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**A Lasting Bond.
Revisiting & Reinvigorating Italy-US
Relations 160 Years since their Inception**

Remarks by Adriana Castagnoli

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Remarks by Adriana Castagnoli, Columnist, *Il Sole 24 Ore*

Thank you, for inviting me to this conference and giving me the opportunity to talk about the United States-Italy Relationship.

Let us start with the economic relations of the United States with Italy.

Foreign Direct Investment & Trade

Foreign Direct Investment (FDI) is a crucial example. According to the Bank of Italy, in 2019, the USA was the top counterpart, extra-EU, for Italy's outward direct investment. Its Euro value was almost four-fold compared to Italy's outward direct investment in China or Russia. Italy's FDI in the United States has constantly increased since the global economy recovered from the great crash of 2008. More impressively, in 2019, looking at EU countries, only The Netherlands and Spain had been more directly receptive to Italian FDI. Italian FDI supported over 93,000 American jobs. Italian FDI's top industry sectors include industrial equipment, software & IT services, food & beverages, metals, renewable energy, and auto components.

Contrary to widespread belief, food and agricultural goods accounted for 10 percent of Italy's exports to the United States. (*Atlantic Council, Why the US-Italy Relationship Matters*, Giovanna De Maio)

After the great crash, Italy has registered an external surplus in advanced technology sectors. Italy was second in the world after China in iron & steel products, third after Germany, and Japan in non-electronic machines, fourth after the United States, France, and Germany in the aerospace industry (Osservatorio Fondazione Edison-GEA). Italian manufacture has also been running a solid trade surplus to the USA.

According to The Bureau of Economic Analysis, Italy has instead been quite unattractive for a long time. In 2020 US FDI in Italy was as little as 7.6% of Germany and 11.1% of France. Notwithstanding Italy's membership of the Group of Seven (G7) most significant economies in terms of GDP, it was not the best country for doing business: political instability, red tape, problems in the judicial system, infrastructures all were disappointing. On the other hand, exports from the United States to Italy concentrated in such high-value sectors as chemicals, oil and gas, transportation equipment, primary metal manufacturing, and computer and electronic products.

However, the Covid-19 pandemic turned out to be a game-changer for the Italian government and the Italian economy's governance. The flow of US trade in goods with Italy has been very high in the first ten months of 2021, regardless of the pandemic. The value of Italian export is over 50 billion dollars (compared to over 57 billion dollars in the year 2019 - United States Census Bureau). Machinery, automotive, pharma, fashion, and food are crucial productive sectors.

American FDI in new advanced technologies is coming to Italy. In the current year, for instance, Exos Aerospace Systems & Technologies, a Texas-based company, reached an agreement to establish its first European base of operations in Northern Italy to build reusable rockets. Hybridization of knowledge and spillover effects could be on the way. Exos Aerospace relies heavily on NASA-developed technologies. Its "core strength" combines multiple proven technologies to provide "operational excellence."

This meeting is not the occasion to discuss a crucial case: the KKR-TIM merger. Nevertheless, the case offers an example of the complexity of the overall picture. The world in which we live is highly interconnected. KKR is an American leading global investment firm. Tim is an Italian company, but substantial shareholders are French, and its hardware and machinery could be "Made in China."

The global scenario has completely changed in recent years, characterized by a rapid technological transition. A digital transformation process, further accelerated by the recent pandemic, is having a disruptive impact on all areas of human activity: *cloud computing, big data & the internet of things, machine learning & deep learning, artificial intelligence.* "In this context, the collaboration between Italy and the United States is further developing, making use of more structured synergies between universities, research institutions, and large companies of the two countries, and extends to all emerging technological fields." (Innovation – Technology, Italy Us 160 Embassy of Italy, Washington). Italy-USA cooperation is developing in some strategic technological areas in which the two countries are planning massive investment in human and infrastructural resources. The topics of artificial intelligence and energy transition are going to be privileged.

The EU

The bilateral Us-Italy relationship develops in the frame of the European Union, which has its rules and laws.

Even though the transatlantic relations worsened during the Trump Administration and more inward-looking foreign policy choices, Italy and the United States could preserve consistently positive ties. Italy managed to avoid the bulk of American tariffs on European goods, and trade exchange between Rome and Washington kept a positive trajectory in several high-value sectors.

Further tensions rose in the digital and automobile space. The Trump administration threatened tariffs on European cars. That would be detrimental for Italy, the third European car exporter to the United States (after Germany and the United Kingdom) and an essential producer of intermediary parts for many German cars). In January 2020, Italy imposed a 3 percent domestic digital services tax. The new tax targeted big tech—primarily Facebook, Google, Amazon, and other businesses centered on digital advertising and marketplaces.

