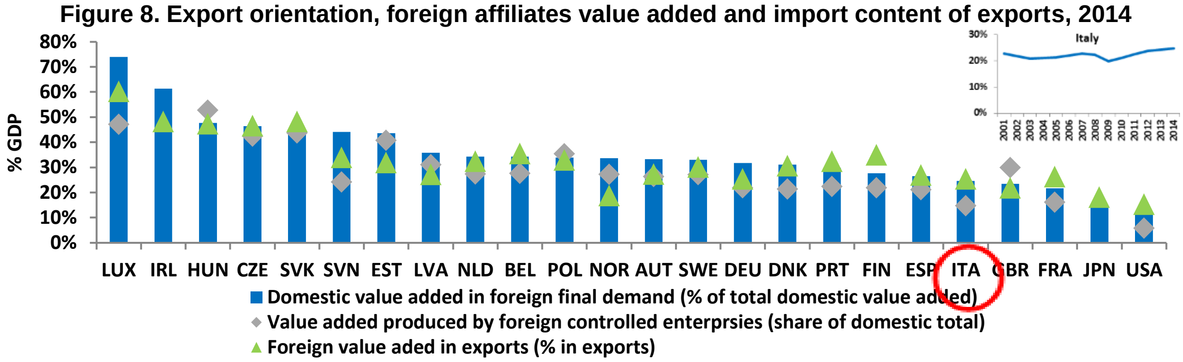


Source: OECD TEC statistics (2011)

But Italy's export orientation is low relative to OECD economies

Exports (in value added terms) contribute around 25% of Italian GDP, this is relatively low compared to other OECD economies, but comparable with the United Kingdom and France, which may in part reflect low levels of inward investment and their relatively low export intensity (compared to foreign affiliates operating in other countries). However, export orientation has recovered since the crisis (see chart insert).

Figure 8. Export orientation, foreign affiliates value added and import content of exports, 2014

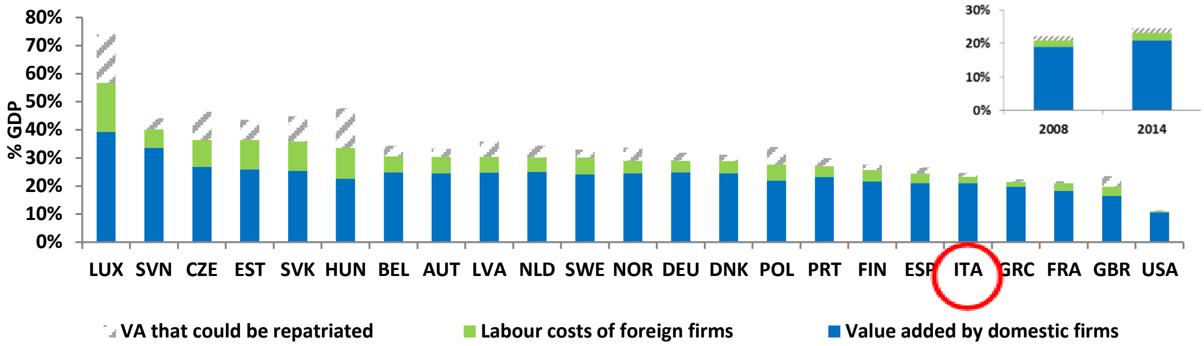


Source: OECD-WTO Trade in Value Added Data and OECD AMNE statistics

Not all of the domestic value added content of exports sticks in the economy…

Gross export figures overstate the real economic impacts of trade to the exporting economy, but TiVA estimates can also overstate these impacts as the profits earned by foreign-owned firms through exports are repatriated if they are not reinvested. Figure 9 illustrates the importance of these flows across countries by showing the value added in exports of domestically-owned firms (blue bar), wages paid by foreign-owned firms (green bar), and profits of foreign-owned firms (grey bar), which in practice can be repatriated. Excluding these profits Italian exports contain 23% of value-added that remains in the economy. So, only 2% of GDP represents exported value added by foreign-owned firms, and 6% of Italy's exported domestic value added represents profits by foreign-owned firms reflecting low levels of inward investment and low export intensity of foreign-owned firms. The share of value added that remains in the economy has increased since 2008, (insert chart).

