# CONTENTS OF THE NEWSLETTER

This newsletter is a quarterly tool aimed at analyzing the main facts, figures and topics of interest to members of the Council for the United States and Italy. It is prepared jointly by the Council for the United States and Italy and The European House – Ambrosetti. and its intent is to provide qualified support and strategic guidance to business leaders interested in the relations between the two countries.

"THE MACROECONOMIC CONTEXT OF US/ITALY RELATIONS" presents the key issues for the two economies within an international framework of modest growth, on which, however, weigh the uncertainties related to the recent spread of the COVID-19 virus outside China. The second part, "FOCUS: THE END OF TRADE WARS? THE IMPLICATIONS FOR ITALY/ US RELATIONS" offers an in-depth analysis of a central theme for the relations between the two countries, that of trade wars, a theme which today seems to have entered a new phase after the recent agreement signed between the United States and Beijing. The third part, "NEWS AND HIGHLIGHTS", collects the main (positive) news on bilateral business relations between the United States and Italy. Finally, the "SAVE THE DATE" section offers a reminder to Council members of the main appointments that the platform currently offers.

## THE COUNCIL FOR THE UNITED STATES AND ITALY

The Council for the United States and Italy is a private non-profit organization, founded in Venice in 1983 by Gianni Agnelli and David Rockefeller, who served as honorary presidents until 2003. Marco Tronchetti Provera followed them as Chairman, then Sergio Marchionne until 2018. Domenico Siniscalco is the current Chiarman, Gianni Riotta Executive Vice Chairman. The Council for the United States and Italy promotes and creates economic relations between Italy and the United States, linking them to Europe, Asia and Africa through knowledge and free trade. Its members are leaders in the economy, industry, finance, technology, services, consulting, law and culture--a team in which economic growth is viewed as promoting humanity and wealth as a cultural value to be shared.

## THE EUROPEAN HOUSE - AMBROSETTI

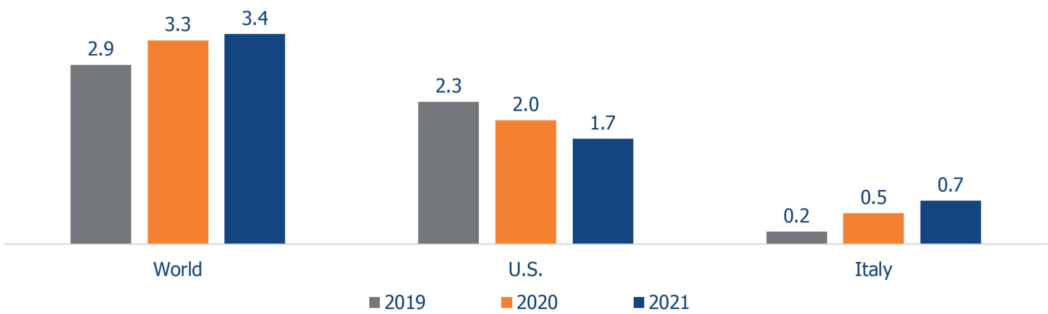
The European House - Ambrosetti is a leading Italian management consulting firm. Established in 1965, it is headquartered in Milan and has a network of foreign offices in Europe and around the world. The European House – Ambrosetti is an independent organization that maintains a neutral standpoint on political issues. It operates as a think tank developing topics and proposals to support the debate on critical issues affecting the agenda of corporate leaders in Italy and in Europe.

For the seventh consecutive year, The European House – Ambrosetti has been nominated--in the "Best Private Think Tanks" category--the No. 1 Think Tank in Italy, ranking in the European top ten and in the World top twenty, and ranking in the World top one-hundred most-esteemed and independent out of 8,248 think tanks globally in the University of Pennsylvania's 2019 Global Go To Think Tank Index Report.

