

Are Italy's and Germany's economic strategies competitive or complementary?

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Competitiveness in Europe: confronting Italy and Germany

Residence Ripetta, Rome, 11-12 July 2011

Content

- **Exports have been Germany's and Italy's main engine**
- **Two different performers in the last decade**
- **The net export have been differently contributing to the two countries' performances**
- **The traditional explanation based on the different evolutions of international competitiveness**
- **Structural peculiarities such as the different degree of openness of Germany and Italy are equally relevant**
- **On the supply side and demand side Germany has been positively adapting to the last decade's globalization.**
- **Yet the German model is highly dependent on foreign demand and excessive current-account surplus versus the Euro area**
- **The common challenges ahead: competing in the global economy and membership of the euro area**

GDP, GDP per person, Employment

	GDP % (prices 2007)	GDP per person (% average)	Employment (% annual average)
GERMANY			
1994-1999	1.75	1.58	0.48
2000-2003	0.34	0.20	-0.36
2004-2008	1.94	2.05	0.89
2009	-4.72	-4.43	-0.01
2010	3.63	3.78	0.54
ITALY			
1994-1999	1.73	1.70	0.55
2000-2003	0.75	0.36	1.74
2004-2008	0.70	0.00	1.02
2009	-5.22	-5.79	-1.65
2010	1.30	0.83	-0.73

Source: Ameco Database

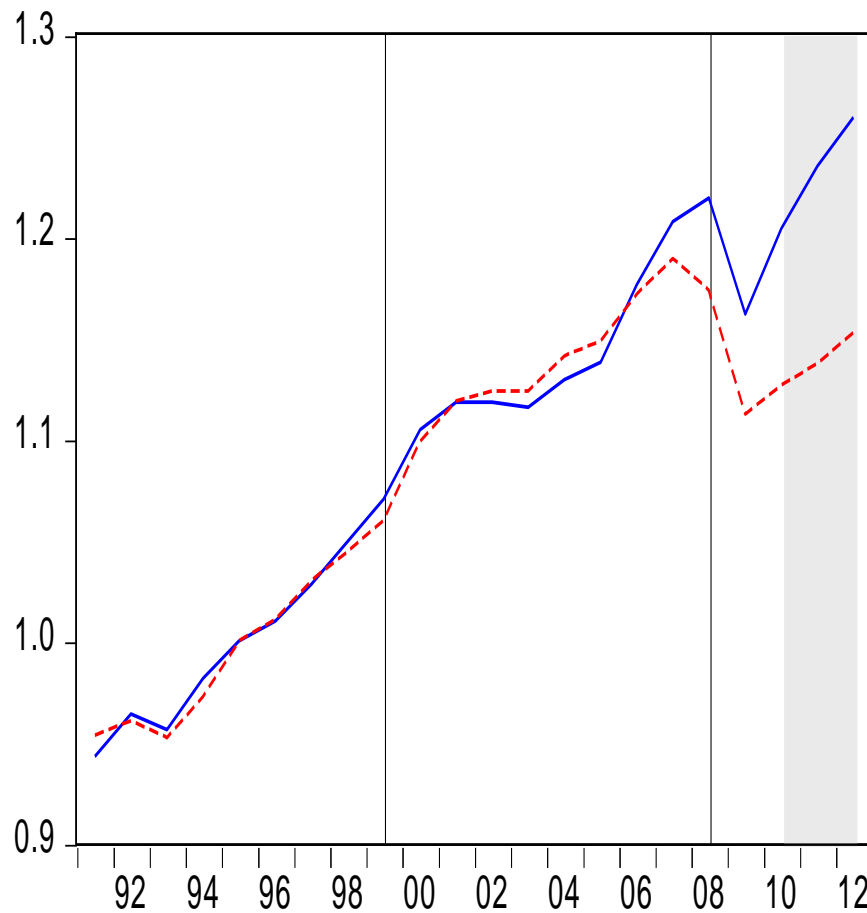
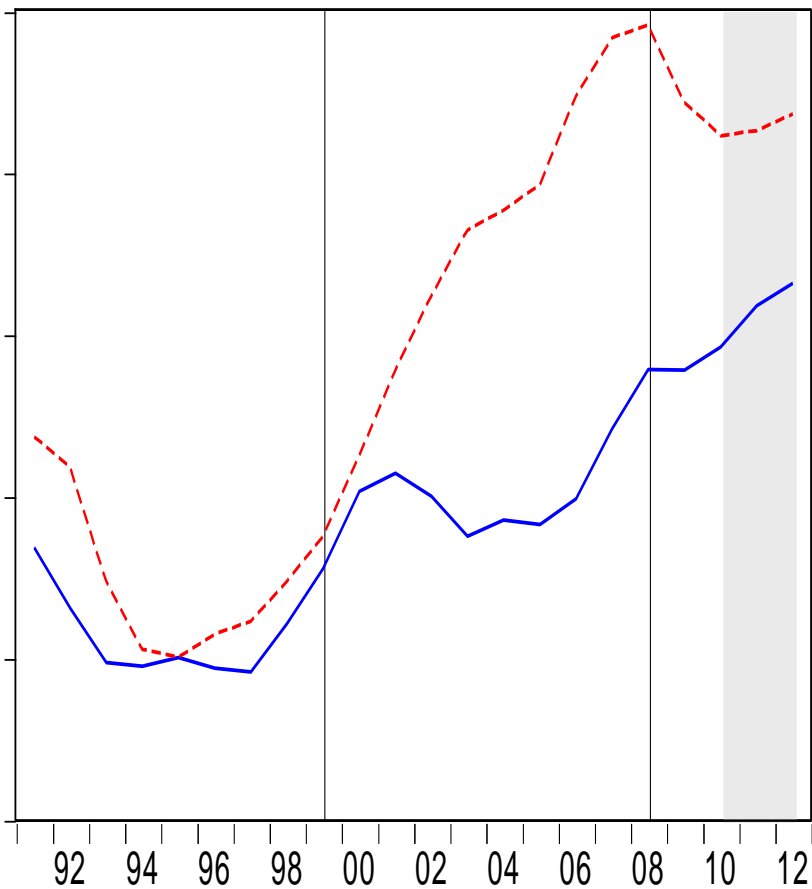
Two different performers

———— **Germany**

----- **Italy**

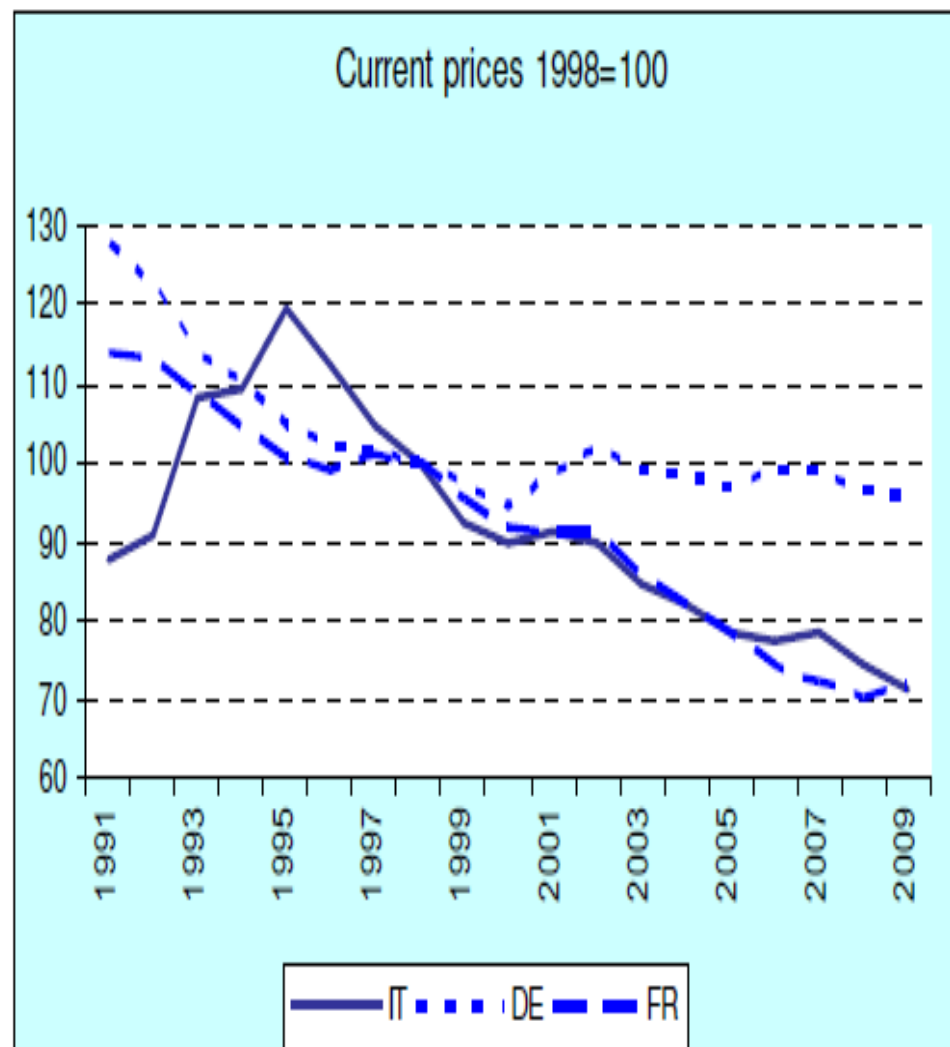
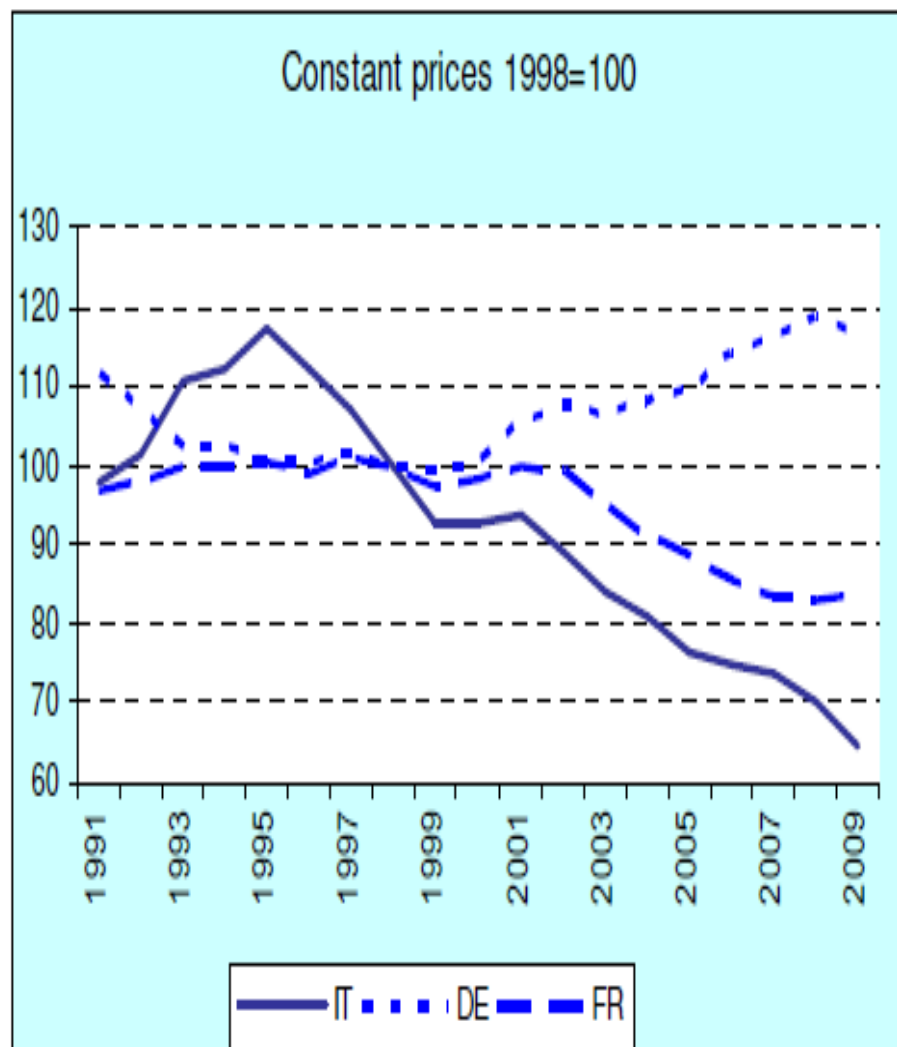
Employment

