



AIBE Index

Observatory on the attractiveness of Italy to foreign investors

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INTRODUCTION

This publication of the Observatory on Italy's attractiveness to foreign investors, again edited by Aibe and Censis, reports the results of the Super Index Aibe 2023, according to which Italy ranks ninth among the eighteen major economies of the world as a destination on which the interest of foreign economic operators converges.

Among the strengths of Italy, the data underlying the elaboration of the Index recall the presence in international markets through exports, in addition to the quality of human capital and the qualitative level of logistics.

While not improving its position in the ranking compared to the 2022 Index, Italy increases its score, reducing the distance compared to the best performing countries and signalling a positive trend even in very critical situations such as that of the post-pandemic.

Precisely the relevance of these results and the fact of dealing with a contingency and a still uncertain short and medium-term scenario, recommended carrying out a survey among Aibe associates with the aim of gathering the qualified opinions of a panel of experts and observers of the Italian economy and international financial flows.

Specifically, the panel was subjected to a questionnaire divided into three closely related topics:

- global growth and potential critical factors in the coming months.
- the growth of Italy and the elements that may condition the future growth potential of the country.
- the role of foreign investments as a growth lever for Italy and the presence of constraints on the possibility of strengthening this lever by increasing the growth potential of the production system.

In the pages that follow the analyses relating to the Super Index Aibe 2023, the results of the survey are reported, which help to build a picture of greater certainty on the recovery path started by Italy in these difficult months.

1. THE AIBE 2023 SUPER INDEX

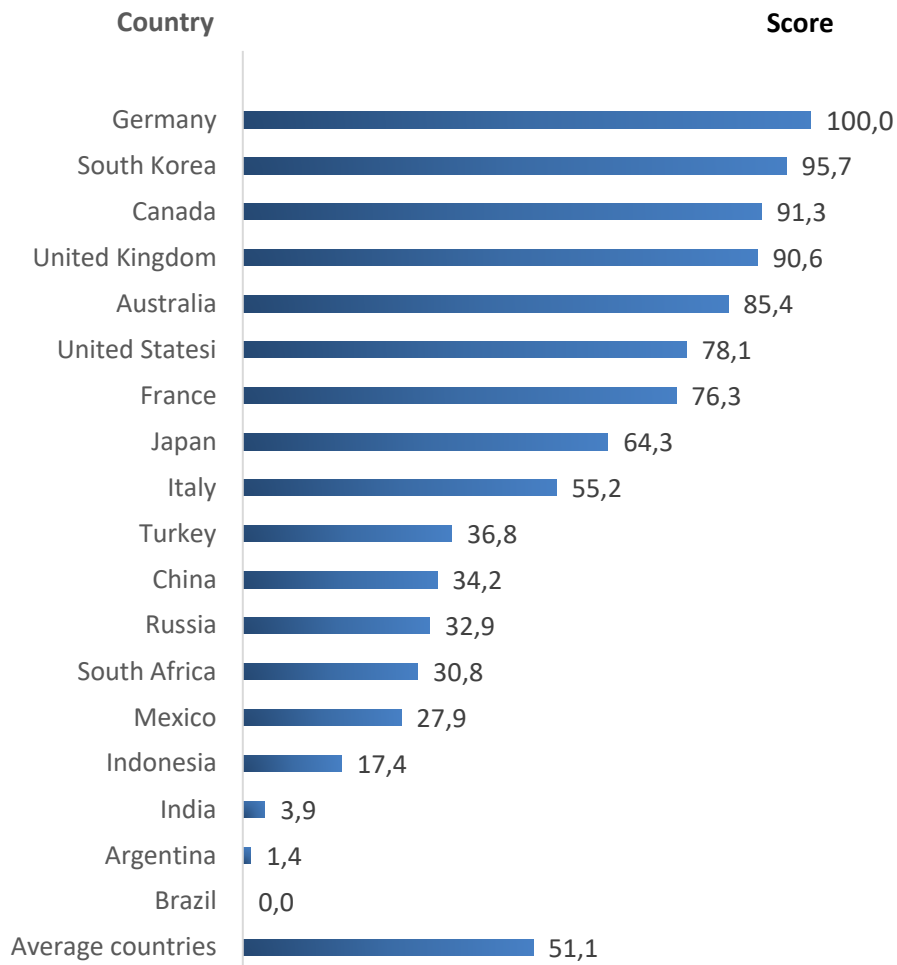
Italy ranks ninth among the G20 countries in the AIBE 2023 Super Index ranking. Compared to the previous edition of the Index, drawn up in 2022, Italy improves its relative score (55.2 out of 100 against 38, 8 of the previous year), while the position in the ranking remains unchanged (fig. 1).