# THE MACROECONOMIC CONTEXT OF US/ITALY RELATIONS

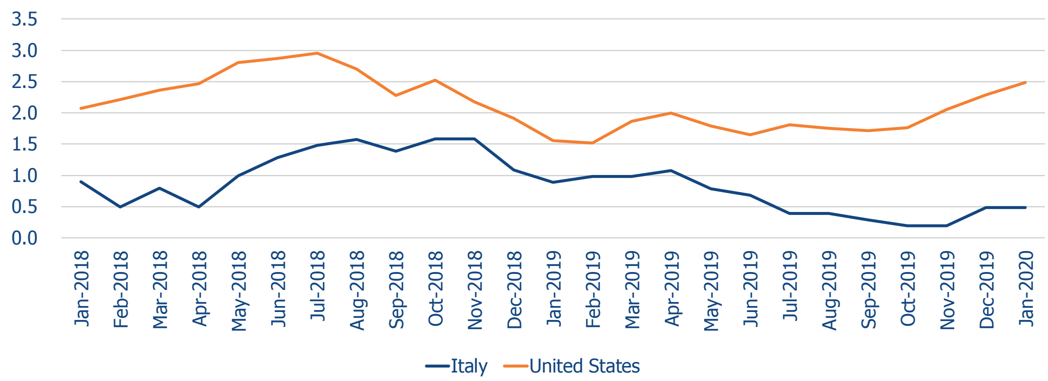
## FIRST QUARTER 2020 UPDATE

**Real GDP growth rate** - The pace of global GDP growth is projected to slow down, mainly due to a tendency towards stagnation in developed economies and a significant reduction in the US growth rate. On the other hand, the projection for Italy was towards moderate growth, despite the chronic problem of below-average growth in other EU countries. Those figures were released in January 2020, therefore a downward revision is possible as a result of the economic damage caused by the spread of the coronavirus and its effects on consumption and trade. The latest figures released by the OECD in March 2020 forecast worldwide growth of 2.4% (0.5 percentage points below previous estimates), US growth of 1.9% and Italian growth of 0% in 2020.



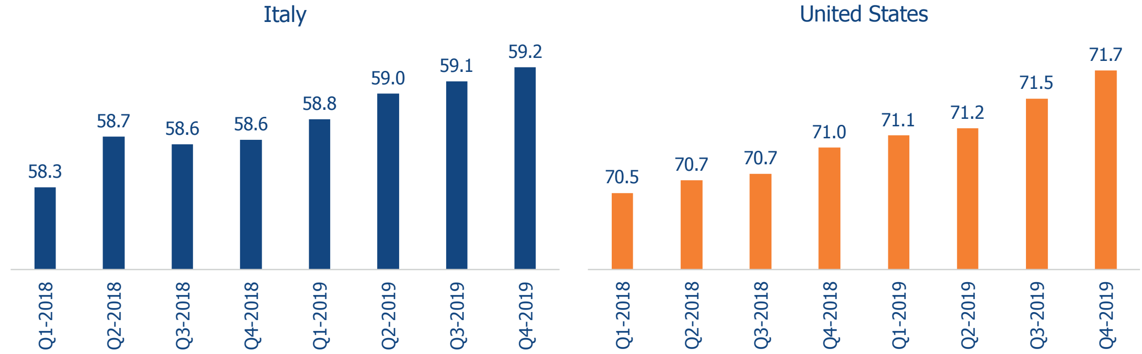

Forecast for real GDP growth rate (percentage change), 2019-2021.
*The European House – Ambrosetti elaboration on IMF data, 2020*

**Inflation rate** - The inflation trend remains sluggish in Italy—in line with inflation in the euro zone as a whole—mainly due to low growth in consumption. The Consumer Confidence Index experienced a slowdown from 113.8 in January 2019 to 110.8 in December 2019, with only partial growth in the first two months of 2020 (currently 111.4). Inflation growth in the US was mainly driven by rising energy prices (+6.2% between January 2019 and January 2020), which generated inflation growth of 0.6 percentage points in the second half of 2019.



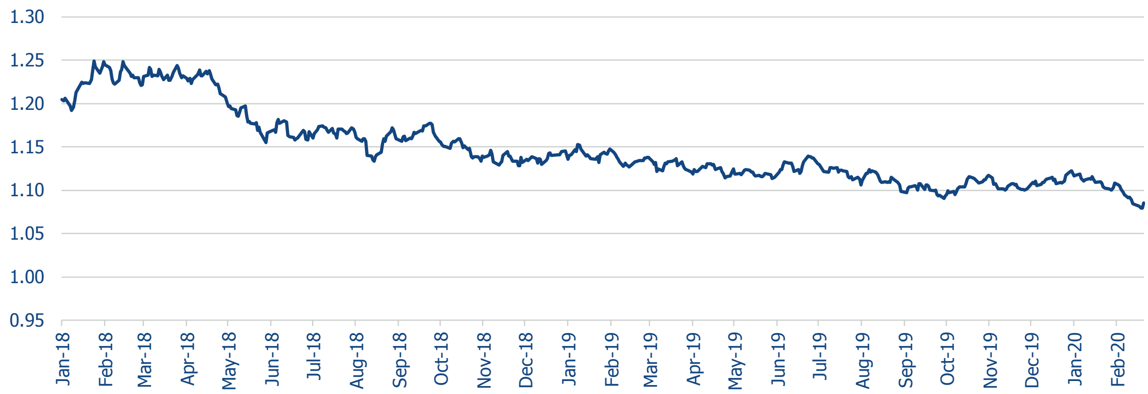

Monthly consumer price (percentage change on the same period of the previous year), January 2018–January 2020.
*The European House – Ambrosetti elaboration on OECD data, 2020.*

**Employment rate** - The employment rate is rising both in Italy and the United States, remaining at distinct levels due to the different nature of the labor market in the two countries. The unemployment rate in Italy remains stable at 9.8%, and the US rate is also anchored at 3.6%.