On the other hand, regardless of Italy's historical ties, energy, and economic relations with Russia, and more direct bonds between Italy and China, Rome never questioned its loyalty to the United States. Italy is one of the most valuable US allies in Europe, and it is an essential contributor to NATO and a key player in the Mediterranean.

The introduction of tariffs by the US and the inevitable retaliation, mistrust in the current system of rules supervised by the WTO, and the consequential high level of tension and uncertainty, even without specific barriers targeting Italian export sectors, would discourage the internationalization of many firms, especially the small and medium in size.

The current Italian government, formed in February 2021, has been characterized as a "technical government" with broad political party support. The government focuses on post-pandemic economic recovery and efficient application of the National Recovery and Resilience Plan (NRRP), a fund of approximately \$200 billion awarded to Italy by the European Commission.

The NRRP unfolds around three strategic axes of sustainability— digitization and innovation, ecological transition, and social inclusion. It aims to help Italy recover from the economic and social damage caused by the pandemic crisis. Nevertheless, the Plan also seeks to address the Italian economy's weaknesses.

"Many of Italy's structural challenges—the significant divides across regions, age, gender, and productivity, as well as high levels of public debt— have been compounded by the Covid-19 crisis. The key priority for the recovery is to enhance the public administration's effectiveness. This should include, in particular, public investment governance and improved co-ordination and implementation across different levels of government" (OECD, Economic Policy Reforms 2021)

Democracy & Green Transition are The Future Challenges of US-Italian Relations.

Populism and nationalism were, and are, an issue of concern on both sides of the Atlantic. Political instability, high public debt levels, and some economic fragilities beyond vital market interests helped Italy's newer links to Russia and China.

President Biden has made an essential point in his speeches: people are losing faith in democracy because democracy is not meeting their needs.

The political scientist Larry Diamond urged US policymakers to advance the universal cause of democracy once again. *"The failure of American democracy would be catastrophic not only for the United States; it would also have profound global consequences at a time when freedom and democracy are already under siege."* (Larry Diamond, *A World Without American Democracy? The Global Consequences of the United States' Democratic Backsliding*)

According to a recent survey (European Council of Foreign Relations, *The Crisis Of American Power: How Europeans See Biden's America*, Ivan Krastev & Mark Leonard, January 2021), most "Europeans' view of America as politically broken." "There are geopolitical consequences to American weakness." A majority believe that "China will be more powerful than the US within a decade and would want their country to stay neutral in a conflict between the two superpowers".

Profound changes are going on. Firstly, the move towards greater self-reliance and strategic autonomy. Most Europeans believe that they cannot always rely on the US to defend them and, therefore, the EU should develop its defense capacities. It seems that Europe's transatlantic policy in the years to come could be influenced not only by economic ties with China and economic relations with Russia but also by the question

of Nato and US military power "*as an existential guarantee of its security.*" The nature of the transatlantic alliance is changing, troubled by doubts about the United States since the Bush presidency and influenced by Trump's focus on "America First." The credibility of US foreign policy is at stake; meanwhile, January 6 threw mistrust on American democracy. "*A new transatlanticism is needed – one based on a common understanding that the US-Europe alliance is not enough to reshape the world*" (Krastev& Leonard).

As for green transition and social sustainability, advanced economies' governments need to protect their people and create equal opportunities for their citizens. According to Joseph P. Baratta in *American Democracy Has Narrowly Revived*: "*There has not been an increase in real incomes of ordinary Americans since the Carter presidency (1980). The richest 10 percent increased their share of total pre-tax income from about 33 percent in the late 1970s to 50 percent by 2012. The top one percent alone now capture more than 20 percent of total income, double the share they received before Reagan.*"

In Italy, inequality is higher than in most advanced economies. The poorest 20 percent of households earn 6.6 percent of total income (OECD 2021). In America:

"The neoliberal variant of market liberalism—the push, starting in the 1970s, toward ever-greater deregulation, privatization, and capital mobility—eroded social protections and increased inequality, including by dramatically refashioning the tax code to benefit high-income earners and US corporations. But instead of reversing these policies, many US politicians prefer to place the blame on Chinese trade practices." (Alexander Cooley & Daniel H. Nexon, *The Real Crisis of Global Order. Illiberalism on the Rise*)

Our democracies must be revised to meet the challenges of autocracies and Chinese leader Xi Jinping's promise of "common prosperity."

As Larry Diamond wrote, to advance the universal cause of democracy once again, "*the United States and its allies could unleash a new wave of freedom across the globe.*" "*Without that support, however, autocracies will continue to proliferate, leading to more instability.*"