The index is based on twelve indicators, of which four of a structural nature and eight deriving from as many surveys carried out by institutions and organizations of international importance. Were used:

1. the share of the population of working age (15-64 years, from OECD source)
2. per capita GDP (in purchasing power parity, source IMF)
3. foreign direct investments (in % of GDP, from World Bank source)
4. exports (in % of GDP, from World Bank source)
5. the Human Capital Index (Human Capital Index - World Bank)
6. Doing Business (World Bank)
7. the Corruption Perception Index (Corruption Perception Index – Transparency International)
8. the Tax Compliance Index (Ease of paying taxes – PriceWaterhouseCoopers)
9. the Logistic Performance Index (Logistic Performance Index - World Bank)
10. The Digitization Index (Country Digital Readiness Index - Cisco)
11. The Environmental Performance Index (Environmental Performance Index – Yale and Columbia Universities)
12. The Rule of Law Index – World Justice Project.

Compared to the 2022 edition, eight indicators out of twelve have been updated, with data referring to 2021 (active population, GDP per capita, foreign direct investment, exports, digitalisation) and with data referring to 2022 (perception of corruption, environmental performance, state of right), while the remaining four have not been modified due to lack of updating by the agencies (human capital, Doing business, tax compliance, logistics performance).

Fig. 1 – Italy ranks ninth in terms of attractiveness among the G20 countries according to the Aibe 2023 Super Index. Relative score for individual country and average value of the countries based on 12 performance indicators.



Source: Censis data processing

If in 2022 the average attractiveness value of the countries analyzed was equal to 45.2, in this last survey it rises to 51.2. Italy, in essence, in this last year is positioned above the average figure, while in 2022, while maintaining the ninth position, compared to the general score it remained far from the average and the countries with the best performances (above all Germany, South Korea, Canada and the United Kingdom in the first four

positions). This signals a trend improvement in Italy's attractiveness compared to the recent past.

The overall and detailed score for each country, relating to 2022, is still affected by the effects of the pandemic that have led to restrictions on trade, economic activities, and mobility of people.

In the latest survey, the increase in the overall average value reflects, instead, the recovery of global economic growth, recorded during 2021 and consolidated in 2022.

For Italy there is some progress in terms of foreign investments (with the recovery of a position compared to the past, while remaining in the lower part of the ranking), the increase in GDP per capita (from ninth to eighth place) and performance related to environmental aspects (reaching fifth position and in this case recovering a level in the ranking, Table 1).

In summary, Italy's level of attractiveness can count on positive performance in the field of exports (fifth place), available human capital (eighth place), the degree of adequacy of logistics (seventh place) and advances concerning the context of environmental sustainability (fifth place).

On the contrary, the Index still reports delays regarding the adequacy of procedures in "doing business" and tax compliance. On the other hand, there are no improvements in the perception of the presence of corruption, digitalization, the rule of law (for all three areas the ninth position in the ranking).

Among the *top performers*, Germany stands out for the share of exports in GDP, the low level of perceived corruption, the degree of adequacy of the logistics system and compliance with the law (*rule of law index*, Table 2).

South Korea ranks second in the overall index, boasting the best performance in terms of the share of the active population and the environment particularly favorable to entrepreneurial activity, while Canada obtains the third position among the G20 countries thanks to the ease of tax compliance, an environment of general compliance with the law and in second place as a country that manages to attract more foreign investment flows in proportion to its gross domestic product. In this case, Canada ranks second behind South Africa and ahead of France.

Tab. 1 – Detail Italy in the comparison between synthetic indices referring to 2022 and 2023. Ranking position

Indicators	Source	Ranking 2023	Ranking 2022
% of population of working age (15-64 years)	Oecd	15	15
GDP per capita (in current USD PPP)	IMF	8	9
Foreign direct investment (% of GDP)	World Bank	17	18
Export (% of GDP)	World Bank	5	4
Human Capital Index (*)	World Bank	8	8
Doing Business score (*)	World Bank	12	12
Corruption Perception Index	Transparency International	9	9
Ease of paying taxes score (*)	PwC	16	16
Logistic Performance Index (*)	World Bank	7	7
Country Digital Readiness score	Cisco	9	9
Enviromental Performance Index	Yale e Columbia Universities	5	6
Rule of Law Index	World Justice Project	9	9
Super Index AIBE for Italy		9	9

(*): indicators with outdated data compared to the 2022 edition.