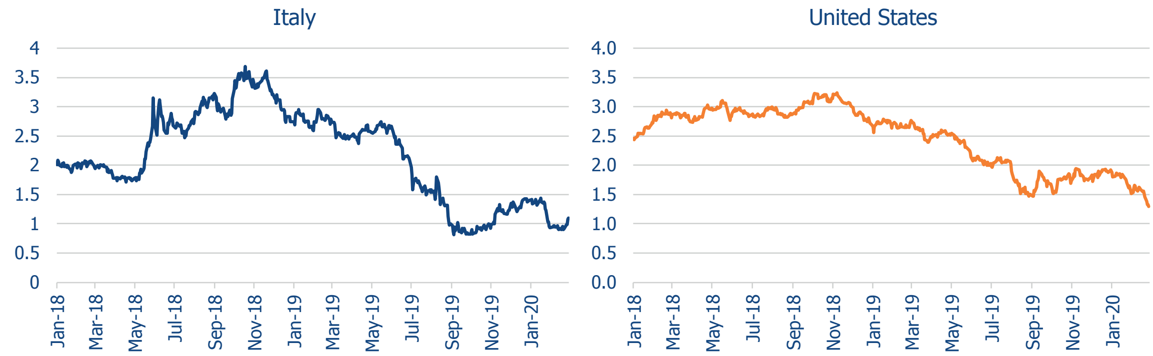

Employment rate (percentage of employed population to total population aged 15-64), 1st quarter 2018–4th quarter2019.
*The European House – Ambrosetti elaboration on OECD data, 2020.*

**Exchange rate (dollars per euro)** - The dollar continues its slow appreciation against the euro. In the last year, the exchange rate rose from 1.1418 dollars per euro in January 2019 to the current 1.0908. Both central banks - the FED and the ECB - have expressed their intention to keep interest rates stable for an extended period. The official ECB rate (the main refinancing operations rate) is currently 0%, while the official FED rate is 1.6%. Both rates are expected to remain fixed throughout 2020, or be subject to a reduction if it is necessary to intervene with monetary leverage following the worsening of the emergency situation due to the coronavirus.



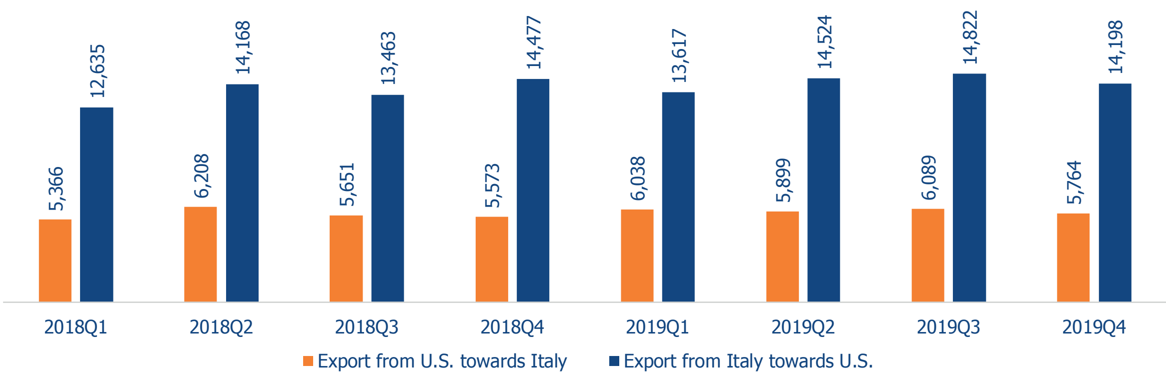

Exchange rate (dollars per euro, daily), January 2018–February 2020.
*The European House – Ambrosetti elaboration on FRED data, 2020.*

**Ten-year government yield** - The rates of return on government bonds continue to fall in both countries. While in the US the trend is mainly due to economic factors, in Italy the evolution of government rates has been subject to the political upheavals that have characterized the last two years. In correspondence with the declaredly Euro-skeptical Lega/ 5 Star Movement government (which took office at the beginning of June 2018), the yield on ten-year bonds rose by more than 120 points, remaining stable above 2.5% for the entire duration of the legislature. The change of government (September 2019) seems to have reassured investors, causing a reduction in rates by more than half.