Figure 9. Exports by ownership and their contribution to income, as a share of GDP, 2014

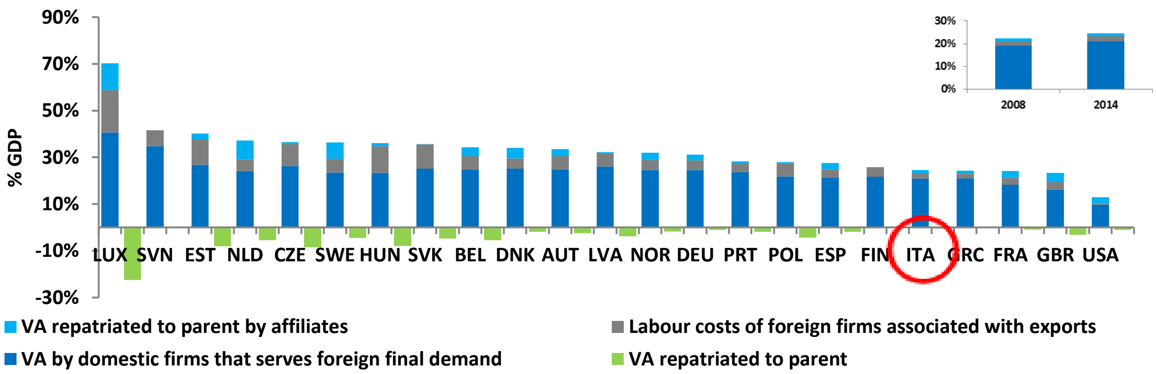


Source: OECD-WTO Trade in Value Added Data and OECD AMNE statistics

Taking a broader view by including the income of foreign affiliates can provide a more complete picture of the international orientation of the Italian economy

Firms serve foreign markets by exporting or by selling through their foreign affiliates. Figure 10 takes a broader view of an economy's international orientation by taking account of both trade and investment. The chart begins with the domestic value added in exports that remains in the economy – exports of value added by domestic firms (blue bar) and wages paid by foreign-owned firms associated with exporting (grey bar) – and adds to it the profits that domestic MNEs receive from the activities of their foreign affiliates as measured by FDI income receipts (light blue bar). The income payments made to foreign parents are presented for information purposes (green bar). For Italy this broader measure (25%) is similar to the export orientation measure from TiVA because Italian FDI income is broadly balanced. Italy remains at the lower end of OECD countries using this measure, however this has increased since 2008, due to increases in exports of domestic value added (see chart insert).

Figure 10. Supplying markets through trade and investment: a broader perspective, 2014

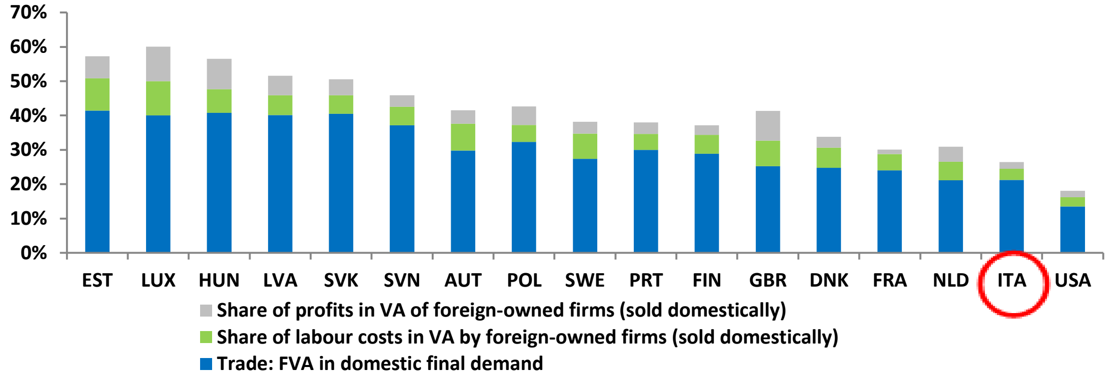


Source: OECD-WTO Trade in Value Added Data, OECD AMNE and OECD FDI (BMD4) statistics

This broader perspective can also shed light on how foreign firms serve the Italian market

Foreign producers supplied products and services for Italian final consumption equivalent to 26% of GDP in 2014, the majority is through trade (foreign value added in Italian final demand equals approximately 21% of GDP), but value added generated by foreign affiliates in Italy for domestic (non-export) sales (Figure 11) accounts for 5% of GDP. Although some of this value added can be repatriated to parents, the share is significantly lower in Italy than in most other OECD economies (grey bar).

