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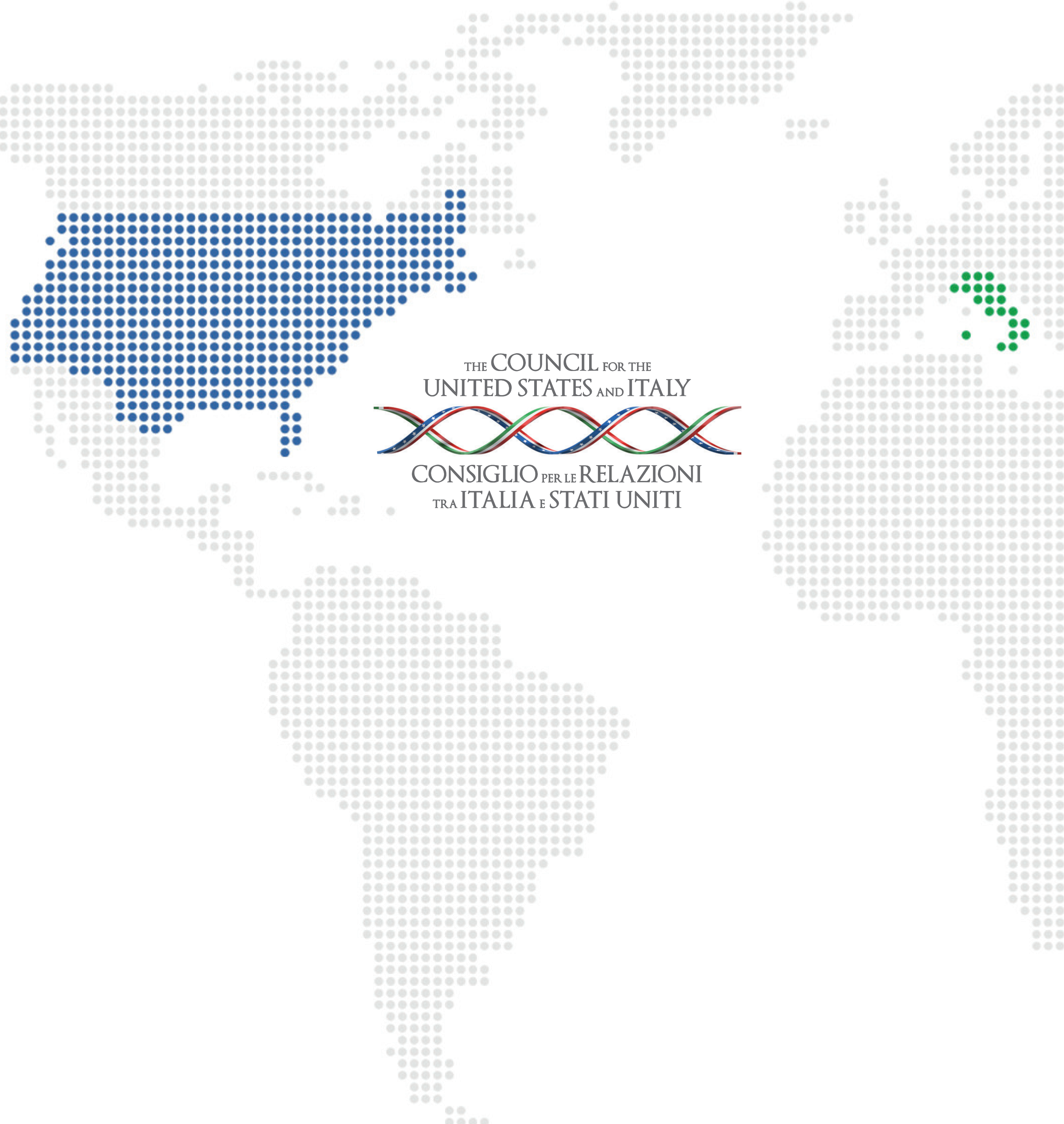