GDP



Source: Ameco database

Export performance at constant and current prices*



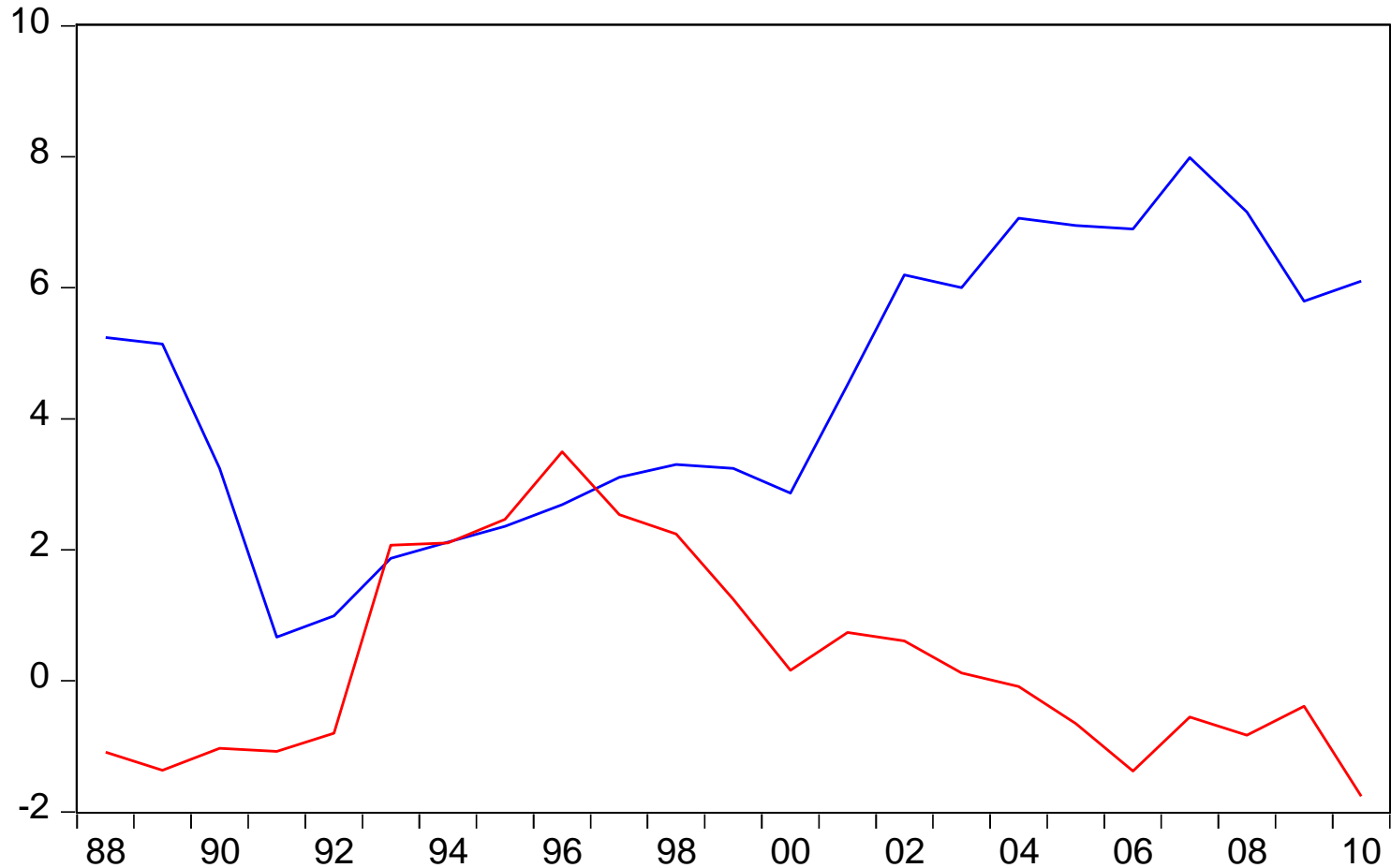
*Performance of exports of goods and services relative to the rest of 35 industrial countries; double export weights.