Source: Censis data processing

Tab. 2 - Rank of the individual indicators that contribute to the construction of the AIBE Super Index

	Population in working age	GDP pro capite	Foreign direct investment	Export	Human Capital	Doing Business	Corruption Perception	Ease of paying taxes	Logistic Performance	Country Digital Readiness	Enviromental Performance	Rule of Law
Fonte	Oecd	IMF	World Bank	World Bank	World Bank	World Bank	Transparency International	PwC	World Bank	Cisco	Yale e Columbia Universities	World Justice Project
Year	2021	2021	2021	2021	2020	2020	2022	2020	2018	2021	2022	2022
Germany	14	2	11	1	7	5	1	7	1	7	3	1
South Korea	1	7	15	2	2	1	8	2	9	2	9	6
Canada	9	4	2	8	3	6	3	1	8	5	8	2
United Kingdom	16	6	16	10	4	3	4	5	3	3	1	4
Australia	12	3	9	11	5	4	2	6	6	4	4	3
United Statesi	11	1	7	18	9	2	7	3	4	1	7	8
France	17	5	3	9	6	10	6	11	5	8	2	7
Japan	18	9	18	16	1	8	4	8	2	6	6	5
Italy	15	8	17	5	8	12	9	16	7	9	5	9
Turkey	5	10	12	4	12	11	15	4	14	12	17	18
China	3	14	8	15	11	9	10	13	10	11	15	15
Russia	8	11	6	7	10	7	18	10	18	10	13	16
South Africa	10	16	1	6	18	16	11	9	11	15	14	10
Mexico	7	13	5	3	13	13	17	15	15	14	10	17
Indonesia	4	17	10	12	16	15	16	12	13	16	16	12
India	6	18	13	13	17	14	12	14	12	18	18	13
Argentina	13	12	14	17	14	18	13	17	17	13	12	11
Brazil	2	15	4	14	15	17	13	18	16	17	11	14

Source: Censis data processing

2. GLOBAL GROWTH AND THE UNKNOWNNS OF THE COMING MONTHS

Between January and April, the International Monetary Fund's estimates of global growth for 2023 revised downwards by a tenth of a point, from 2.9% at the beginning of the year to 2.8% today. Also, for 2024 the correction is a tenth of a point: +3.0% in April, against +3.1% in January.

These indications point to a more fragile global recovery, mainly due to the persistence of uncertainties affecting growth potential in both advanced and emerging economies.

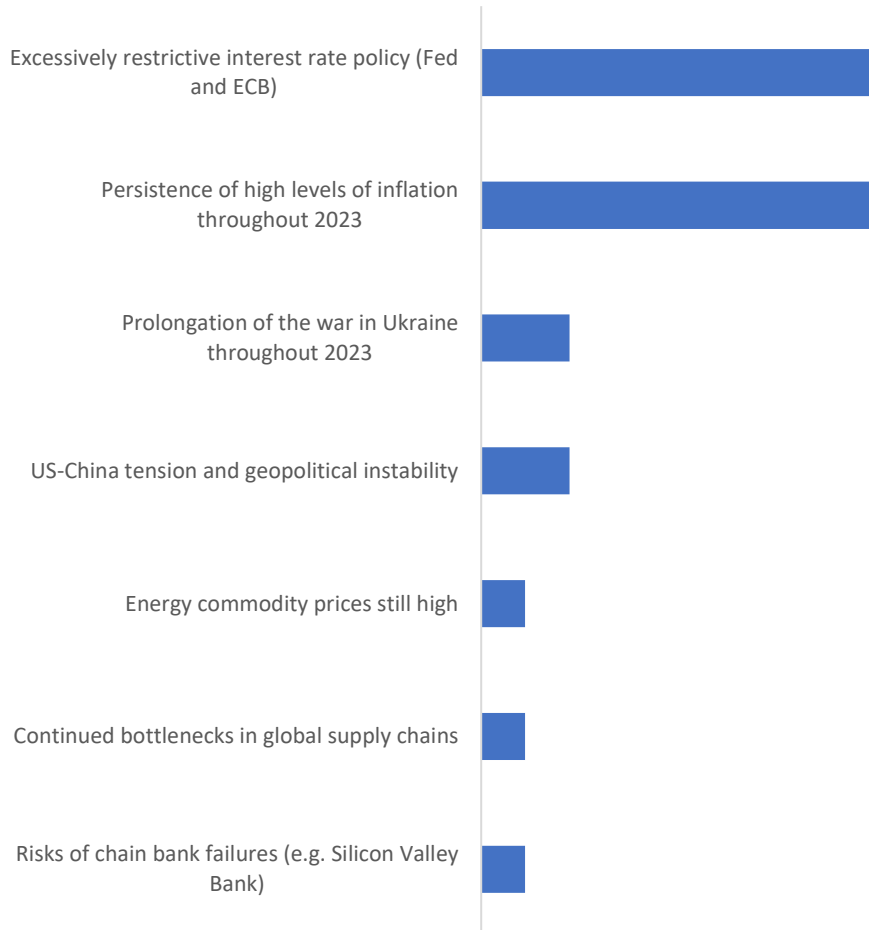
On this level, the opinions gathered at the AIBE Panel in April of this year on what is most affecting growth, converge above all on two factors: on the excessively restrictive interest rate policy adopted by the US Federal Reserve and, in concert, by the European Central Bank and on the duration throughout the current year of a situation of widespread inflation (fig. 2).