THE COUNCIL FOR THE UNITED STATES AND ITALY

CONSIGLIO PER LE RELAZIONI TRA ITALIA E STATI UNITI

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ABOUT THE COUNCIL FOR THE UNITED STATES AND ITALY

The Council for the United States and Italy, an independent, private, non-profit organization, promotes and improves economic, social and cultural dialogue between Italy and the United States, linking them to Europe, Asia and Africa through a network of knowledge, free trade, education, politics, business. Members of our Council are prominent leaders in the economy, industry, finance, technology, services, consulting, law and culture - a community enhancing economic growth while promoting innovation, wealth, cultural values, sustainability, and human rights. The Council for the United States and Italy was founded in Venice in 1983 by Gianni Agnelli and David Rockefeller, Marco Tronchetti Provera then served as Chairman, followed by Sergio Marchionne. Domenico Siniscalco is the current Chairman, Gianni Riotta Executive Vice Chairman.

Our new monthly newsletter is published by the Council for the United States and Italy and The European House - Ambrosetti. Please share with us ideas, suggestions, projects.

"CORONAVIRUS: THE ITALIAN CASE" - March 19, 4 pm

Walter Ricciardi*, Professor of Hygiene and Preventive Medicine at the Catholic University of the Sacred Heart; Advisor to the Minister of Health for coordination with International Health Institutions; Member of the Executive Board of the World Health Organization*

Far from being an unlikely and unique event, a so-called "black swan", the Coronavirus epidemic was actually highly predictable: not only the world's scientific community knew it, but also some important business leaders such as Bill Gates, who intervened in this regard as early as 2015. The warnings began in 2002 with the SARS epidemic, continuing with the pandemic flu of 2009 and the MERS in 2012: it was only a matter of time before a new respiratory - and therefore highly contagious - disease spread from Asia, a continent where high population density forms, together with the increased promiscuity of life between humans and animals, the perfect cocktail for a pandemic.

But how did the governments react? Prof. Ricciardi maintains that where a strong alliance and collaboration between the scientific and political worlds has been created, as in Italy, the response has been faster and more effective. China itself, for its part, has turned its initial crypticity into collaboration and transparency, not being able to deny the exceptional gravity of the emergency. However, it was inevitable that the countries would move in scattered order, since they were affected by the virus with different timing: the motto *"we are all Italians"* of the President of the EU Commission Von Der Leyen was soon denied by the spread of the virus throughout Europe, with all due respect to those who thought that the Coronavirus was an Italian plague.

Italy was hit first and hardest by the pandemic, also in terms of deaths, because of the high average age of the population and the fact that patient 1 was a biologically and socially hyper-active subject, a 'superspreader' that infected no less than 630 people in a densely populated area of Lombardy. In terms of numbers, however, the contagion dynamic s reflects the one seen in the Hubei province and in the city of Wuhan, similar respectively to Italy and Lombardy for inhabitants (60 million and 11 million).

What about the measures to be taken to combat the virus? Let's not delude ourselves: it will be a long and patient battle before finding the vaccine (it will take at least a year, if not 18 months). In the meantime, what we can do is to slow down the contagion and contain it through social distancing, looking for specific therapies that do not irreparably damage the cells (if SARS-CoV-2 were a bacterium, everything would be easier!).
Precisely for this reason, communication by the Italian Government will have to be careful, clear and selected: the danger of misperception is just around the corner, and not all the scientific world can talk about public health with competence.

"ECONOMIC AND FINANCIAL IMPACTS OF COVID-19" - April 9, 5 pm

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

How deep the recession will be and how long it will last. These are the two points on which, according to President Siniscalco, the future of Italy, Europe and the world will depend on. The fact that there are now 170 countries in recession gives an idea of the severity of the crisis in which we find ourselves: many will see their GDP fall by about 10% at the end of this year, moving towards a partial recovery only at the beginning of 2021.
However, at this stage, it is not possible to predict the exact duration of the recession. Will it be a V-shape recession or a U-shape recession? Or, again, a "Nike-shape recession", with a long stagnation at the end of which it will start to grow again? Predicting this is difficult because we do not know what the different political responses in the countries will be and how long the lockdown measures, perceived differently by the social forces, will last. On the one hand, there is the scientific world, promoter of a lockdown extension to protect public health. On the other hand, the business world, eager to reopen activities immediately to avoid their definitive closure. In between, a political class that tries to mediate between these two forces by favouring, for reasons of public finance and social balance, the reopening as soon as possible.