Source: Commission services' calculations

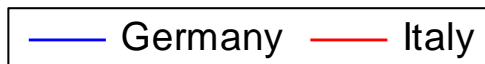
Trade Balances as percentage of GDP

GERMANY **ITALY**

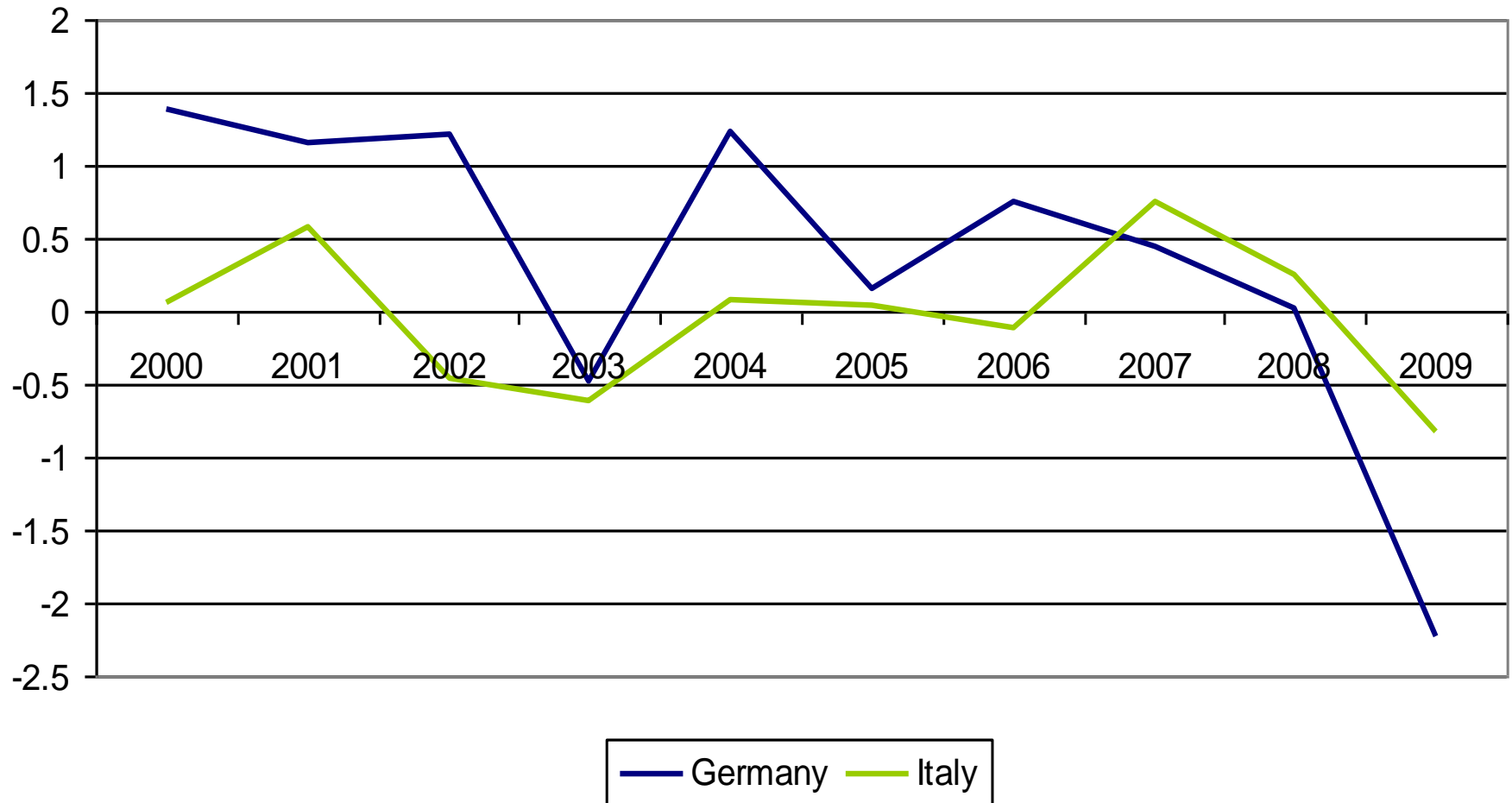
total exports/gdp-total imports/gdp



Source: COMEXT



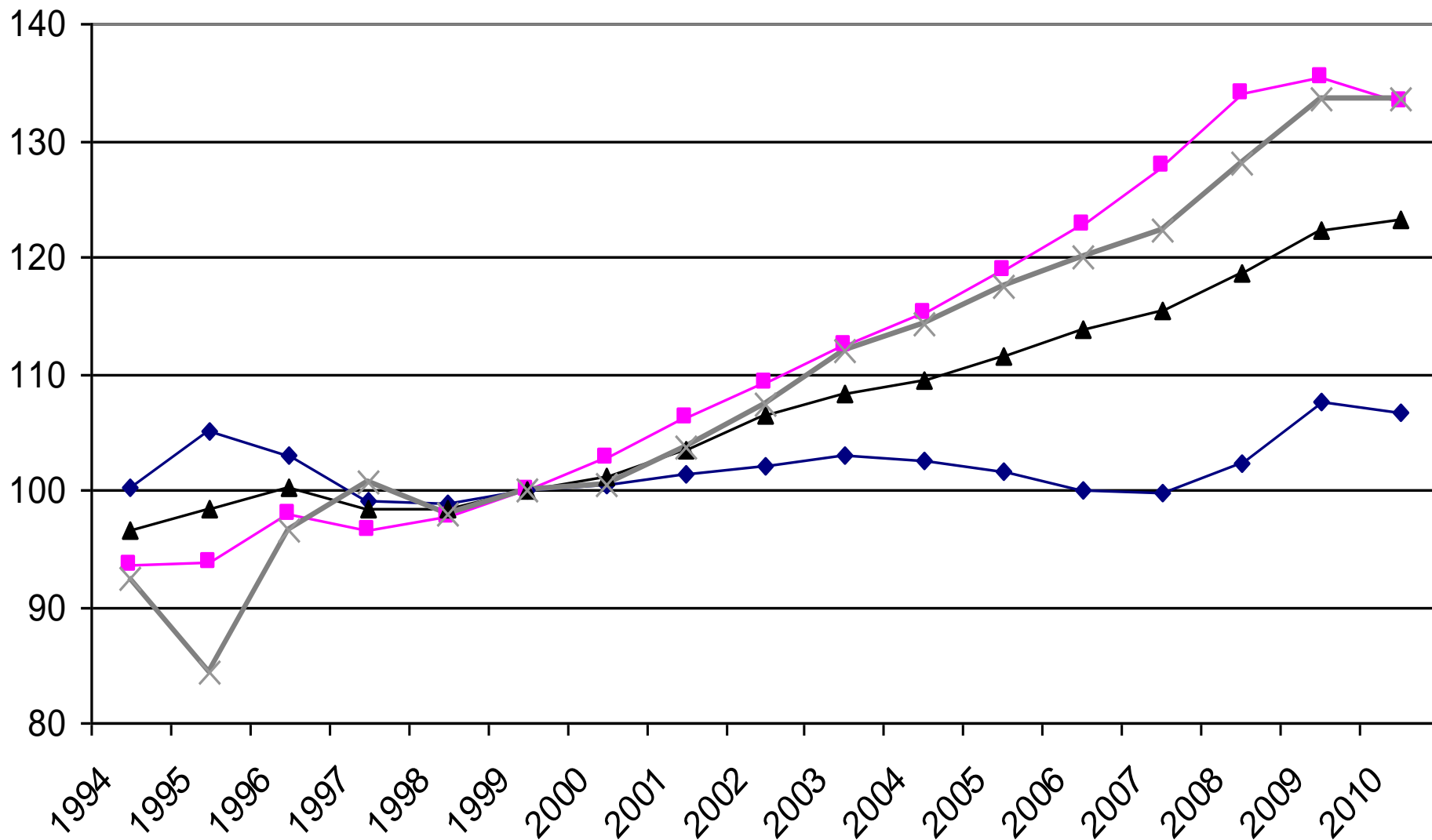
Trade contribution to GDP growth



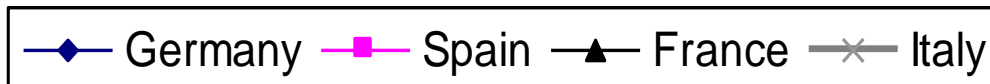
Source: Eurostat, AMECO, Comext

*The traditional explanation
based on the different evolutions
of international competitiveness*

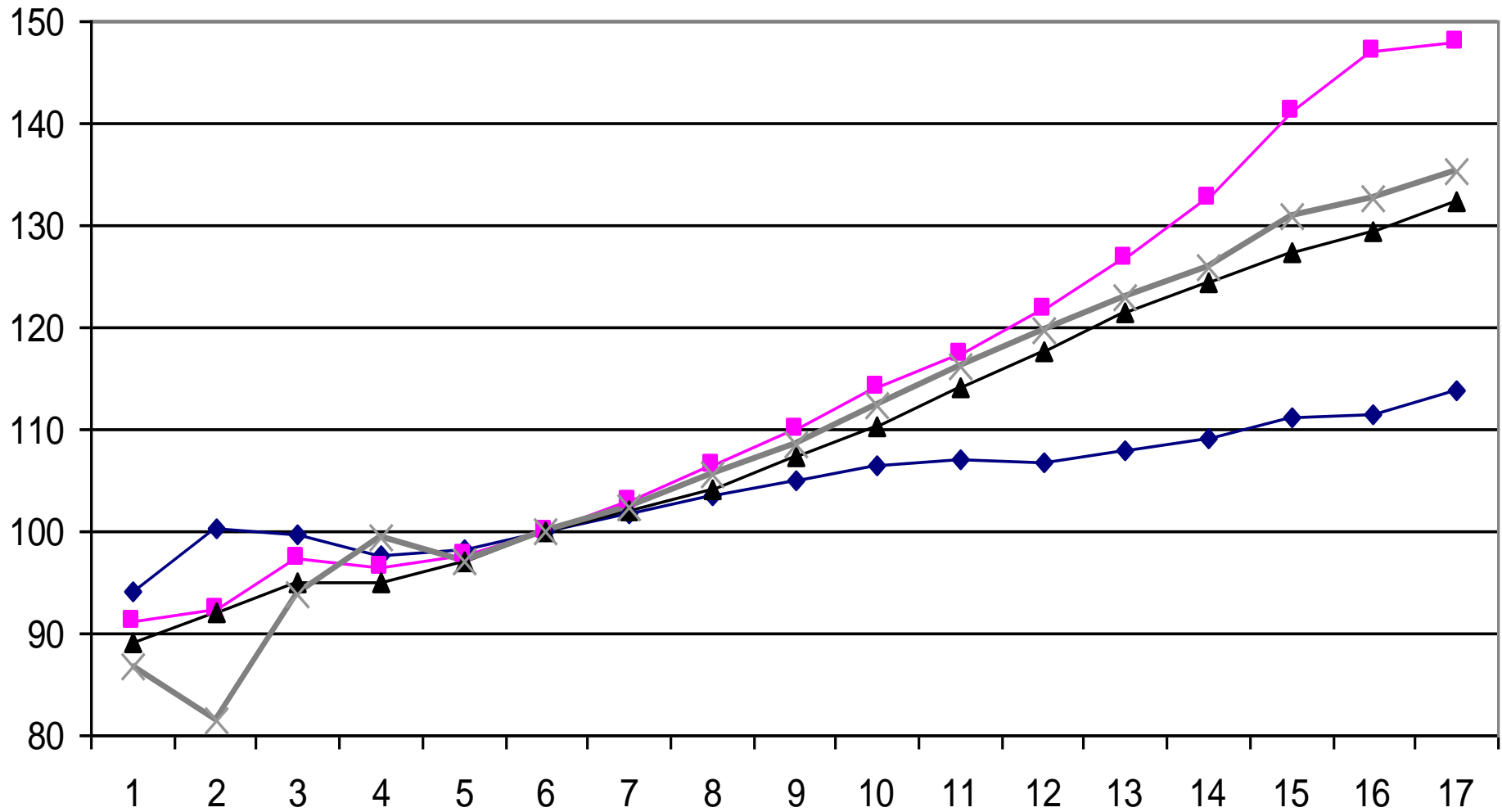
Nominal Unit Labour Costs index (1999=100)



Source: Ameco database



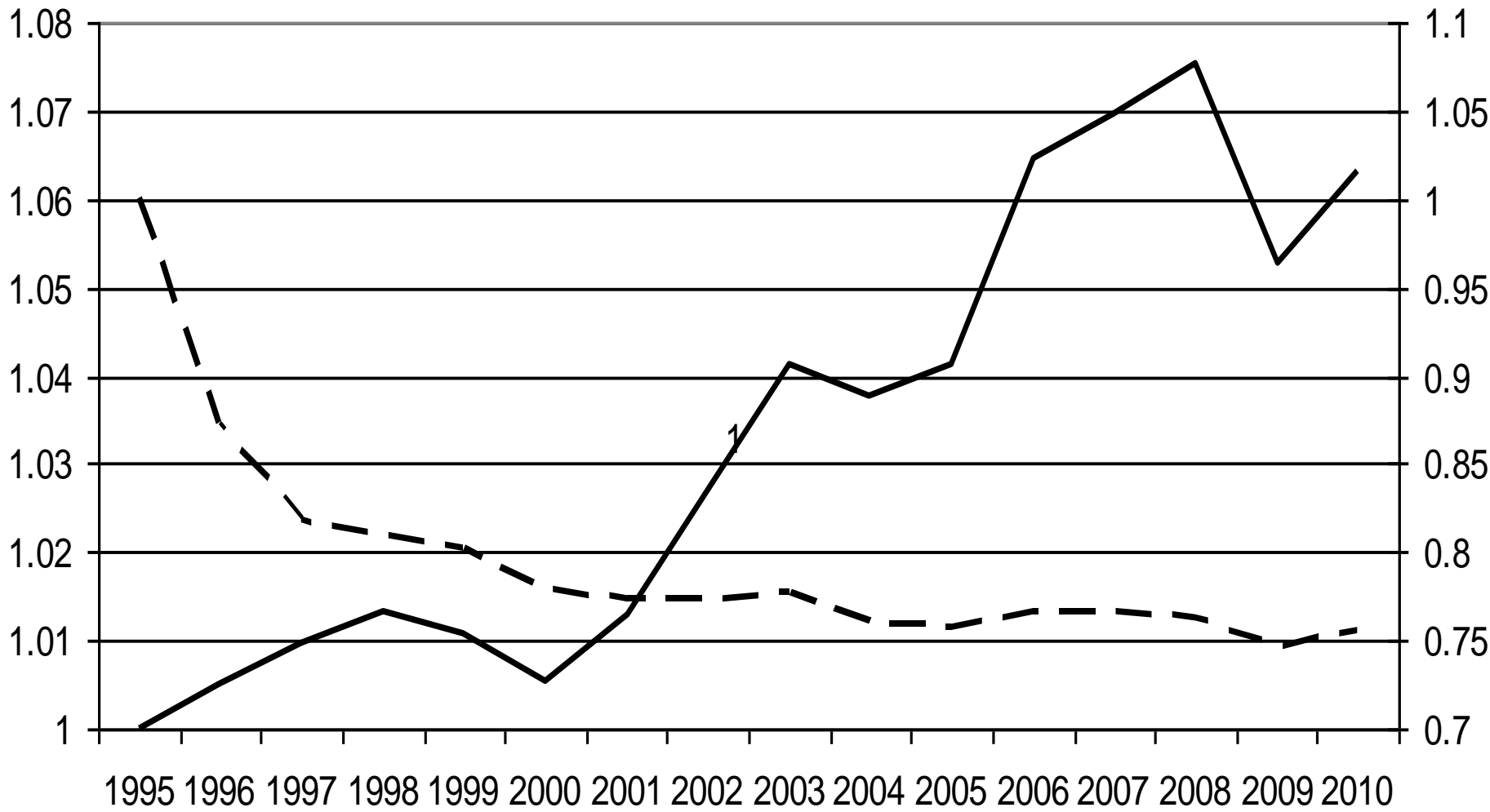
Nominal wage index (1999=100)