Less relevant than the factors mentioned above is, according to the Panel, the prolongation of the war in Ukraine, against which the disruptive effects that emerged at the beginning of the conflict were somehow metabolized and, subsequently, absorbed. The same response can be attributed to the item related to a possible escalation of the "cold war" - commercial and not only - between China and the United States and to the growing level of geopolitical tension that has spread in recent months.

Two other factors appear to be somewhat linked to the Ukrainian crisis, however, reported by a small part of the Panel, namely the still high prices of energy raw materials and the repeated bottlenecks in global supply chains that introduce uncertainty into production systems and the circulation of goods worldwide.

Even regarding the danger of a possible banking crisis induced by the failure and the difficulties of some American and European institutions, such as to raise fears of new "Lehman Brothers" cases, the perception of the Panel does not appear particularly worried.

Fig. 2 – The factors affecting global growth in 2023 and 2024, according to the AIBE Panel



Source: AIBE- Censis survey, 2023

3. WHAT IS HOLDING BACK GROWTH IN ITALY

Also, about Italy, the latest forecasts contained in the IMF's World Economic Outlook have reported a revision of the estimates of growth of the gross domestic product. But unlike the data on global growth, for Italy an upward correction of one tenth of a point is expected for 2023, (from 0.6% last January to the current 0.7%), while for 2024 there is a reduction of one tenth in expected growth: 1.3 against 1.4 previously estimated.

These data tend to be in line with those of the Bank of Italy source (0.6% in 2023 and 1.2% in 2024), released at the beginning of the year and submitted to the Aibe Panel for evaluation at the time of the survey.