Ten-year government yield – BTP and T-bill (interest rate on secondary market), January 2018–February 2020.
*The European House – Ambrosetti elaboration on FRED and Bloomberg data, 2020.*

**Bilateral trade (million dollar)** - Italy and the US are mutually-crucial trade partners. The United States is the destination of 9.2% of total Italian exports and the 3rd largest destination for Italian exports (#1 non-EU), while Italy is the 17th destination for US exports (1.4% of the total), the 6th considering only European countries. In 2019, Italy exported $57.1 billion of goods and service to the US (+4.4% compared to 2018) and the US exported $23.8 billion to Italy (+4.3% compared to 2018).




Value of trade between US and Italy (millions of dollars), 1st quarter 2018 – 4th quarter 2019.
*The European House – Ambrosetti elaboration on Census Bureau data, 2020.*

# FOCUS: THE END OF TRADE WARS? THE IMPLICATIONS FOR ITALY/ US RELATIONS

## Trade wars and the impact on the global economy

In recent years, protectionist measures have been advocated and implemented worldwide, most notably by the United States and Trump's "America First" policy. As a result, **global trade is contracting**. The volume of goods trade dropped 0.6% in November 2019 compared to the previous month and was down 1.1% compared to the same month in 2018, marking the sixth consecutive month of year-on-year contraction, the longest period of falling trade since 2009.[1]

The mounting popularity of protectionist policies is posing challenges to the multilateral WTO-led order that for decades ensured growth, prosperity and the progressive integration of emerging markets, particularly China and other East Asian economies. On the contrary, major powers are now resorting to bilateral trade negotiations, under the implicit assumption that trade relations are zero-sum games with clear-cut winners and losers.[2] The Trump strategy aims at disentangling the thick multilateral trade order through **bilateral trade agreements**, through which the US can flex its muscles and cut a "good deal" by leveraging power asymmetry.

It is no surprise, then, that the World Trade Organization came in Trump's crosshairs. The organization, established by the United States 25 years ago, faced its worst institutional crisis ever when in December 2019 **the US Administration blocked the WTO Appellate Body Judges appointment**, the dispute settlement mechanism without which the WTO cannot function. This was done under the allegation that WTO resolutions rarely favor the United States and that it is overreaching its mandate, autonomously creating legislation by which the US is not willing to be bound.

In this context, the **US trade war with China is the trigger and the most spectacular** of the various areas of trade tension and negotiations seen in recent years. Bilateral relations witnessed a constant and serious deterioration over the last two years because of American complaints of unfair trade practices, currency manipulation and intellectual property theft.

These factors were blamed for the huge and persistent US trade deficit towards China, and the remedy prescribed was the **six-fold increase in bilateral trade tariffs between mid-2018 and today**. The US-China battle not only included escalating tariffs, but also embargoes on companies, as exemplified by the Huawei products ban.

In fact, besides countering a China on the rise, the America First approach has also influenced relations with traditional US allies and reshuffled trade agreements in North America, the Pacific and with Europe. In addition to tensions with China, Trump's steel and aluminum tax, a hot topic during the Presidential campaign of 2016, created discontent and triggered retaliatory measures from countries including Canada, Japan and the European Union. Other important steps in the America First policy have been the renegotiation of the North America Free Agreement (NAFTA), replaced by the United States/ Mexico/ Canada Agreement, which is yet to be ratified by the parties. Asia was also a target of protectionist policies, seen right after taking office when Donald Trump withdrew the US from the Transpacific Partnership (TPP), a multilateral treaty negotiated by the previous US administration. In addition to bilateral negotiations, the US unilaterally increased tariffs affecting Turkey, Brazil, Argentina, the EU and several other countries.

1 CPB Netherlands Bureau for Economic Policy Analysis, February 2020.
2 Ursula von der Leyen, Mission Letter to Commissioner for Trade Phil Hogan, Brussels, December 1, 2019.