In this context, the financial and fiscal instruments introduced by the various governments and European institutions will be essential to ensure long-term structural growth in the post-crisis period: it is an opportunity, moreover, to rethink growth on different bases. What we can be sure of is that geopolitical balances, supply chains, labour and global trade will no longer be the same. This crisis is a perfect "creative destruction", it may help us overcome some technology or innovation problems, acting as a stimulus.

Mr. Munchau is equally well aware of this and, indeed, does not believe that what was lost in 2020 in terms of GDP can be easily recovered in 2021: many activities will not reopen (e.g. tourism), others will have to respect strict constraints (e.g. restaurants) and value chains will be completely disrupted. At present, the most likely scenario is a "double dip": a slow recovery towards summer will be followed by a new peak of contagion in autumn and therefore new restrictive measures.

To limit the damages in Europe, the fiscal stimulus must be powerful and promoted at EU level. The intervention of the ECB and the SURE programme are not enough, we need more: a fund to invest in post-crisis recovery at European level, which will deploy at least one trillion euros. It is also essential that these expansionary measures are not followed by a new moment of austerity. Risk sharing at European level is also essential to avoid the rise of populist governments and go, in the case of Italy, towards a default temptation: if the country reaches a debt/GDP ratio close to 200%, this scenario could come true.

However, there is no illusion about the good will of the Northern countries, Germany first. Unless there is a concrete threat to the Eurozone, the Germans will never accept Eurobonds. Then, a feasible solution could be for some southern countries to join forces and create a limited Eurobond scheme to be integrated with the rest of the Eurozone later on. Eurobonds are game changers: if the EU is able to implement this instrument, then it will have an impetus that we have not seen for a long time. Under these political conditions, however, it is difficult for that to happen. In brief: Eurobonds, now or never.

"WHAT'S NEXT? THE EVOLUTION OF THE PANDEMIC, WHICH IMPACTS ON THE ITALIAN SYSTEM. TOOLKIT FOR COMPANIES" - April 21, 4:30 pm

***Valerio De Molli**, Managing Partner & CEO, The European House-Ambrosetti;*
***Corrado Passera**, CEO, Illimity*

While in Europe the pandemic is raging at an impressive pace, despite the first signs of stabilization in some countries, the data allow us to draw some preliminary conclusions on the emergency management in Italy, which, as Valerio De Molli illustrates, was initially spoiled by significant delays in terms of anti-contagion measures. Nevertheless, the situation seems to be stabilising: fewer cases, fewer hospitalizations in intensive care and more cured bodes well, although the number of deaths is still very high and largely underestimated (the number of deaths would be twice as high as those detected, i.e. over 45,000).

What is more worrying, however, is the heavy recession already underway: -3% for the global GDP in 2020 according to the IMF and -9.1% for Italy, well below the Eurozone average (-7.5%). More optimistic is The European House-Ambrosetti, which forecasts a contraction of 7.5% for Italy. Although the depth of the recession will depend on many factors (duration of the lockdown, credit crunch, business confidence, speed of recovery), it is urgent to draw up a strategic plan for Phase 2, considering clear regional discrepancies in terms of contagion control.

In Italy, it will be essential to implement a centralized tracking strategy, a broad-spectrum buffer system and systematize the distribution mechanism of protective instruments. Not an easy task, considering the different overlaps in the state chain of command and a fragmentation of responsibilities and regulatory production.

With the slowness of the Italian response agrees Corrado Passera, who sees the difficult access to emergency credit by businesses and families - caused by complicated and anti-abuse regulations and procedures - as one of the greatest dangers for the recovery. In Phase 1 Italy has acted late, but there is still time to develop an extraordinarily ambitious strategic plan for the next steps.