Figure 11. How foreign firms serve your market: a value added perspective, 2014



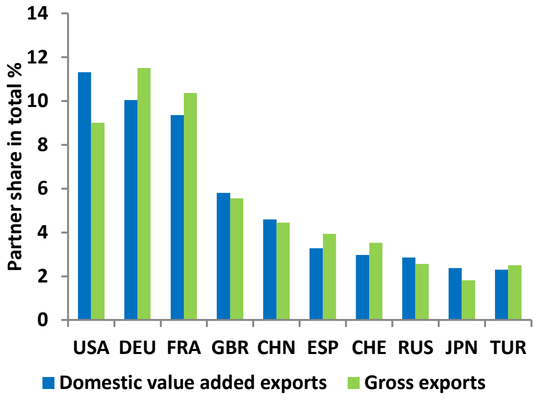
Source: OECD-WTO Trade in Value Added Data, OECD AMNE and OECD TEC statistics

Trade and investment by partner country

Trade measured from a value added perspective better reflects the bilateral relationships

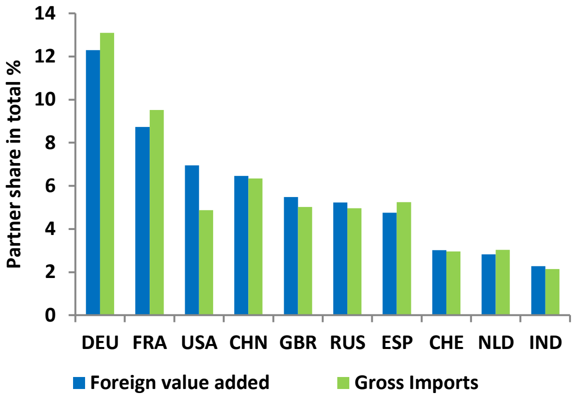
Gross bilateral trade figures can disguise the true nature of trade interdependencies, particularly between final consumers in one country and producers at upstream parts of the value chain. This is evident for the bilateral relationship with the United States, Germany and France; using gross trade data overstates the role of Germany and France, which are passed by the United States when trade in value added data are used. On the import side, Russia is a more important import partner than Spain once value added is considered.

Figure 12. Exports: gross and value added terms, by partner country, 2014



Source: OECD-WTO TiVA Data

Figure 13. Imports: gross and value added terms, by partner country, 2014

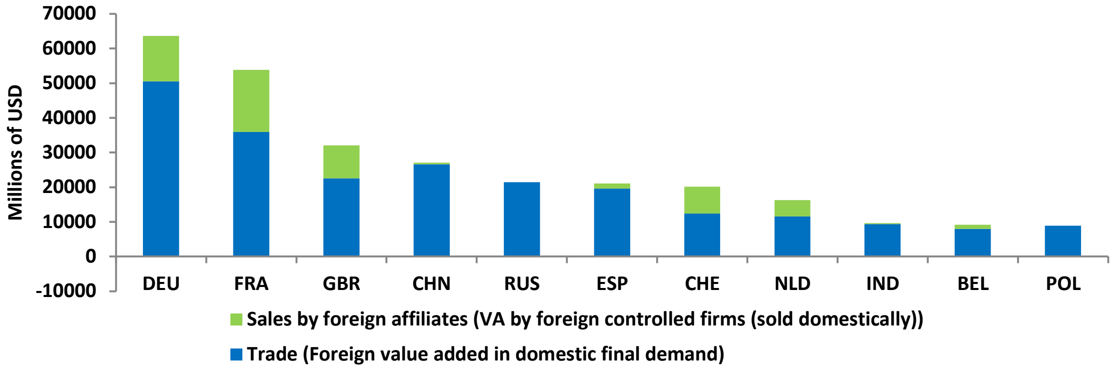


Source: OECD-WTO TiVA Data

…and interdependencies are further revealed when looking at the broader notion of 'trade'