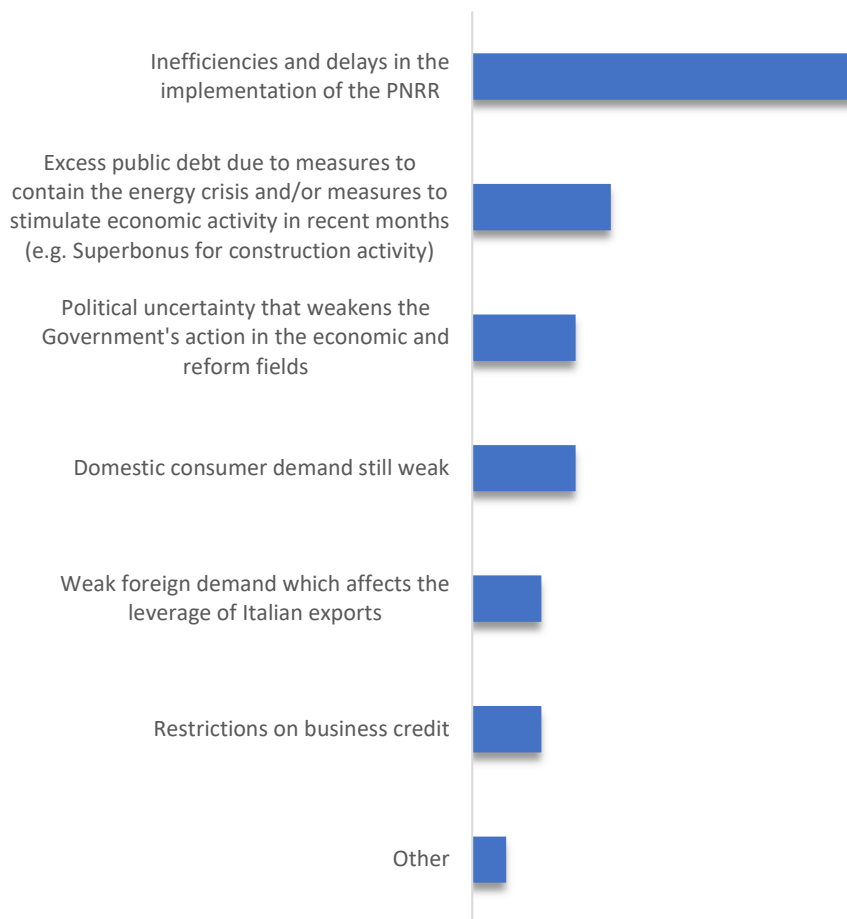
Most respondents consider the inefficiencies and delays with which the National Recovery and Resilience Plan (PNRR) is being implemented as the factor that today most affects growth in Italy (fig. 3).

Another critical factor is identified in the collection of public debt due to measures to contain the energy crisis and/or measures to stimulate economic activity in recent months (e.g., Superbonus for construction activity), while political uncertainty weakens government action in the economic and reform fields. and weakness in domestic demand can be considered as the following factors in order of importance reported by the Panel.

With a lower degree of sharing within the Panel, a certain importance is attributed to the weak foreign demand with direct effects on Italian exports, and to the restrictions that have conditioned the provision of credit to companies.

A synthetic reading of the Panel's responses leads once again to underline how the causes of the low growth potential for Italy are to be found within the country and to be attributed to the lack of ability to exploit unique opportunities such as the many financial resources made available by the European Union to raise the European economic and social systems from the crisis produced by the pandemic.

Fig. 3 – The factors affecting growth in Italy in 2023 and 2024, according to the Aibe Panel



Source: AIBE- Censis survey, 2023

Alongside the factors influencing growth, the Panel was asked to comment on the leverage of foreign investment and the role of exports as elements capable of strengthening the development potential of the country's productive base.

It was reminded to the Panel that following the latest edition of the AIBE 2023 Super Index on attractiveness to foreign investors, Italy ranks ninth among the G20 countries, but occupies seventeenth place as regards the

percentage share of incoming foreign investment flows compared to GDP and fifth place as regards the share of foreign investment flows percentage of exports always relative to GDP.

This is the latest results - which tend to be negative or the second, de facto positive or the third - lead us to wonder about what causes or elements of context determine such a different assessment of foreign operators about Italian products and the opportunities offered by the Italian production system.

