

TRADE AND ECONOMIC OVERVIEW

Italy is one of the original members of the European Community {EC} and remains a staunch advocate of a unified Europe. Italy has the 5th largest industrial economy in the world, but in recent years Italy has been experiencing problems related to government fiscal policies.

A series of weak coalition governments have been unable to implement the reforms needed to cure some of Italy's long-standing ills. The public sector deficit continues to be above 10% of Gross Domestic Product each year; dozens of EC directives are still waiting to be implemented into national law, and the governmental presence in the market is large compared to other European nations.

However, these factors must be weighed against a surprisingly resilient private sector, which has kept Italy's exports growing in areas such as high-value consumer goods and specialized tooling, and a determination by the new government to put Italy back on track on issues related to the budget, public debt, and competitiveness. Despite considerable resistance by the traditional parties and the industries concerned, Italy is now moving towards privatizing some of its huge government-owned stake in industry and services.

The EC's efforts to develop a single and unified European market has placed pressure on Italy's traditional approach to government and business. New directives from Brussels will create the need to make changes to meet new competitive conditions. Although Italy has made progress in fields such as telecommunications, transportation, and other infrastructure, much more remains to be done to provide an efficient infrastructure and public utilities.

Italy's northern regions are concerned about the inefficient and expensive methods of aiding development in the Mezzogiorno {regions south of Rome}. Also, the Italian manufacturing and distribution system lags behind that of its major trading partners.

While small size and tight quality controls have done wonders for the economic well being of hundreds of thousands of entrepreneurs, the Italian consumer is somewhat at a disadvantage if compared to the Northern European consumers. The Italian distribution system is fragmented and regionalized and will face strong price competition from other European countries.

In general, the Italian business scene closely matches the socio-cultural environment with the family as the primary social cell. Close ties and networking are also important to political affiliations, sporting groups, regional affiliations, and of course business connections. The concept of competition as a promoter of economic development is slowly creeping in, but is hampered by the huge size of the public sector which has seen monopoly as a factor of stability and survival.