Data shows that beyond the dramatic US - China dispute, **resort to protectionism accelerated worldwide in 2018 and 2019**. In 2017, a total of 625 additional trade distortions were introduced by governments, with China and the United States responsible only for 23% of the new trade distortions introduced. The total of new protectionist measures jumped to 1050 in 2018 and 1048 in 2019. Furthermore, it is estimated that by end-2020, tariffs already imposed or announced will shrink global GDP by 0.8%.[3] The EU is particularly exposed: exports from the EU decreased by 1.8% in the third quarter compared with the previous three-month period (vs. an overall 0.7% fall in exports across the G20 group of major economies. A 1.7% contraction was already experienced by the EU over the previous quarter).[4]

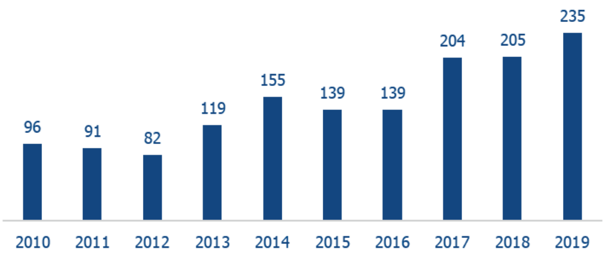



**Figure 1.** Number of interventions harmful to global trade implemented each year (number).

*The European House – Ambrosetti elaboration on Global Trade Alert data, 2020.*

The increase in protectionism has thus contributed to the **slowdown in global growth**, both via the direct effects on trade flows, supply chains and import costs, and via the wider indirect effects on business sentiment, uncertainty and investment around the world.

## A new phase in the China - US dispute?

The high price-expected and already paid-by the world economy (see figure 2) has led the two countries to consider and implement a de-escalation. The result is the ***Phase One Trade Deal***, signed by Donald Trump and Chinese Vice Premier Liu He on January 15, 2020.

The deal marks the first turnaround in the course of trade relations between the two world economic giants whose relations over the last two years have only deteriorated. However, the deal will have consequences beyond US China bilateral trade flows, positively influencing global GDP and trade.

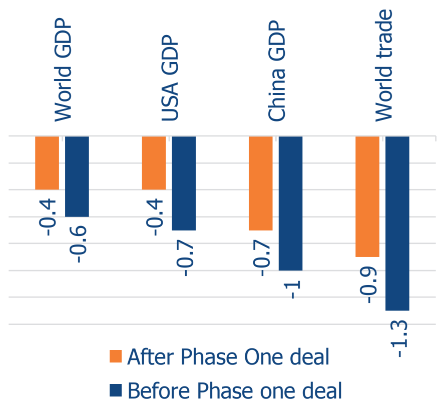



**Figure 2.** Impact of US-China trade tensions, difference from baseline 2021 – 2022.

*The European House – Ambrosetti on OECD data, 2020.*

Specifically, the deal includes **200 billion-worth in trade commitments by China** of US goods by the end of 2021. The bulk of the deal agreement is the Chinese commitment to increase imports from the United States by $200 billion in the next two years, of which $76.7 billion in the year 2020 and $123.3 billion in 2021. The agreement seems designed to increase United States commercial strategic leverage towards China, as well as domestic popularity of such measures. This is the case of agricultural cooperation and financial services, to which the deal dedicates entire chapters.

The deal also includes limited structural reforms and other changes to China's economic and trade regime in the areas of **intellectual property, technology transfer, agriculture, financial services, and currency and foreign exchange**. In turn, the United States will stop its escalation of tariffs.

3 IMF World Economic Outlook, October 2019.
4 Source: OECD, Trade Database, 2020.

The lion's share of the trade commitment is related to **manufactured goods for a combined worth of $77.7 billion**. This category includes industrial and electrical appliances, pharmaceutical products, aircraft, vehicles and other machinery. The rest of the trade expansion will be related to energy commodities (+$52.4 billion in imports within 2021), services ($37.9 billion) and agricultural products ($32 billion).

So far, the agreement marks a **major turnaround**, reducing tensions in global markets and the uncertainty associated with trade frictions. Its effects are already visible, as both the US and China have already reduced tariffs as part of the phase one deal, reversing—or at least non worsening—tariff escalation for the first time in years. In fact, even with the deal, average US tariffs of imports from China stand at 19%, against the average 3% when the trade war began.

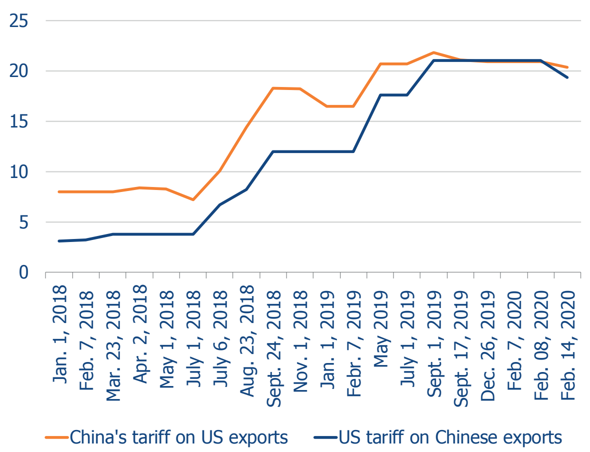



**Figure 3.** Average tariffs US – China average tariffs on bilaterally-traded goods.

*The European House – Ambrosetti elaborations on Peterson Institute of International Economics data, 2020.*

However, the trade policy issues between the US and China are all but solved and we are far from the end of the global trade war era. All the signals indicate that **the conflict is simply entering a different stage**.