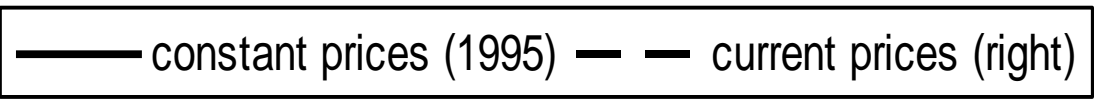
Source: Ameco database



Germany/Italy Relative Labour Productivity



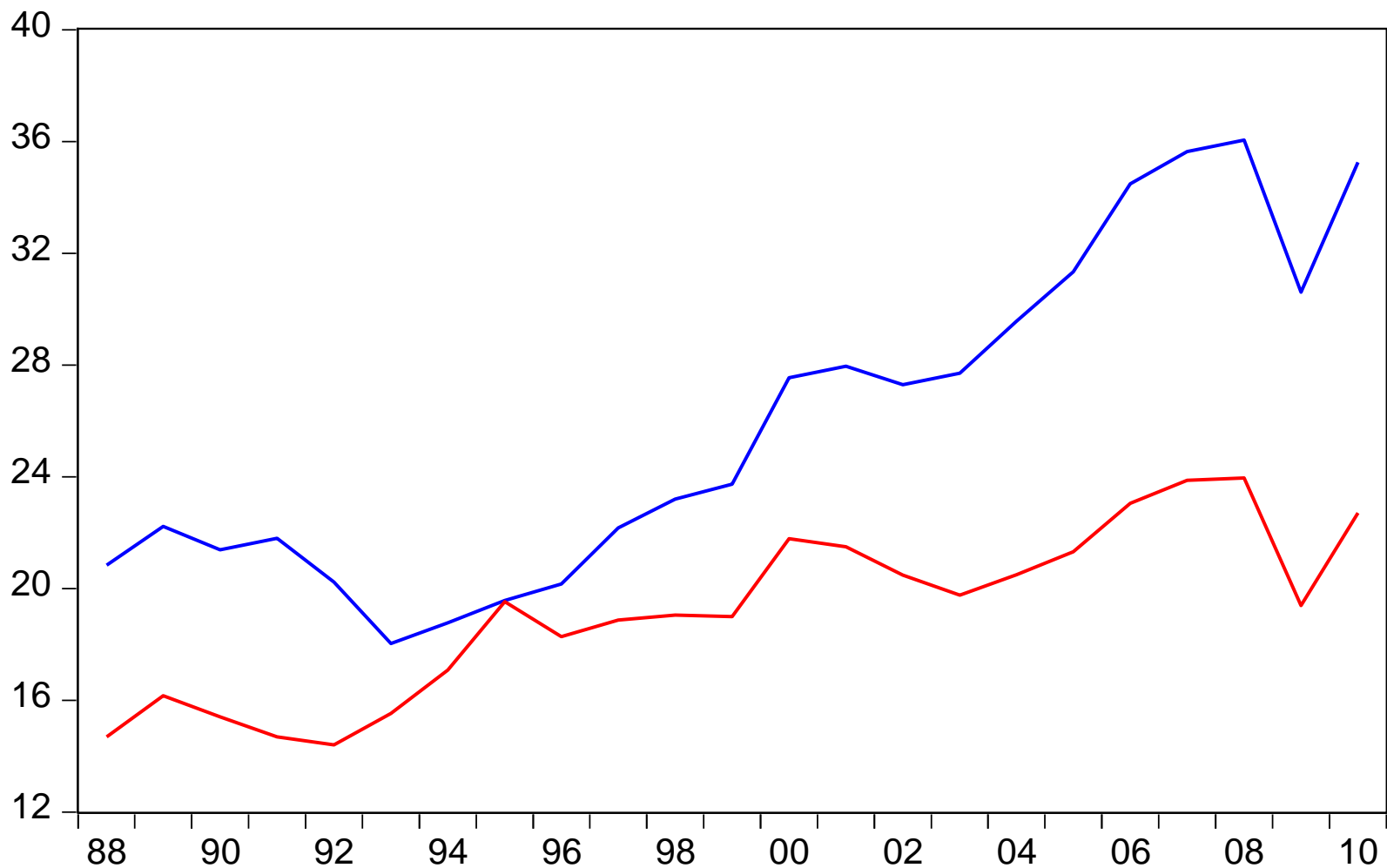
Source: Eurostat



*Structural peculiarities such as the
different degree of openness
of Germany and Italy
are equally relevant*

