



# GTIPA PERSPECTIVES: NATIONS' TRADE POLICY PRIORITIES FOR THE YEAR AHEAD

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## Trade Priorities in a Multilateral World

Italian exports have been affected by the generalized decline in economic activity (GDP estimates range from a 9 to 13 percent decrease for 2020) because of the COVID-19 pandemic and restriction measures to contain it. The drop in both exports and imports (respectively 24.8 percent and 21.8 percent in the first two quarters of the year) has been mainly a consequence of the contraction in global trade, and especially in value chains in the European countries, caused by the worldwide pandemic. Economic activity contracted most sharply in Italy's main sectors, and consequently Italian exporters have been more severely hampered by production and logistical difficulties, so exports are expected to fall by the end of the year in excess of the global average. There are substantial downside risks here as well, because a longer and more widespread international lockdown on activity could cause world trade to collapse on a similar pace as in 2009.

Moreover, foreign competitors might take advantage of the difficulties of Italian manufacturers to poach market shares. Italian firms, in fact, might also be more affected by the downturn due to characteristics of the national economic systems. First of all, the weight of SMEs in the domestic economy, which represent a dominant share of the Italian industrial structure, in terms of number of firms (over 99 percent) and employees (over 65 percent). In addition, obstacles remain to credit access for families and companies, and many of the main financial institutions still need capital from public funds. Finally, a lack of logistic management and adequate infrastructure systems are among the main weaknesses of the Italian economic system.

Beyond the contestation of economic globalization and the pandemic, and the previously mentioned systemic peculiarities, Italy's trade policy faces a series of challenges and an international political framework to which it will have to adapt.

## Italy's Trade Challenges

These are the three biggest trade policy challenges Italy faces:

### 1. Multilateral Order

Beyond the harsh reaction to globalization, opposition to the multilateral approach has emerged, including within the European Union and its member states. The post-WWII liberal order has entered a phase of crisis, affecting the global trade exchanges system where WTO is threatened by stalemate. This development affects Europe in particular, since it has been built on the rule of law and has always supported rules-based international relations.

### 2. “America First” Approach and New Protectionism Order

The debate on protectionism, which the pandemic has momentarily overshadowed, has been the main source of global economic tensions over the last two years. Even now, the blockage of trade is playing a major role by aggravating the impact of interruptions along international supply chains. The “America First” approach adopted by the American administration is a key issue in terms of the United

States' historical role in the global governance of trade. The Trump administration's approach rests on a preference for bilateral action, in which it hopes to achieve the best results by exercising pressure on its partners, even with protectionist measures.

### **3. China's Emerging Status**

In the last decade, China has showed greater confidence in international affairs, taking advantage of open markets, globalization, multilateral institutions, and the WTO system. However, Chinese strategy has turned out to be different from that of the United States after World War II. Xi Jinping is not surging as champion of world free trade, nor does he want to impose his vision to the entire world. China's approach to international trade, including with Italy, and the multilateral system is to "choose" what interests it, and pursue it. The Belt and Road Initiative (BRI) is a perfect example of China's way to increase its power and influence, using multiple tools: investments, trade, and infrastructures.

### **Italy's Trade Opportunities**

As Italy slowly walks through the pandemic it needs to engage with the international system in order to plan its future actions. Due to the intertwined bond between politics and trade, Italy has been one of the most important countries in the EU regarding international relations on the European continent. Due to its diplomatic and geographic position, the country is starting in a favorable position amid one of the worst pandemics in history. But Italy needs to be ready to deal with the new challenges. The most important steps Italy can take to advance its trade policy environment include the following.

#### **1. Regulating Chinese Investments and Grasp Advantages in the BRI**

Italian priorities on Chinese issue should be twofold: the country shall never break the united front with the other EU countries, and should always try to find a balance between its internal economic constraints and its position as one of the funding members of the European Union. Italy, with the EU's support, needs to recalibrate Chinese investments in its strategic sectors, while diminishing dependence on Chinese FDI. The European investment screening activating this October is a step toward a more strategic and safeguarding reception of such. Moreover, Italy needs to increase the pressure fostering the reciprocity principle between its relations with the Asiatic economic giant. Only in this way, will it be able to soon invest in Chinese strategic sectors as well. The Italian SMEs need a developed Country System (i.e., a national innovation and competitiveness strategy) to promote their products along the Eurasian continent, focusing not only on Italian traditional excellences but also on other high-quality national outputs in the pharmaceutical and the manufacturing sectors. These may have the chance to build a more comprehensive and sustained competition with Italy's European allies in the markets involved. It's important also to keep in mind the Made in China 2025 strategy aimed at speeding the country's technological development, it being a watershed between China as a client and China as an exporter or a competitor. Second, to prompt trade along the BRI, Italy needs to assure its citizens and companies that a common, balanced intellectual property regime and regulations exist. Italy must establish ways of regulating the "Made in Italy" label and other intellectual properties.

#### **2. The Digital Single Market in the EU**

To achieve trade innovation, the country needs to enact support programs for structural investments to ensure the interoperability of the systems and technologies used, as well as to develop the potential of e-commerce, which represents a new frontier for businesses, especially for Italian SMEs. On connectivity, Italy has to encourage public and private investments in digital infrastructures and to develop ultra-wideband Internet, considering the objectives of the EU 2020 agenda as minimum development targets

for all countries. On research and development (R&D) and innovation regarding production, the country must favor the evolution of traditional production systems toward a broad “digital manufacturing” system. As stated, it is fundamental to then guarantee a powerful Country System able to promote Italian interests in the EU and internationally. It is then highly advised to improve the accessibility of the funding for start-ups and innovative companies. In fact, they are a technology transfer front between academic research and the production system, driving innovation as well as being a powerful engine of employment even in non-high-tech sectors. The 2012 “Decreto Crescita ‘bis’” government decree moved the first shy steps toward a national response regarding start-ups and innovative enterprises. To succeed in this race to trade development and implementation the country needs to develop special physical and fiscal areas where to promote this kind of innovation.

### **3. The United States of America: Less Tariffs for Post-COVID-19**

The United States represents one of Italy’s most important trade partners, although Italy is represented by the European Union during trade negotiations with the United States. The last trade agreement on tariffs, made between the EU and the United States, officially communicated on the August 21, 2020, is a small step toward a more-comprehensive partnership taking the place of the failed Transatlantic Trade and Investment Partnership (T-TIP). Italy’s preeminent position during the G20 Abu Dhabi (starting on the December 31, 2020) will be a unique opportunity to influence the political and commercial direction of the body. Thus, the country must favor the creation of a new international agreement for trade liberalization between Europe and the United States. Aside from the difficult negotiation, the country must push toward greater liberalization in the pharmaceutical and manufacturing sectors especially.

### **4. Toward Bilateral Negotiations and Free Trade Agreements**

In order to establish a prominent role in the world arena and take advantage of a full liberalization of trade, Italy should also pursue the creation of new trade alliances. How? By carrying forward bilateral negotiations with like-minded countries, especially the developing ones, and eliminating trade barriers (including bureaucratic burdens and constraints). The last free-trade agreements entered into force in 2019, such as the JEFTA (Japan-Europe Free Trade Agreement) and CETA (Canada-Europe Free Trade Agreement), which achieved the removal of nearly €1 billion (\$1.16 billion) in customs duties, the opening of public procurement, and greater access to the services market in Japan and Canada, as well the protection of geographical indications of typical products. New bilateral agreements would foster the expansion of trade relationships with new merging markets, and generate benefits for the Italian manufacturing and service sectors, which need to be supported after the pandemic crisis.



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