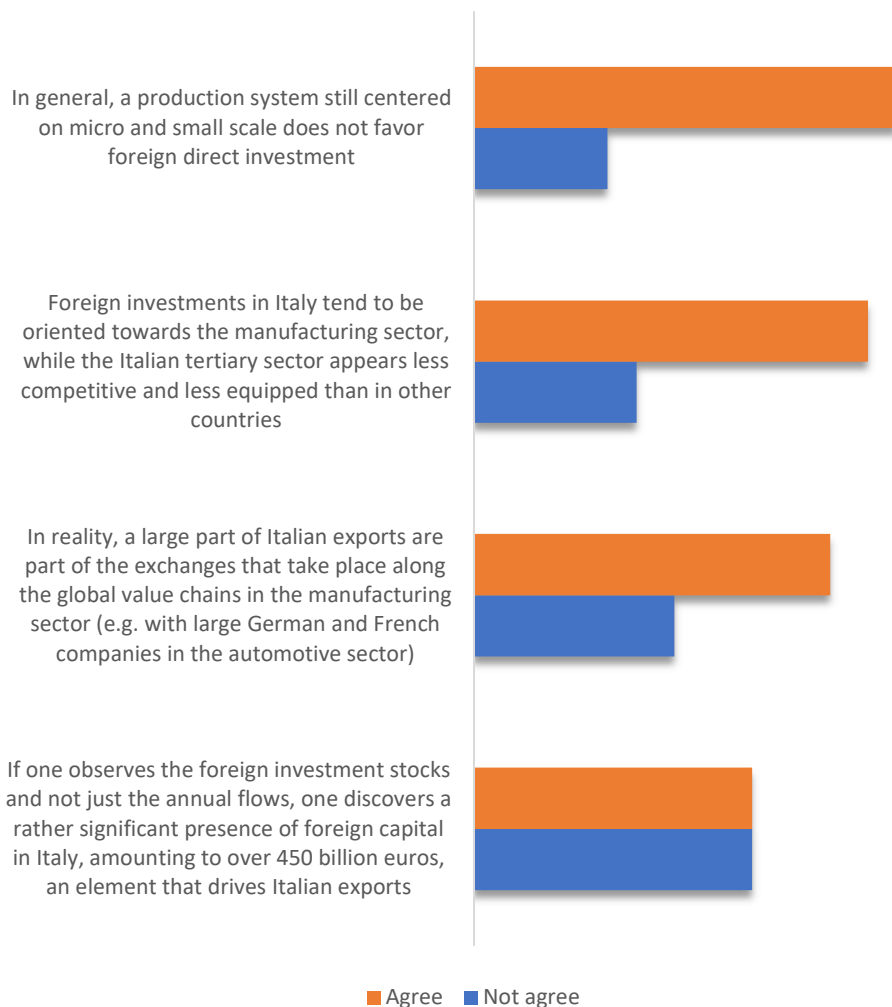
According to the opinion of the Panel, the not fully positive performance of foreign investments depends on the characteristics of the Italian production system, strongly centered on the presence and diffusion of the small size of the company, which does not favor the entry of capital from abroad (fig. 4).

In the alternative, the causes can be found in the lower competitive capacity of the tertiary sector, especially if we compare it with the manufacturing sector which is recognized as an excellence of Italy and, as such, able to guarantee a positive return on investment.

As far as Italian exports are concerned, the Panel appears substantially uncertain whether to link the results of these to the consistency of the stock of foreign capital present in Italy and such as to currently exceed 450 billion euros invested in Italian production activities and companies.

On the other hand, the Panel seems more oriented to attribute to the presence of Italian companies in global value chains, along which a large part of the supplies of goods made or reprocessed by Italian manufacturing companies are developed.

Fig. 4 – The characteristics and fundamental elements of foreign investments towards Italy. Degree of agreement, on some statements, by the Aibe Panel



Source: AIBE- Censis survey, 2023

4. INCENTIVES AND DISINCENTIVES FOR FOREIGN INVESTMENT IN ITALY

Among the factors examined to explain Italy's relative weakness in attracting foreign investments, during the survey, attention was focused on the legislation that currently regulates the issue of relocations and disinvestments that are carried out by bringing production activities already present in Italy outside the national borders and procuring a negative impact on the territories from an economic point of view, employment and social.

Also, in this case the Panel is equally divided in recognizing or not the need to intervene to modify the legislation considered rather restrictive towards the choices made by companies, whether national or foreign.

If half of the Panel does not see the current legislation on relocations as a discouraging factor for foreign investment, among those who agree to amend the legislation with the aim of making it less restrictive, the main motivation is the need to guarantee the freedom of action of companies, within a free movement of capital allowed by international relations based on reciprocity (fig. 5).