Foreign firms can serve an economy though trade or sales by foreign affiliates; bringing the trade and investment perspectives together can shed a different light on who a country's most important partners are (Figure 14). Substantial variation exists across countries in how they supply the Italian market. For example, while most partner countries supply Italian consumers mainly through trade, the Swiss do a substantial share through sales by foreign affiliates. Furthermore, considering both trade and investment, the United Kingdom jumps ahead of China; this is not evident when looking at trade alone.

Figure 14. Supplying the Italian market via trade and investment: Top 10 partner countries, 2014



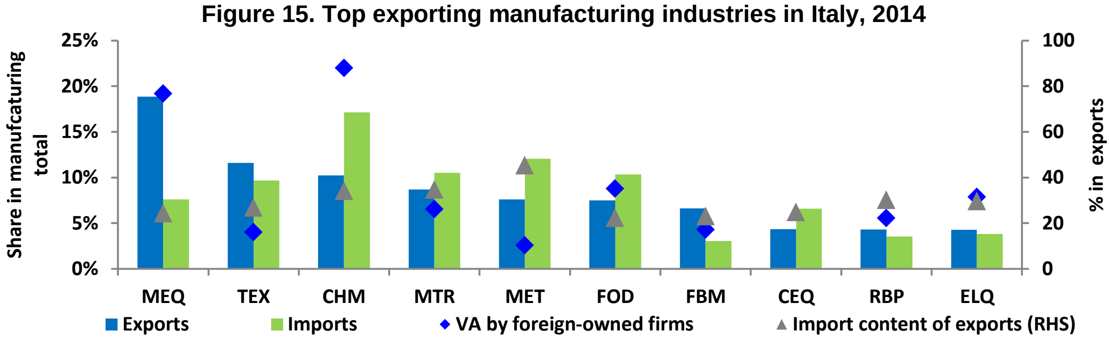
Source: OECD-WTO TiVA Data and OECD AMNE statistics
Note: Data on foreign affiliate presence is not available for Poland.

Trade and investment by industry

Both inward and outward investment helps shape Italy's GVC integration

The top manufacturing exporting industries in Italy are machinery and equipment (MEQ), textiles (TEX) and chemicals and chemical products (CHM). The import content of exports varies across these industries--illustrating the role that importing plays in supporting exports and indicating the degree of GVC integration in these industries. The role of foreign-owned firms differs substantially across Italian industry, in part reflecting Italy's own comparative advantages and specialisation of its MNEs.

Figure 15. Top exporting manufacturing industries in Italy, 2014

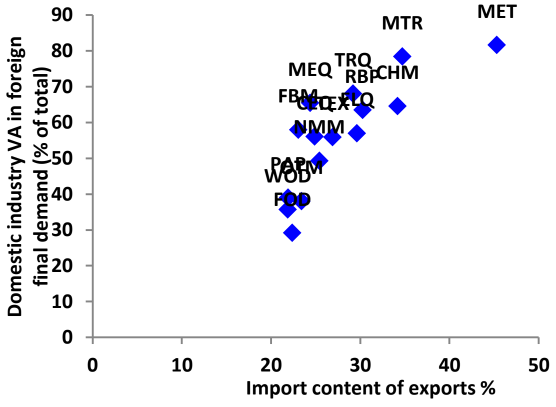


Source: OECD-WTO Trade in Value Added Data and OECD AMNE statistics. See page 10 for a description of industry codes.