Different evolutions of the degree of openness

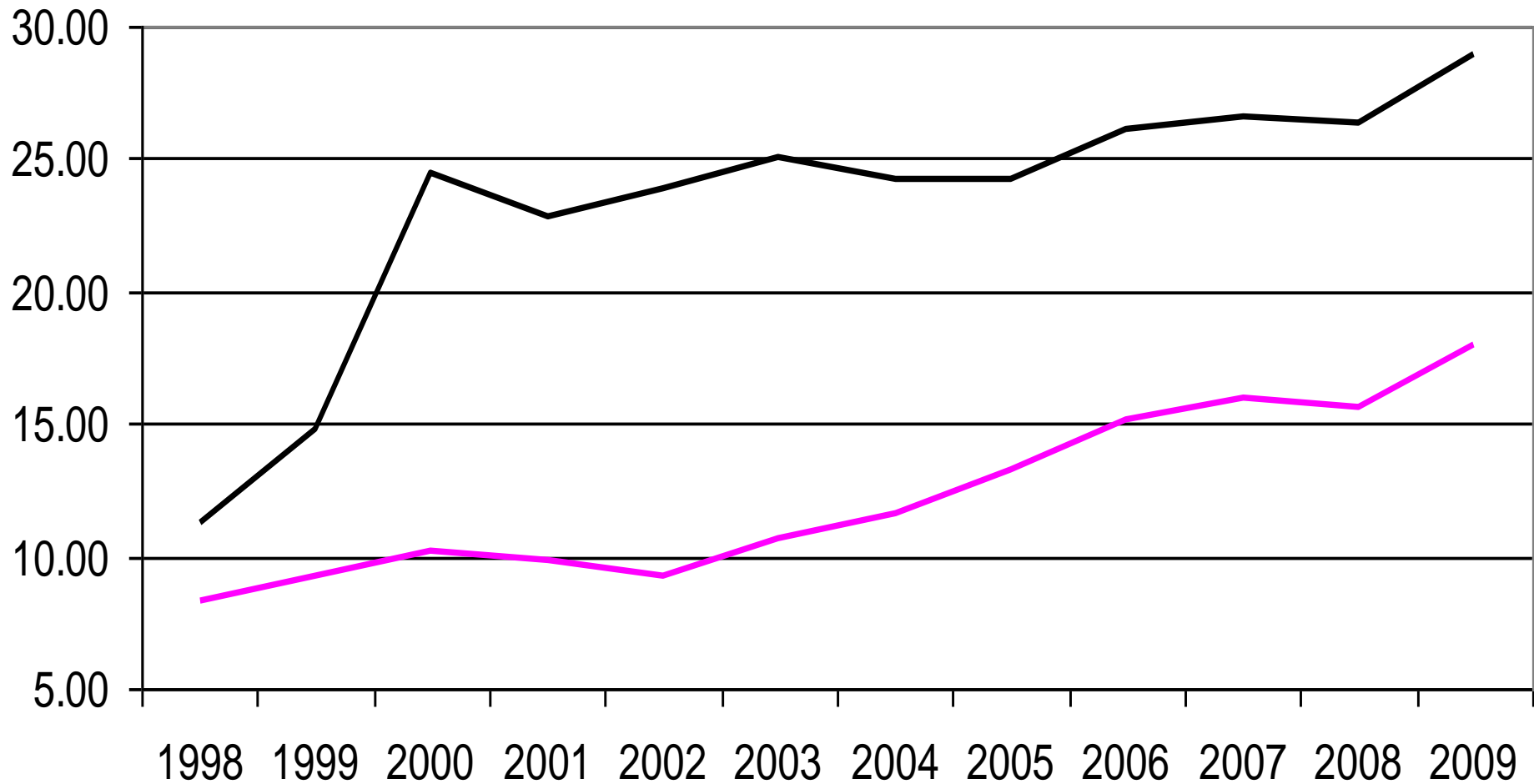
$\text{import+export}/(2*\text{GDP})$



Source: Comext

— Germany — Italy

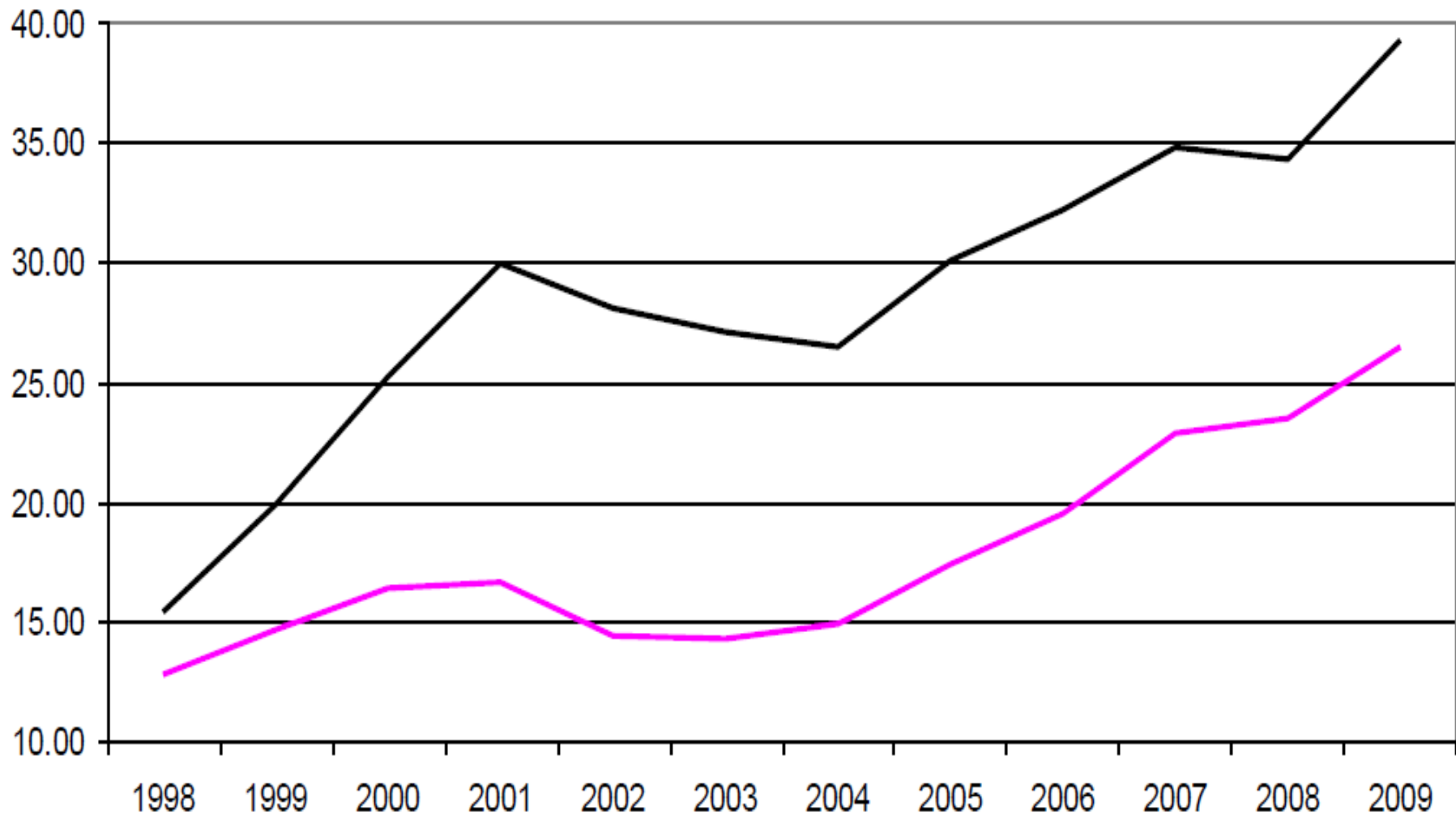
Inward FDI stock as % of GDP



Source: Eurostat

— Germany (including former GDR from 1991) — Italy

Outward FDI stock as % of GDP



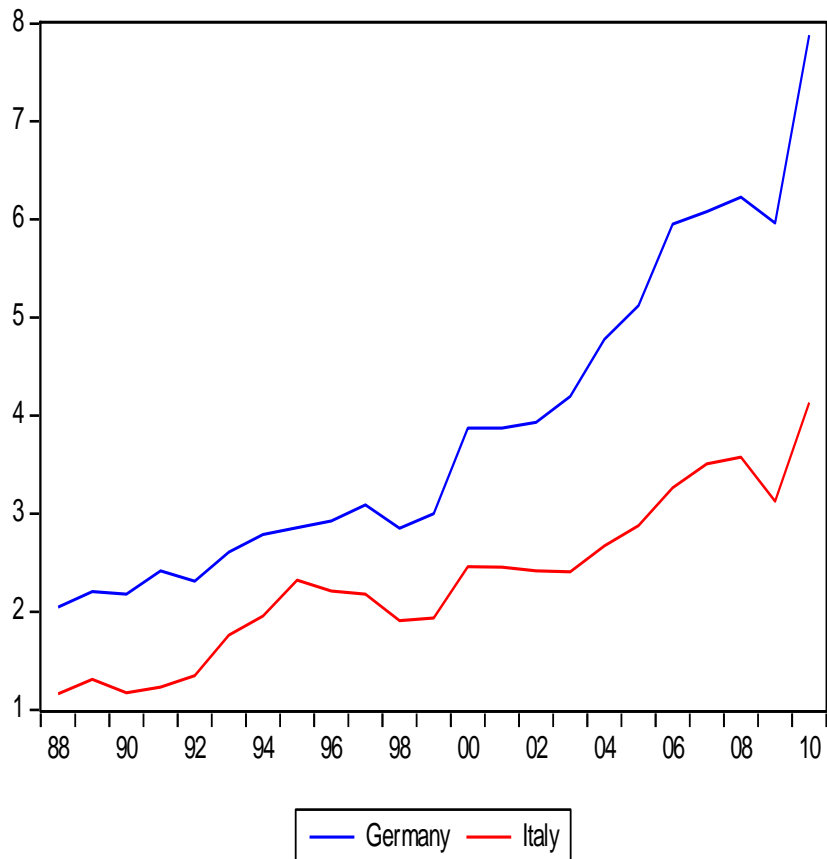
Source: Eurostat

— Germany (including former GDR from 1991) — Italy

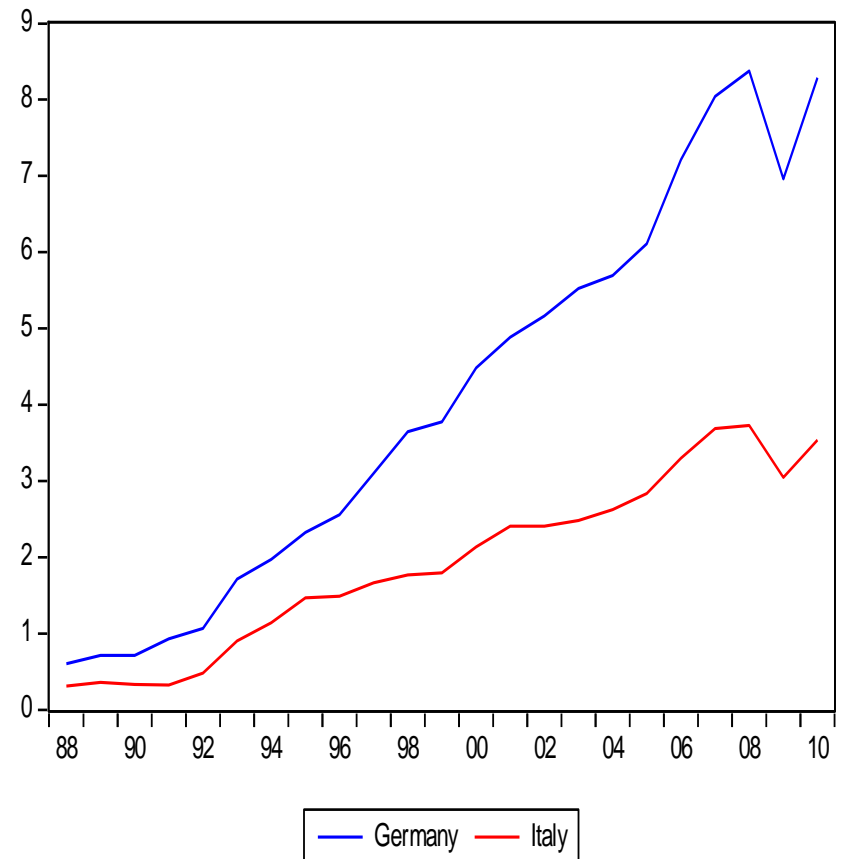
*On the supply side and demand side
Germany has been
positively adapting
to the last decade's globalization.*