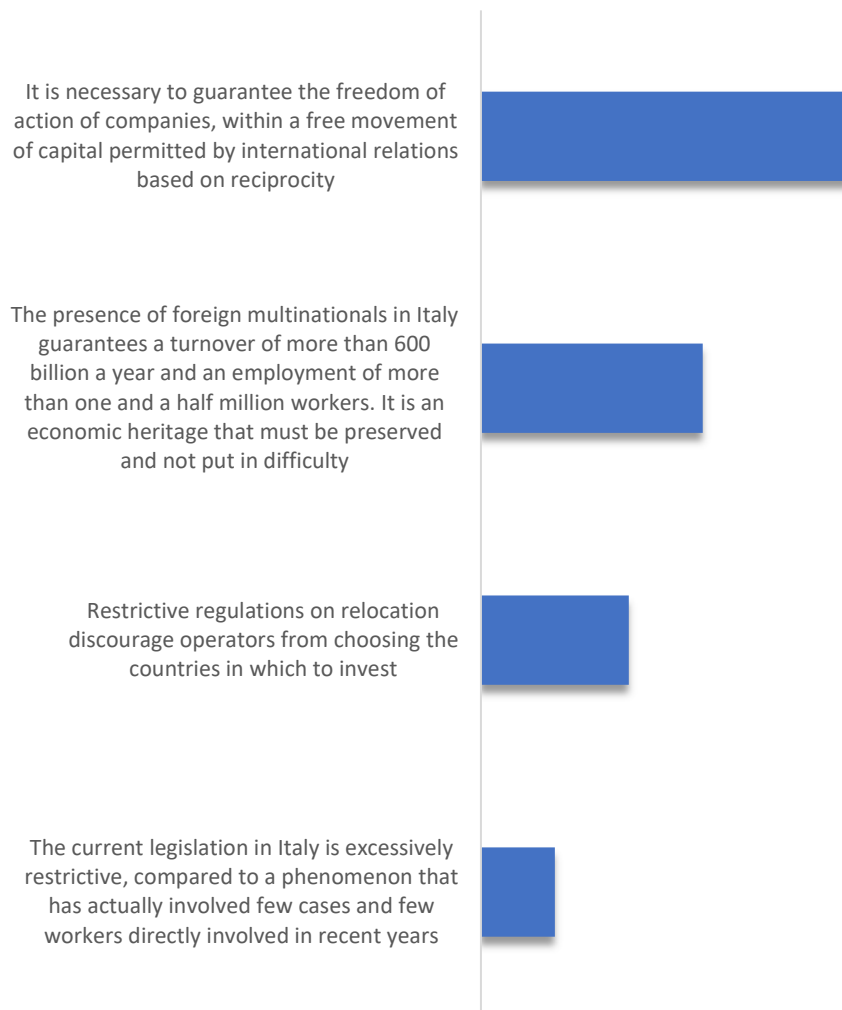
The second motivation refers, instead, to the role of foreign multinationals present in Italy, which constitute an economic heritage that must be preserved since it guarantees a turnover of more than 600 billion a year and an employment of more than one and a half million employees. According to the observations collected, it does not seem convenient for these production realities to create difficulties and constraints on business decisions.

Another part of the Panel highlights the risk that restrictive rules on relocation may objectively discourage the choice of countries in which international operators decide to invest, thereby displacing the demand for resources that can potentially come from Italian firms.

Finally, drawing attention to the real extent of the phenomenon of relocations in Italy, a share of the Panel tends to underline how the current legislation in Italy is excessive in terms of constraints, compared to a

phenomenon that has affected few cases and few workers directly involved in recent years.

Fig. 5 – Relocations and incentive and disincentive factors in the choice of Italy as a destination for foreign investments, according to the Aibe Panel



Source: AIBE- Censis survey, 2023

METHODOLOGICAL APPENDIX FOR THE AIBE SUPER INDEX

For the construction of the indicator "Super Index AIBE" was used a synthesis method based on the measurement of multidimensional phenomena formulated by Istat and defined as "penalty method for coefficient of variation". The criterion used standardizes the starting indicators, to clean them both from the unit of measurement and from their variability and uses as an aggregation function an arithmetic mean, corrected by means of a penalty coefficient that depends, for each unit, on the variability of the indicators with respect to their average value.

The final index was built since socio-economic indicators taken from the most authoritative international sources, some of which are *hard data*, context data collected and estimated, such as GDP, exports, investments, others are *soft data*, derived from surveys, such as the *Corruption Perception index*, the *Easy of paying taxes index* etc. The index obtained is simple to determine and is easily interpretable and comparable over time.

Below are the indicators, sources and years of publication used:

Indicators	Source	Year
PIL pro capite in USD PPP	OECD	2021
Quota di popolazione in età attiva (% 15-64 anni)	OECD	2021
Investimenti diretti esteri (% sul PIL)	World Bank	2021
Esportazioni di beni e servizi (% sul PIL)	World Bank	2021
Indice del capitale umano (HCI)	World Bank	2020
Doing Business score	World Bank	2020
Corruption Perception Index	Transparency International	2022
Ease of paying taxes score	PwC	2020
Logistic Performance Index	World Bank	2018

Country Digital Readiness Index	Cisco	2021
Environmental Performance Index	Yale e Columbia Universities	2022
Rule of Law Index	World Justice Project	2022