Firstly, it is not clear how the deal will be enforced and **how it will influence long- term relations between the two countries and the world**. The huge amount of manufactured goods that must be imported by China from the US risk distorting the world trade balance that will affect China's traditional manufacturing partners, as well as the shape of global value chains.

In addition, some key issues have not been included in the Phase One deal, and have been postponed to **a Phase Two agreement**, more comprehensive in its nature, which the US Administration wants to start negotiating before the upcoming presidential elections. However, its conclusion will not come anytime soon, and certainly after the US elections in November 2020.

Among the issues deferred to the Phase Two agreement, there is Beijing's ambitious **"Made in China 2025" program**, which is designed to help Chinese companies excel and become world-class leaders in emerging technologies. It also does not address the subsidies that China gives its state-owned enterprises. Nor does the Phase One deal address technology-related issues. Among these, the 5G dispute with Huawei remains unsolved. Moreover, the lion's share of US sanctions currently remains in place and will be rolled back only with the signing of the Phase Two deal.

Thirdly, the treaty covers only a portion of the measures harmful to free international trade. It does not signal any intention to return to a system based on multilateral agreements. On the contrary, it could give new impetus to Trump's aggressive trade policy, with the US Administration identifying new targets after the November elections. At the end of January, President Trump already declared that his administration will **move aggressively to negotiate a trade deal with Brussels**. And if progress is not made quickly, he said he will impose tariffs of up to 25% on cars made in the European Union.

## The implications for Italy/ US relations of Phase two of the trade wars

On the one hand, the *Phase One Trade Deal* between China and the United States reduces the level of uncertainty accumulated by the system in recent years, which is mainly the result of growing commercial tensions. On the other hand, it **consolidates the split with past WTO-based multinational order**.

In this context, the EU represents an exception as the largest free trade area in the world and the most interconnected one. Partly because of this, it will be on Europe that the US Administration will focus in the future. A **shift in the US Administration's focus from China to the EU** could be harmful for US/ Italy relations if the deal is negotiated on a confrontational basis. On the contrary, a "balanced and mutually-beneficial trading partnership" could further improve relations between Italy and the US, which are currently suffering by the blacklisting of EU agricultural products enforced in November 2019. These tariffs, put in place by the US Administration in retaliation for the Boing-Airbus WTO dispute, affected $7.5 billion of imports from the EU.

According to the latest estimate published by the Italian government in autumn 2019, **a trade war escalation would lower Italian GDP by 0.2 percentage points in 2020**. Although this scenario now seems unlikely, concerns remain regarding possible developments in trade relations between the United States and the European Union and, consequently, between the United States and Italy

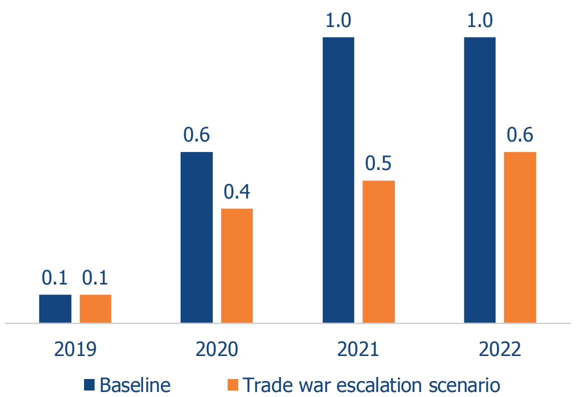



**Figure 4.** Italian GDP growth rate forecast (percentage).

*The European House – Ambrosetti elaboration on Ministry of Economy and Finance data, 2020.*

Secondly, the **impact on Italy of the Phase One deal between the US and China** seems limited on an overall level, but it could be significant for individual sectors or players. The magnitude of such an effect will crucially depend on the rate of substitutability between Italian and American goods in China. Exports to China represent a limited share of Italian trade (2.8% of total Italian exports), but it is a privileged destination for some specific sectors (it absorbs 8.8% of metalworking machinery exports and 3.5% of total machinery exports). With the same Chinese imports, Italian manufacturing exports would decrease by 3.5%.