Exports and imports go hand in hand…

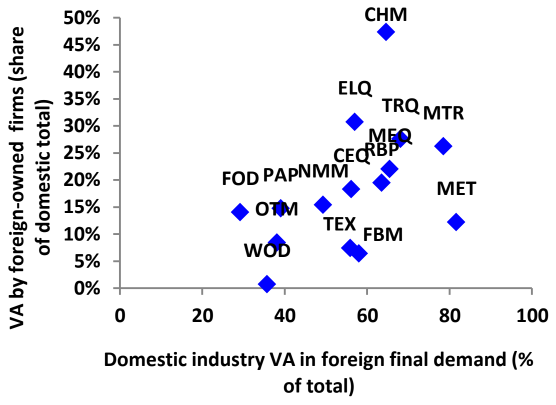
Across most industries there is a strong positive correlation between higher import content of exports and a higher share of their domestic value-added being exported (export orientation) illustrating the strong complementarity of exports and imports (Figure 16).

Figure 16. Import content of exports and export orientation, 2014



Source: OECD-WTO TiVA Data and OECD AMNE statistics

Figure 17. Foreign-owned firms and export orientation, 2014

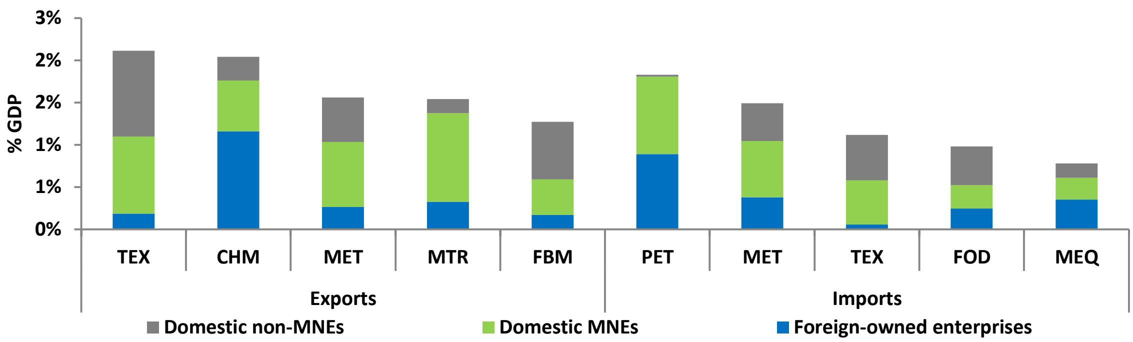


Source: OECD-WTO TiVA Data and OECD AMNE statistics

...and investment and export orientation can also go hand in hand

At the same time, strong complementarities can exist between inward investment and export orientation (Figure 17). Although less strong for Italy than many other OECD countries, some industries where foreign-owned firms produce more of the value added are also those that have a higher export orientation. The textiles (TEX) industry is an exception reflecting the strong domestic MNEs. Figure 18 illustrates the trade in goods by firm ownership the main traders varies across industry reflecting that in some cases Italy is at the start of the GVC, i.e. in motor vehicles (MTR) while in the chemicals industry (CHM) foreign-owned enterprises also play a significant role.

Figure 18. Gross trade in goods by enterprise ownership and industry, as a per cent of GDP

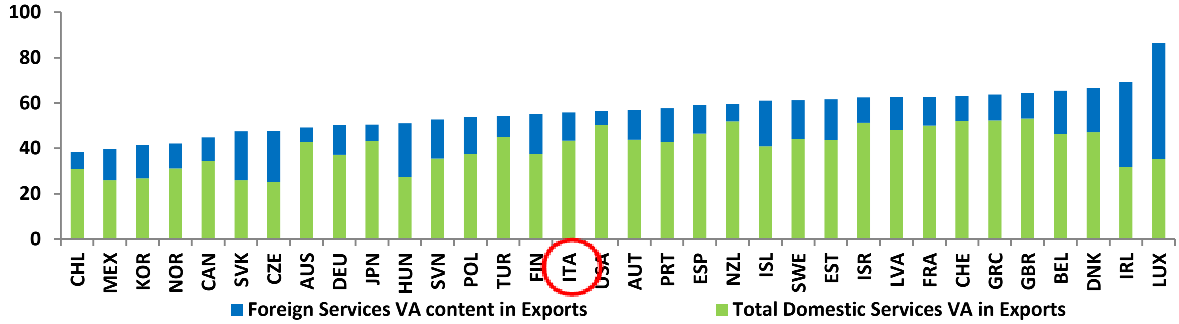


Source: OECD TEC Statistics, 2011 (latest data available)

Service industries play an important role in the export orientation of an economy…

Typically, services account for a large share of the value added in the economy but conventional gross trade statistics understate this as they cannot reveal the contribution that the upstream services industry plays in the production of goods exports. Accounting for this contribution, the services content of Italy's total exports of goods and services was 56% in 2014 (Figure 19), just below the OECD median.