Total trade as percentage of GDP for developing Asia and CEECs

Developing Asia

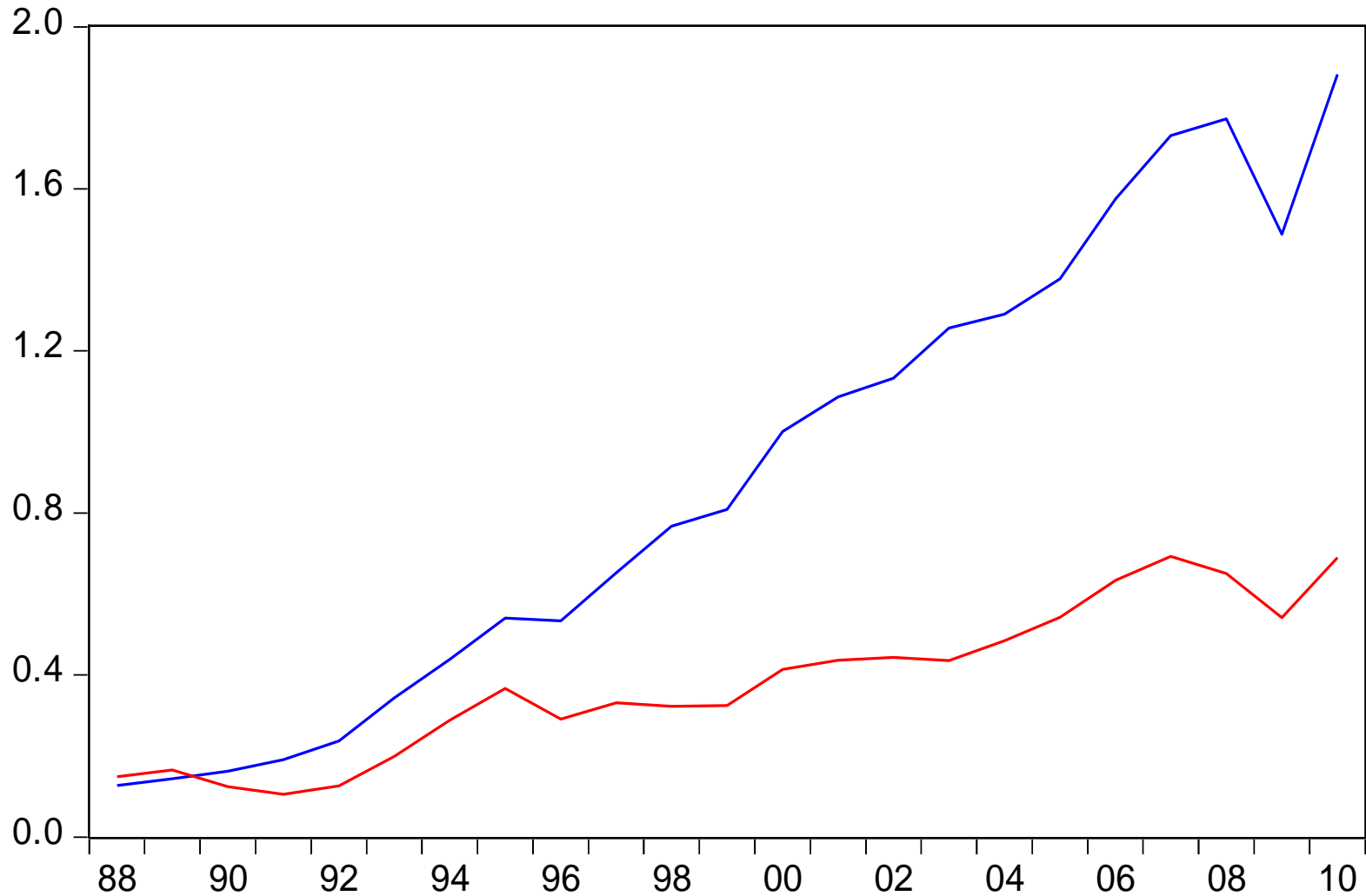


Central and Eastern Europe

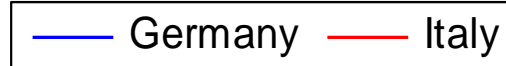


Source: Comext

Import of intermediate goods from Central and Eastern Europe (% GDP)



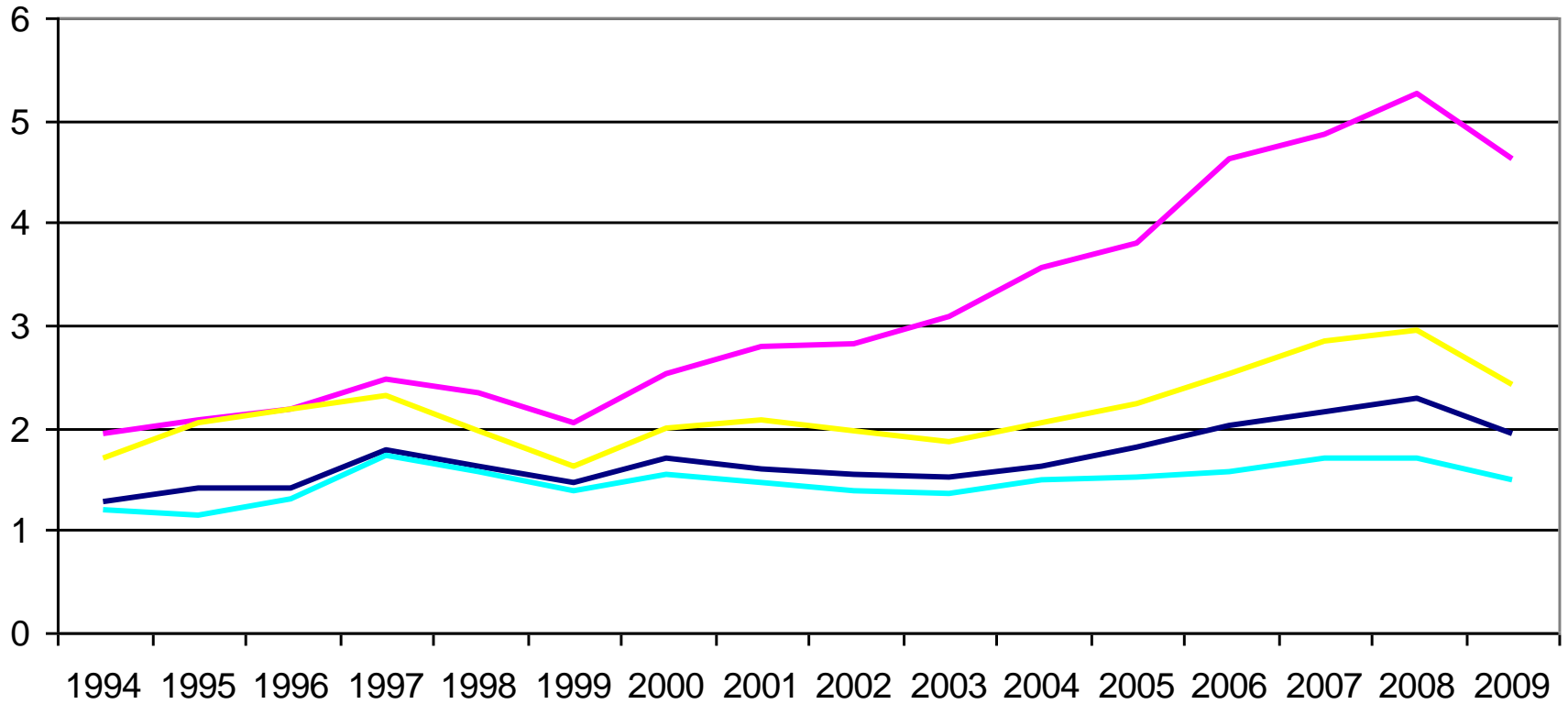
Source: Comext



Geographical concentration index for imports (share of import to area *i* on the share of Eu imports to area *i*)

Area	Period	Germany				Italy			
		Consumption	Intermediates	Capital	Total	Consumption	Intermediates	Capital	Total
Asia	1994-2000	107.5	116.5	111.6	117.4	120.9	116.2	105.4	108.0
	2001-2009	122.2	119.2	123.2	127.7	117.4	102.2	97.0	99.9
	2001-2004	117.7	118.4	120.4	125.2	119.6	107.3	108.4	105.6
	2005-2009	125.2	119.7	125.1	129.4	115.9	98.9	89.4	96.0
Ceec4	1994-2000	166.5	219.0	175.0	193.5	113.4	101.8	94.4	99.3
	2001-2009	149.0	212.6	148.1	177.3	99.3	102.8	95.8	97.4
	2001-2004	147.2	220.0	159.8	186.4	111.5	97.7	107.5	100.8
	2005-2009	150.1	207.6	140.3	171.2	91.2	106.2	88.0	95.1
Euro	1994-2000	92.1	91.1	100.1	94.7	102.7	103.9	106.2	102.7
	2001-2009	88.4	82.1	86.9	85.0	89.1	91.6	91.9	90.4
	2001-2004	87.0	81.0	88.4	85.5	89.1	93.1	92.6	91.5
	2005-2009	89.4	82.9	85.9	84.7	89.0	90.7	91.5	89.6

Export to Emerging Countries as % of GDP



— France — Germany — Italy — Spain

Source: Chelem

Geographical concentration index for exports (share of export to area *i* on the share of Eu exports to area *i*)

Area	Period	Consumption	Germany			Italy			
			Intermediates	Capital	Total	Consumption	Intermediates	Capital	Total
Asia	1994-2000	115.6	94.1	123.7	111.7	85.2	111.7	60.1	77.8
	2001-2009	108.4	77.8	117.0	104.7	98.7	117.2	72.3	87.1
	2001-2004	107.2	81.5	120.1	106.7	95.4	117.0	65.2	82.0
	2005-2009	109.2	75.3	114.9	103.4	100.9	117.3	77.1	90.5
Ceec4	1994-2000	230.6	244.8	260.1	238.4	102.1	84.5	64.1	87.0
	2001-2009	221.6	235.7	195.6	220.7	117.9	73.2	78.1	85.6
	2001-2004	259.0	248.6	221.7	242.9	101.1	68.9	66.5	76.1
	2005-2009	196.7	227.1	178.2	205.9	129.2	76.0	85.8	92.0
Euro	1994-2000	100.3	103.3	96.1	105.1	118.0	105.5	140.8	114.1
	2001-2009	86.4	95.1	80.2	90.7	100.3	83.5	123.2	96.4
	2001-2004	87.3	91.8	80.5	89.7	100.4	90.3	124.7	100.3
	2005-2009	85.8	97.2	80.0	91.3	100.3	78.9	122.2	93.8

Fragmentation and export performance: econometric analysis

- ◆ We estimate the effect of fragmentation and labor costs on the net sectoral exports of Germany and Italy;
- ◆ As measure of fragmentation we take the share of intermediate goods in total export (trade) of sector i ;
- ◆ In addition, we introduce the fragmentation index for CEEC4, rest of NMS and Asia in order to check whether the effect may be driven by some specific areas; in particular, according to the descriptive evidence, CEEC4 should play a major role as fragmentation destination;