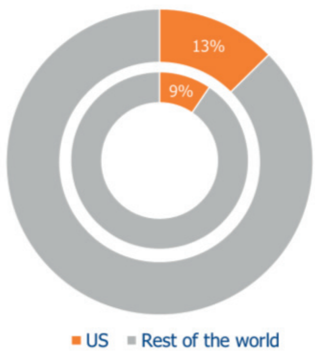



**Figure 5.** US share of total Chinese manufacturing imports before (inner circle) and after the Phase One Trade Deal (outer circle), (% of total imports).

*The European House – Ambrosetti elaboration on UnctadStat data, 2020.*

A third element of concern is the evolution in tariffs imposed on European goods as a result of the "Airbus affair" in November. On that date, in fact, President Trump imposed a series of tariffs ranging between 10% and 25% on a set of European products with a cumulative value of $7.5 billion. These duties have also affected Italian supply chains, especially those linked to the agrifood sector. Coldiretti estimates an overall drop of 20% in sales of Made in Italy products, with a loss for Italian producers of more than $8 million.

An element of partial optimism for Italian supply chains, is the absence of further tariffs on Italian products included in the review of duties issued in February 2020. Trade tensions must not make us forget the importance of the bilateral relationship between the United States and Italy.

Italian exports to the United States in the period 2013-2018 grew faster than all other Italian trading partners: +9.6% versus an average of +6.8%. During the same period, the volume of US exports towards Italy **grew by an impressive 23.9%** in 2018 with respect to 2017. Considering inbound and outbound flows, Italy is the **12th largest trading partner** of the United States.

Also in terms of investment, the importance of a mutually-beneficial relationship between US and Italy can also be seen: in the last 5 years the stock of US FDIs in Italy has grown by 8.1% and the Italian stock of FDIs in the US by 4.2%.

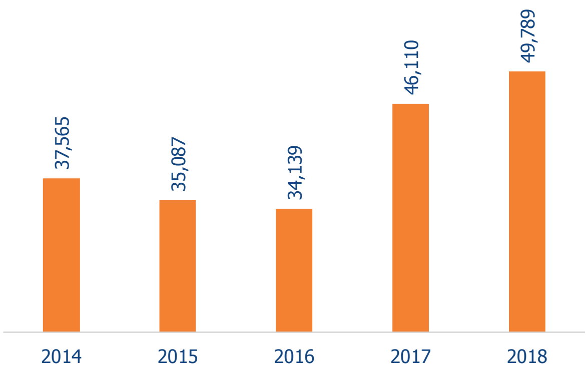



**Figure 6.** Foreign Direct Investment between US and Italy. US FDIs in Italy; (stock, millions of dollars), 2014-2018.

*The European House – Ambrosetti elaboration on OECD data, 2020.*

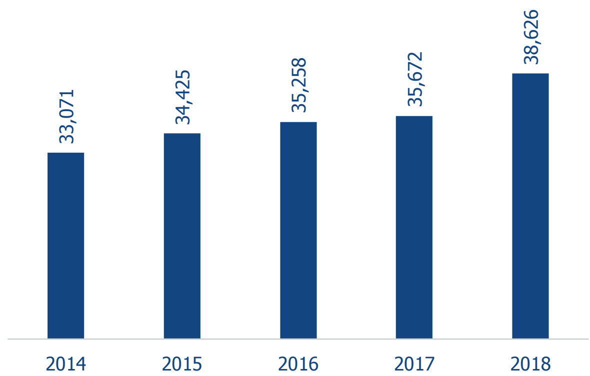



**Figure 7.** Foreign Direct Investment between US and Italy. Italian FDIs in the US (stock, millions of dollars), 2014-2018.

*The European House – Ambrosetti elaboration on OECD data, 2020.*

Finally, it must be recalled that Italian direct investment in the United States supports more than 127,000 jobs in the U.S., while US investment in Italy employs around 200,000 people. In 2018 alone, M&A operations between the two countries were worth $21,464 million.

# NEWS AND HIGHLIGHTS

## EU trade chief believes 'mini deal' with US is within reach.

*Financial Times, 2/26/2020*

Phil Hogan sees opportunity after Washington delays punitive aircraft tariffs. Phil Hogan told the Financial Times that he was optimistic of progress in trade talks after Washington this month limited its retaliation against Brussels in a long-running dispute over aircraft subsidies. The US said it would increase tariffs on EU-made aircraft but delayed their introduction until March 18, while holding back on e xtra duties on a range of other goods. Mr. Hogan has been to the US twice since taking over as trade commissioner in December in a sign of the attempts to reach an agreement. He said an EU-US deal could entail reactivating efforts to reduce tariffs on industrial goods, clearing bureaucratic obstacles to trade in food products and working together to develop international standards for new technologies.