Among these, the third and final phase will have to provide incentives to companies that invest, hire and capitalize through huge tax relief (e.g. no IRES for a few years). According to Mr. Passera, it is time for a super Industry 4.0, a super ACE (aid to economic growth), and a super financing of apprenticeship. We need to unleash the engine of companies to get us out of the crisis, intervening with ad hoc measures in favour of the most affected sectors (tourism). Italy obviously cannot do it alone: Europe must prove that it exists by implementing an unprecedented European investment programme. This is the only way to regain dynamism at continental level and get the economy moving again, in the interest of the whole EU.

Between the first and the third phase lies the second, to be managed wisely with appropriate instruments, minimising risks, and avoiding universal and indiscriminate reopening. There is no single formula: hence the *Re-open Italy* project, which was born as a stimulus, contribution, and complete vision for the Italian ruling class. On the other hand, decisional fragmentation, numerous entities involved, proliferation of task forces and different regulations risk paralyzing this delicate phase. We need extraordinary rules, transparent and involving information and, above all, ambition, and humility on the part of politics.

"THE NEW ECONOMIC AND FINANCIAL OUTLOOK" - April 28, 5 pm

***Mohamed El-Erian**, Chief Economic Advisor, Allianz*

It is now clear that this will be the most serious economic crisis since the Great Recession of the 1930s. This is what the data on global growth forecasts, declining production and depressed consumption are saying. This crisis is unprecedented: although developing countries are well aware of this situation, we have never seen anything like it either in developed countries or at a global level. Suffice it to say that the unemployment rate in the United States is likely to reach 25%, a record hit in the 1930s.

The damages of the crisis are both temporary and permanent. There will be a recovery, but inevitably companies are already working to reshape the operating models and rebuild the disrupted supply chains. Similarly, it is obvious that the activities that have passed to virtual space will never return to physical space. At the same time, inequalities in income, wealth and opportunity will increase. The recovery will be strongly conditioned by a balance between three deep contradictions: health policies vs social order; individual interests vs common interest; and national responses vs global response.

The hope is that the measures taken by governments and central banks will work: based on a *"whatever it takes"*, *"coordination"* and *"all-in"* approach, these measures show that governments want and can intervene, albeit not very effectively so far. Let us say for certain that, at the end of the emergency, governments, businesses and families will find themselves heavily indebted and victims of a drastic drop in production that will undermine growth. That is certain. One factor that could occur is the increase in consumer risk aversion, which would lead to a dangerous collapse in demand.

Nevertheless, it is not all bad. Many positive signs are coming from the pandemic. Firstly, we have seen an increase in respect for scientists, for doctors, nurses, teachers: this is very important for social wellbeing. Secondly, we have seen unprecedented public-private partnerships being established, aimed at building a system to find solutions to the crisis in different areas (pharma, technology, finance, R&D), responsibly. It is also very likely that the crisis will give new impetus to international coordination, which is necessary to address global threats such as climate change. Finally, we have seen a lot of solidarity.

What we must do is not repeat the mistakes of 2008-2009. We won the war then, but without securing peace, i.e. without laying the foundations for more sustainable, more inclusive and more secure future growth. Hopefully, this time, by winning the war, we will also work to build peace.

MEMBERS AREA

ITALY, A VISION FOR THE DAY AFTER

*By **Joseph Haviv**, Managing Member, PROTOSTAR PARTNERS LLC*
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As we all know COVID-19 can be brutal. In economic terms, so far it has succeeded where no other event or force ever did. The breadth and depth of the crisis has stripped naked all pre-existing weaknesses and could create lasting damage. Redoing the past better will not suffice. Absent adopting new approaches neither the recovery nor the long term outlook will survive.

NEED FOR A NEW PARADIGM

For decades, Italy's economy has relied almost exclusively on small to midsize enterprises (SMEs). Highly entrepreneurial, family owned, agile and innovative companies flourished in various segments, failing however to build scale, global expansion skills, one-stop value offerings. Larger enterprises – already few in numbers – are today almost entirely controlled by foreign owners, and in most cases such ownership has cleverly retained the original Italian ingenuity and style, but relocated most critical value-added functions.