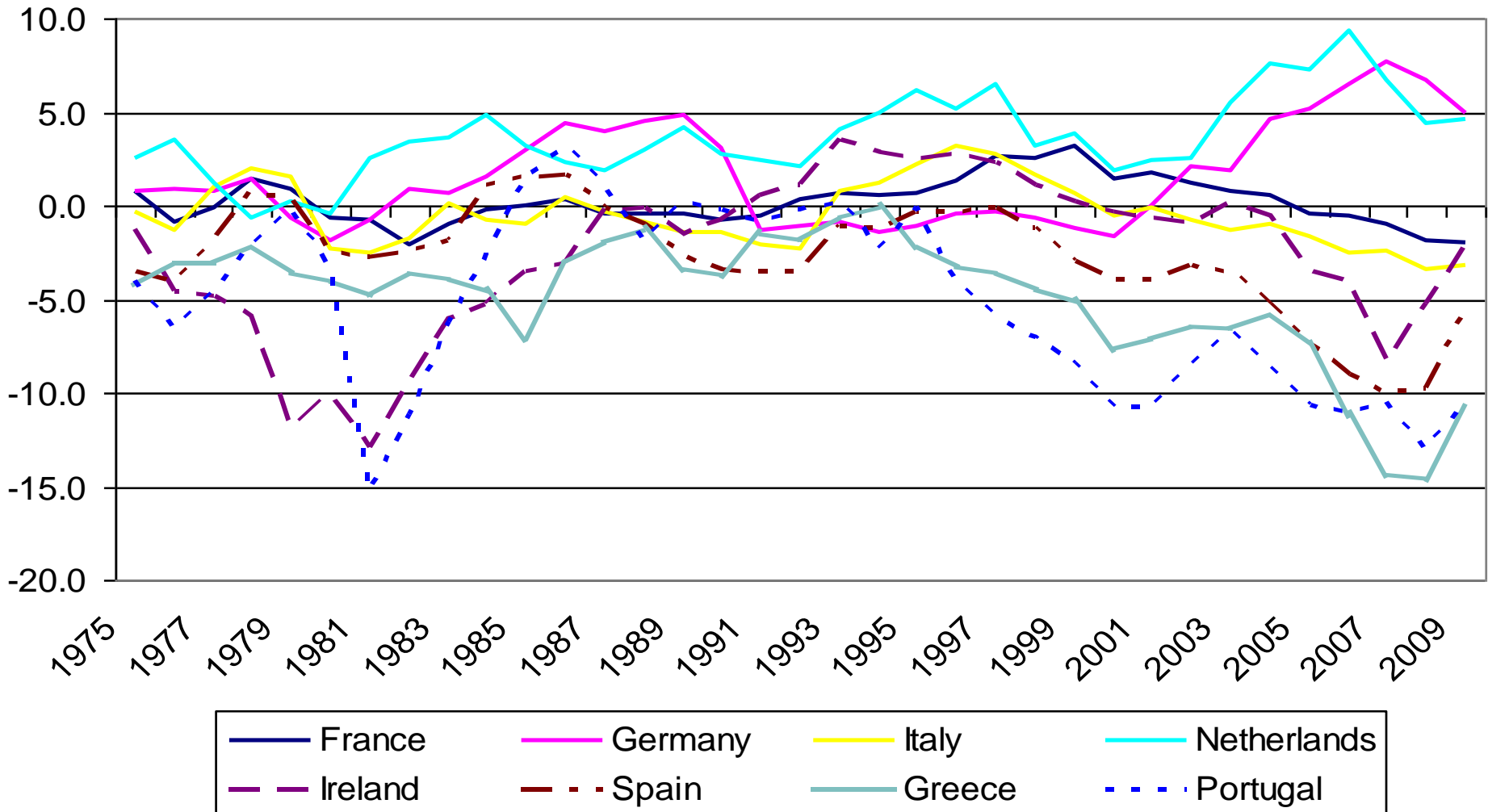
Fragmentation and export performance: econometric analysis (follows)

- ◆ Trade data are collected from the Comext database (Eurostat) at product level (HS 6 digits) and then aggregated into 14 manufacturing industries (NACE DA-DN);
- ◆ Other variables include the domestic sectoral GDP and labor compensation (source: EUKLEMS);
- ◆ The regression is implemented using the Fixed Effect estimator over the period 1992-2007;
- ◆ The estimation is estimated in first differences in order to avoid non stationarity problems;

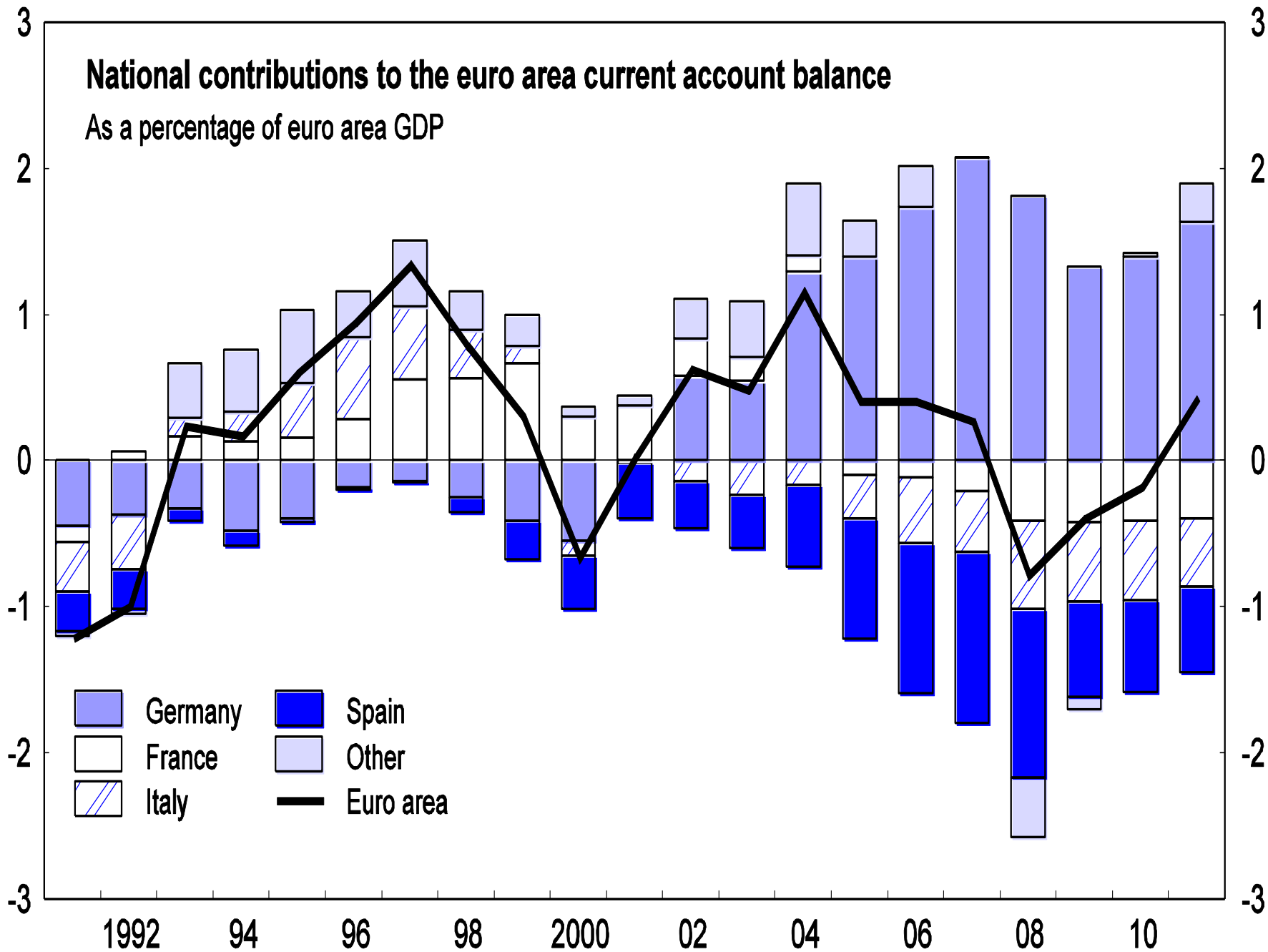
*Yet the German growth model
is highly dependent
on foreign demand
and an excessive current-account
surplus versus the Euro area*