Figure 19. Services content of gross exports for OECD countries, 2014

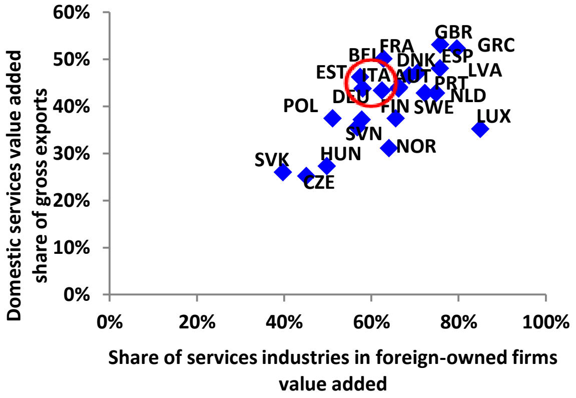


Source: OECD-WTO TiVA Data

…and so inward FDI in the services sector can be an important channel for export success

Greater direct foreign investment in the services sector is associated with higher services content in exports. For Italy, the share of investment in services is at mid-range of OECD economies correlated with the services content in exports.

Figure 20. Share of services industries in foreign-owned firms value added and domestic services value added share of gross exports, 2014



Source: OECD-WTO TiVA Data and OECD AMNE statistics

Links and data sources

Guide to the trade and investment statistical notes
www.oecd.org/investment/Guide-trade-investment-statistical-country-notes.pdf

Activity of Multinational Enterprises - AMNE www.oecd.org/sti/ind/amne.htm

OECD Benchmark Definition of Foreign Direct Investment - 4th Edition (BMD4)
(see Chapter 8 for information on the intersection of AMNE and FDI data)
www.oecd.org/investment/fdibenchmarkdefinition.htm

Foreign Direct Investment (FDI) Statistics www.oecd.org/investment/statistics.htm

Trade by Enterprise Characteristics - TEC
www.oecd.org/std/its/trade-by-enterprise-characteristics.htm

Trade in Value Added - TiVA
www.oecd.org/sti/ind/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm

Table of industry codes

Industry Type	Ind Code	Industry Description
Primary Industries	AGR	Agriculture, hunting, forestry and fishing
	MIN	Mining and quarrying
Manufacturing	FOD	Food products, beverages and tobacco
	TEX	Textiles, textile products, leather and footwear
	WOD	Wood and products of wood and cork
	PAP	Pulp, paper, paper products, printing and publishing
	PET	Coke, refined petroleum products and nuclear fuel
	CHM	Chemicals and chemical products
	RBP	Rubber and plastics products
	NMM	Other non-metallic mineral products
	MET	Basic metals
	FBM	Fabricated metal products except machinery and equipment
	MEQ	Machinery and equipment n.e.c
	CEQ	Computer, electronic and optical products
	ELQ	Electrical machinery and apparatus n.e.c
	MTR	Motor vehicles, trailers and semi-trailers
	TRQ	Other transport equipment
	OTM	Manufacturing n.e.c; recycling
Services	EGW	Electricity, gas and water supply
	CON	Construction
	WRT	Wholesale and retail trade; repairs
	HTR	Hotels and restaurants
	TRN	Transport and storage
	PTL	Post and telecommunications
	FIN	Finance and insurance
	REA	Real estate activities
	RMQ	Renting of machinery and equipment
	ITS	Computer and related activities
	BZS	Research and development & Other Business Activities
	GOV	Public admin. and defence; compulsory social security
	EDU	Education
	HTH	Health and social work
	OTS	Other community, social and personal services
	PVH	Private households with employed persons