## Rockwell Automation to Acquire Italy-based ASEM

*Nasdaq, 2/19/2020*

Rockwell Automation, Inc. (ROK) said Wednesday, February 19, it has agreed to acquire Italy-based ASEM S.p.A., a provider of digital automation technologies. Financial terms of the transaction were not disclosed. ASEM provides a range of Industrial PCs or IPCs, Human-Machine Interface or HMI hardware and software, remote access capabilities, and secure Industrial IoT gateway solutions. Rockwell Automation noted that the acquisition will strengthen its Control and Visualization portfolio. "ASEM's strength in the IPC market and expertise in HMI will further expand our Control & Visualization hardware and software portfolio and enhance our ability to deliver high-performance, integrated automation solutions," said Fran Wlodarczyk, Senior Vice President, Architecture & Software at Rockwell Automation.

## Enel Green Power North America has started commercial operations at two renewable energy projects in the US

*Enel, 12/30/2019*

Enel Green Power has started operations at two renewable energy plants in the United States. The projects include the first 252 MW phase of the Roadrunner solar project in Upton County, Texas, and the 66 MW Whitney Hill wind project in Logan County, Illinois. The 497 MW Roadrunner solar project began construction in February and will be the largest operational solar farm in Texas upon completion of its second phase, expected in late 2020. This announcement follows the recent start of operations of 450 MW of the company's High Lonesome wind farm in Texas, bringing Enel Green Power's total new renewable capacity added in the US in 2019 to nearly 800 MW with another 1 GW currently under construction. Enel Green Power has another 4 projects under construction, including the second 245 MW phase of the Roadrunner solar project, the 236.5 MW White Cloud wind project in Missouri, the 299 MW Aurora wind project in North Dakota. Enel Green Power is a leading owner and operator of renewable energy plants in North America, with projects operating and under development in 24 US states.

# NEWS AND HIGHLIGHTS

## Fincantieri invests $130 million in the United States

*ANSA, 12/17/2019*

Fincantieri is investing $100 million in the main plant of its three in the US, the Marinette Marine. A figure to which is added another $30 million from the state of Wisconsin where the three plants are located (the other two are Ace Marine and Bay Shipbuilding). The FMM was visited a few days ago by US Vice President Mike Pence, who gave a long speech defining the plant as a productive reality that "has played a fundamental role in national defense". He referred to the 190 ships and boats of various sizes launched and delivered to the US Navy, and it is not excluded that this role will become even more important. In mid-2020 a $19 billion tender will have to be awarded for the supply of 20 multi-role frigates to the US Navy, in which Fincantieri is taking part. An investment of $130 million has also been decided—but not only—in view of the outcome of the tender. The three plants employ a total of 2,500 people (with a spin-off involving the activity of 35 companies) who, thanks to the investment, will increase by 700 people in what Pence has called "the heart of the Heartland", the heart of America.

## UAW approves labor deal with Fiat Chrysler

*CNBC, 12/11/2019*

The 2019 labor negotiations between the United Auto Workers and Detroit automakers ended Wednesday with rank-and-file workers at Fiat Chrysler approving a new four-year deal with the company. Fiat Chrysler's contract included the Italian-American automaker investing $9 billion in its U.S. manufacturing, including $4.5 billion in previously announced investments, and the creation or retention of 7,900 U.S. jobs over the life of the deal. Under Fiat Chrysler's new contract with the union, in-progression workers will receive the same healthcare benefits as veteran workers. That puts those workers more in line with their counterparts at GM and Ford.

## Italy approves second phase of F-35 investment program

*Reuters, 11/28/2019*

Italy will press ahead with an investment program for F-35 fighter jets, Defense Minister Lorenzo Guerini said, after uncertainty over further orders from the Rome government had raised questions on production plans. "As the government aims to build on the investments made so far and seize the opportunities offered by the program, I've decided to give a green light to phase two," Guerini said during a parliamentary hearing.

# SAVE THE DATES

April 9, 2020
5pm - 6pm (CET)

## Webinar
## "Economic and Financial Impacts of Covid-19"

With **Wolfgang Munchau** (Director, Eurointelligence; Columnist, Financial Times and Corriere della Sera) and **Domenico Siniscalco** (Vice Chairman, Morgan Stanley; President, The Council for the United States and Italy)

April 28, 2020
5pm - 6pm (CET)

## Webinar
## "The New Economic and Financial Outlook"

With **Mohamed El-Erian** (Chief Economic Advisor, Allianz)