The German surplus and the Euro

Current account balances as % of GDP



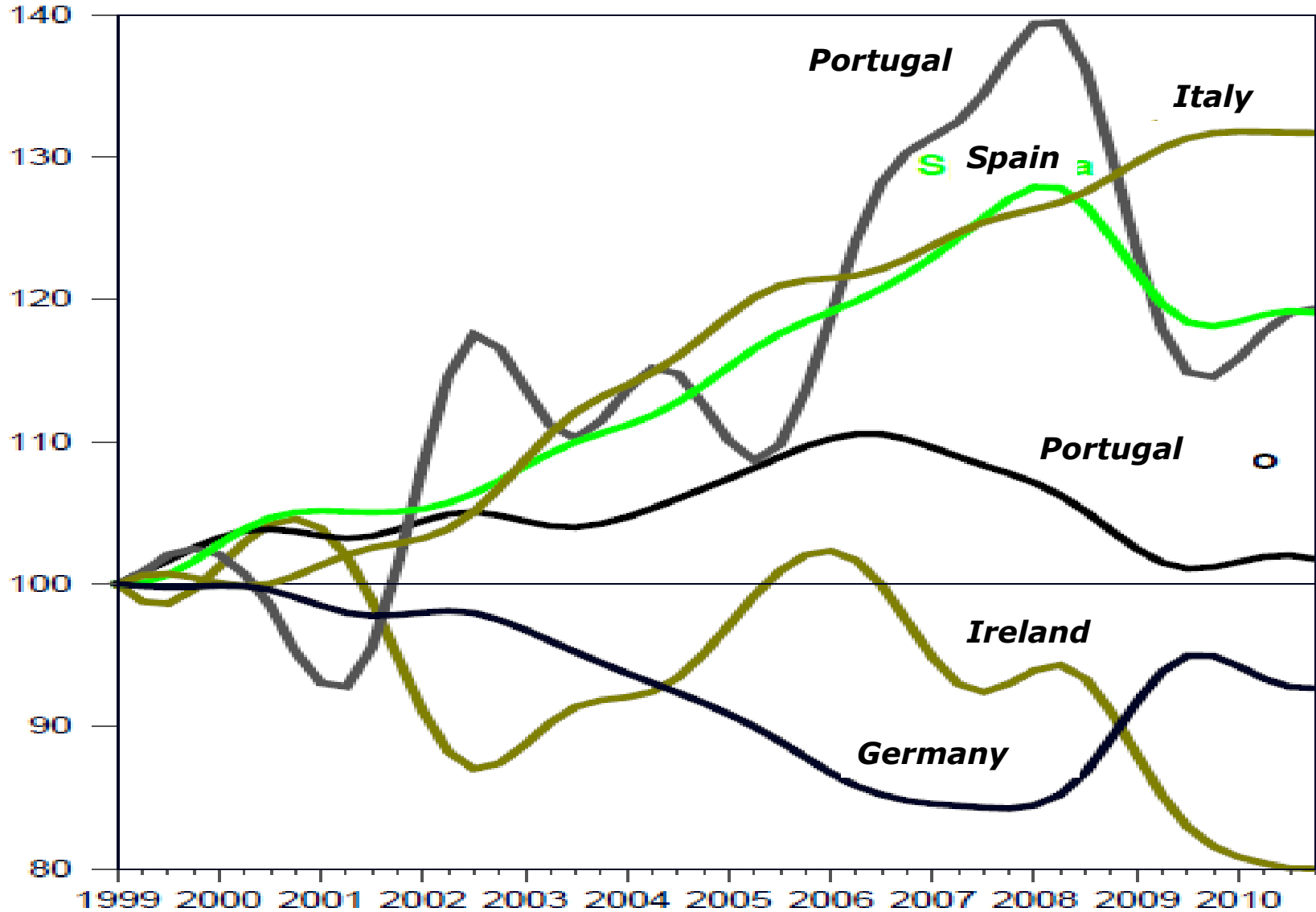
Source: Chelem



Source: OECD

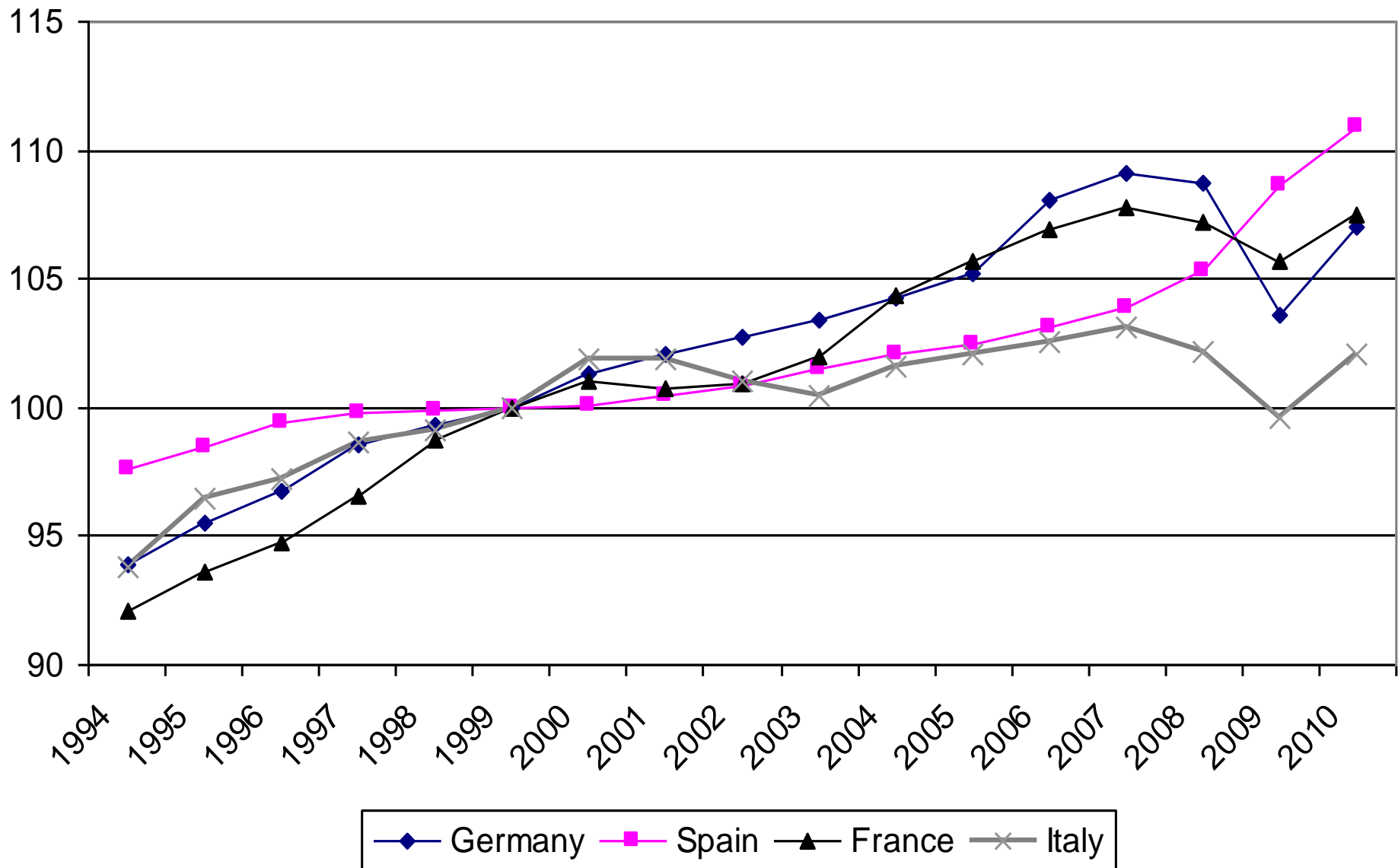
Real Exchange Rates Intra-Euro

(1999=100)



Fonte: Commissione europea.

Labour productivity Index (1999=100)



Source: Ameco

Demand side effects: econometric analysis

- ◆ We estimate the demand effect using a panel of bilateral net exports with 86 partners (source: CEPII Chelem), covering between 92% and 98% of total German and Italian trade; the time span runs from 1992 to 2008;
- ◆ The Euro Area effect is captured by a dummy=1 if the partner uses Euro or has a fixed exchange rate with Euro;
- ◆ The Euro dummy is then interacted with the partner's real GDP in order to capture a regime shift for the demand elasticity;
- ◆ Estimation method: panel fixed effect
- ◆ Domestic GDP and labor costs, as well as bilateral distance are not included because of collinearity with the fixed effects;
- ◆ The equation is estimated in difference because of the non stationarity of the original series;

Demand side effect: estimation results

	<i>Germany</i>				<i>Italy</i>			
	<i>Dependent variable: log(export)-log(import)</i>							
<i>Δlog(GDP)</i>	0.334	0.349	0.313	0.329	1.083*	1.091*	1.073*	1.082*
<i>Δlog(NER)</i>	-0.309**	-0.310**	-0.309**	-0.310**	-0.197**	-0.198**	-0.198**	-0.198**
<i>Euro</i>		0.089**		0.087**		0.052*		0.051*
<i>Δlog(GDP)* Euro</i>			1.644**	1.519**			0.815	0.742
<i>constant</i>	0.162**	0.163**	0.163**	0.163**	0.073	0.072	0.073	0.073
<i>Time dummies</i>	yes	yes	yes	yes	yes	yes	yes	yes
<i>r2</i>	0.105	0.107	0.105	0.107	0.108	0.109	0.109	0.109
<i>N</i>	1288	1288	1288	1288	1282	1282	1282	1282

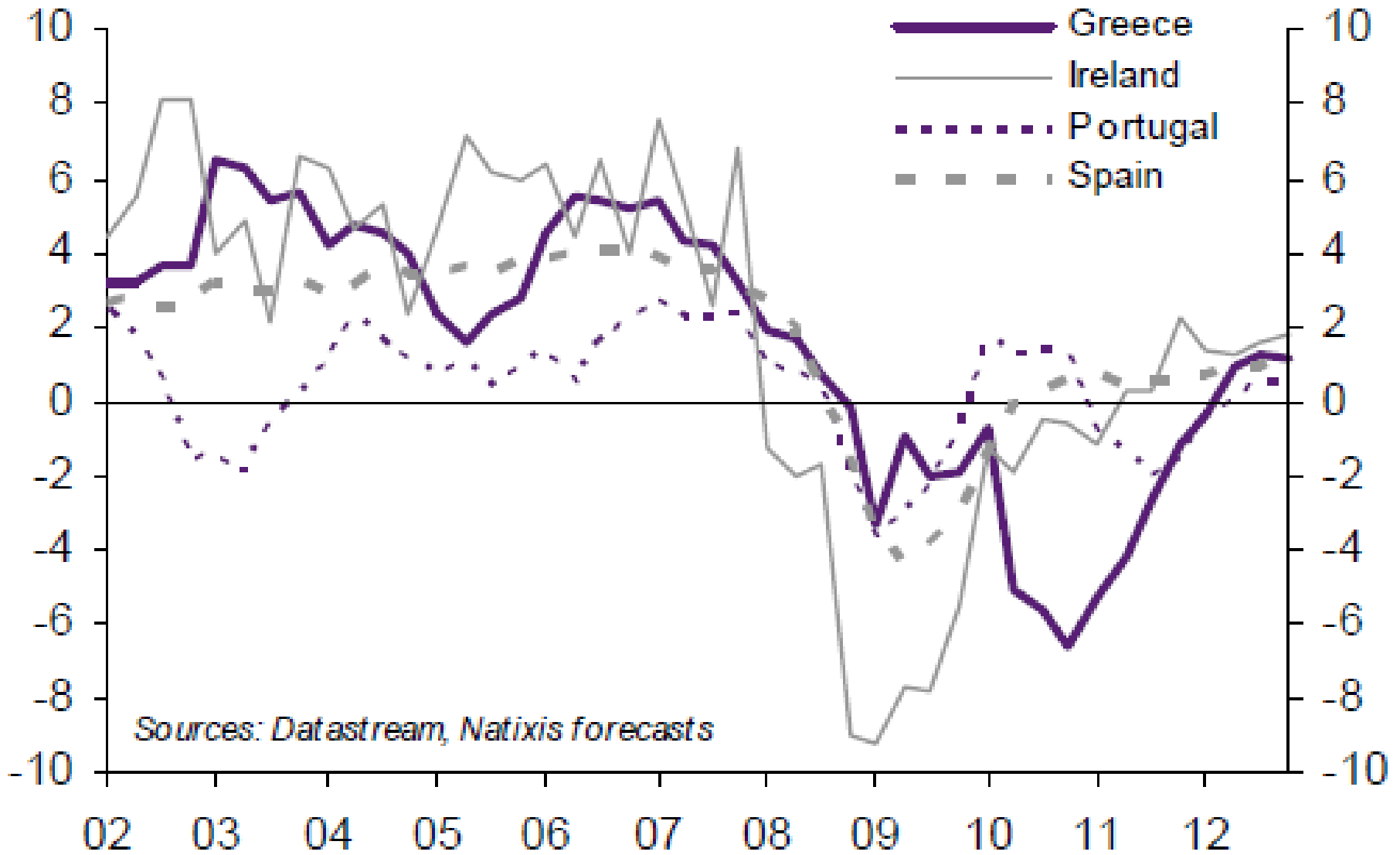
*The challenges ahead:
competing in the global economy
and membership of the euro area*

Germany and Italy: Labour and Total Factor Productivity

	Labour Productivity (var % media)	GDP per Capita (var % media)	TFP (var % media)
Germany			
1994-1999	1.26	1.58	0.57
2000-2003	0.70	0.20	0.02
2004-2008	1.04	2.05	0.89
2009	-4.71	-4.43	-5.03
2010	3.07	3.78	2.73
Italy			
1994-1999	1.28	1.70	0.86
2000-2003	-0.47	0.36	-0.74
2004-2008	0.14	0.00	-0.28
2009	-2.64	-5.79	-3.78
2010	2.04	0.83	1.50

Source: Eurostat

Real GDP growth (Y/Y as %)



Sources: Datastream, Natixis forecasts

THE END

Thanks for the attention!