How do SMEs fare in the post COVID era? How will such privately held companies rebound from a collapse and capture scale globally? How will they be able to respond to the inevitable changes in the global supply chains? The answer to these and many more questions is the same: with great difficulty and a lot of prayers, unless the country adopts a different paradigm.

A POSSIBLE CONSTRUCT

The rebirth of Italy's economy demands that the country make full use of its available war chest. Undoubtedly, Government will need to play a critical role, but it would make a dramatic mistake if it focused its energies on economic incentives, access to capital, and deregulation, while relying mainly on individual entrepreneurs to drive the economy's restart.

Italy needs to immediately develop a detailed industrial policy at the national level. Decision makers and economists alike need to view this as the opportunity to set the long term industrial fabric of the nation, while being fully cognizant that the current reconstruction efforts have to be concentrated on less than a handful of sectors. It will also be crucially important that such sectors be chosen not only because of their competitive global standing, but most importantly because of the potential applicability of state-of-the-art technologies, such as AI, machine learning, etc.

Italy has to shift its GDP composition from goods and labor intensive industries to sectors where intellect, ingenuity, technology will play a long term role. Failure to do so, will result in continued loss of brain talent and the erosion of Italy's importance of on a global scale.

RESHAPING REGIONAL ROLES

Italy has another important and distinctive asset that it needs to capitalize on. Its 20 regions are de-facto autonomous enterprises, with decidedly marked industrial and economic profiles. Economic development at the regional level has relied largely on entrepreneurial initiative and local programs, and results have been spotty at best.

A holistic redefinition of the industrial policy and of the future economic fabric of the country must leverage regional strengths and profiles for the better collective good of the nation. Regions can be redefined as if they were the "keiretsus" of the national whole: they can be guided to become centers of expertise, building skills and distinctive value propositions.

Such an approach could also dramatically close the gap between Northern and Southern Italy. The South is the direct beneficiary of European subsidy and investment funds with which it can dramatically reshape regional economies. Pockets of dedicated expertise already exist (e.g. micro electronics in Sicily), however many more can be built and brought to fruition.

CORE THESIS

Post COVID – 19 there will be no time to waste. The appointment of Vittorio Colao's Task Force is an enormously important step. However, the recovery cannot be solely driven centrally, nor exclusively top down. If the Regions are not empowered and do not assert their economic role and future strength, the country will have lost an enormous opportunity to reshape its future.

TOP GEOPOLITICAL TRENDS TO WATCH

1. The 21st century Great Game: USA vs China

The Covid-19 pandemic could potentially unsettle the contemporary global order, slowing down the globalization process, reducing trade and reshaping the geopolitical and geo-economic global scenario. Moreover, it comes in a moment where the US and China, the world superpowers, are swinging between an escalation of tension and weak attempts to cooperate. Will the virus be a crucial game changer in this regard?

2. Africa after COVID-19

While its relatively young population may partly save it from the pandemic, Africa is clearly not ready to face the emergency on a large scale. Most of all, the severe consequences of the crisis will inevitably destabilise African fragile economies and society, building the basis for turmoil and discontent. This, together with the even more contagious virus of jihadism in some regions (e.g. Sahel, Horn), will hamper the continent's way towards development and growth.

3. Italy between old allies and new friends

At the beginning of the European chapter of the pandemic, Italy seemed to be the only EU country seriously affected by the virus. In that delicate moment, new international actors (e.g. China, Russia) managed to take advantage from the situation to strengthen their soft power in the peninsula, sending materials and personnel to help the Italian people. Apparently, Western countries did not do it with the same empathy. Will Beijing and Moscow manage to undermine NATO's credibility?

SAVE THE DATE

May 14th from 5pm to 6pm (CET)

WEBINAR "The Geopolitical Outlook"

With **Niall Ferguson** (Senior Fellow, Centre for European Studies Harvard University)

May 29th from 4pm to 5.30pm (CET)

WEBINAR "Italy and US at the time of Covid-19"

With **Nando Pagnoncelli** (President, Ipsos Italy)

May 31st

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