Istituto Affari Internazionali

The US-Italy Economic Relation over the Last Decades

by Giuseppe Travaglini

Ministry of Foreign Affairs and International Cooperation

ABSTRACT

Looking at the overall picture of economic relations between the United States and Italy, contradictory elements emerge. US-Italy international trade and foreign direct investments have grown over the last decades. However, the Italian economic growth has continuously slowed down distancing itself from the growth rate of the United States and the world's major economies. Nonetheless, Italy remains a key partner of the United States for its geopolitical and geoeconomic position. A revival of their international relations still represents both an opportunity and a strategic tool for addressing current geoeconomic challenges and fostering growth for both countries.

USA | Italy | Foreign trade | FDI

keywords

IAI PAPERS 24 | 12 - MAY 2024

ISSN 2610-9603 | ISBN 978-88-9368-329-6

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The US-Italy Economic Relation over the Last Decades

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Introduction

In the sixty years from 1963 to 2023, the peaks and troughs that characterised much of the Italian economic development alternated. As time passed, some weaknesses of the Italian economic system have been overcome. Others, old and new, have conditioned the path of the economic growth and the transformation of the Italian society. Some fragilities are common to other major European countries too, such as Germany and France. But others are historically country specific. The small size of firms, industrial specialisation in traditional sectors, low propensity to innovate, sluggish wages, and an increasing fragility of public finance remain structural knots of the Italian economy. Further, over the last thirty years, the growth of GDP (Figure 1), labour productivity, investment, and technology progress, have all shown continuous slowdown that nowadays appear as the main question of the Italian development (even though during the 1960s they were the highest among European countries).

This is the background of the relationship between Italy and the United States. This latter has been the main partner of Italy's industrial renaissance of post-war reconstruction. Starting from 1946, Washington helped post-fascist Italian governments to re-establish relations with the western community of nations. In January 1947 – on the visit of then Prime Minister Alcide De Gasperi to President Harry Truman – the US government agreed to allow Italy to be part of the post-war international order consolidating around the dollar. For Italy, two dates are crucial. The first one is 2 October 1946, when it was admitted to the Bretton Woods agreements, and the second is 27 March 1947, when Italy became full member of the Bretton Woods institutions, namely the International Monetary Fund (IMF) and the World Bank. Afterwards, and throughout the Cold War, the Italian participation in

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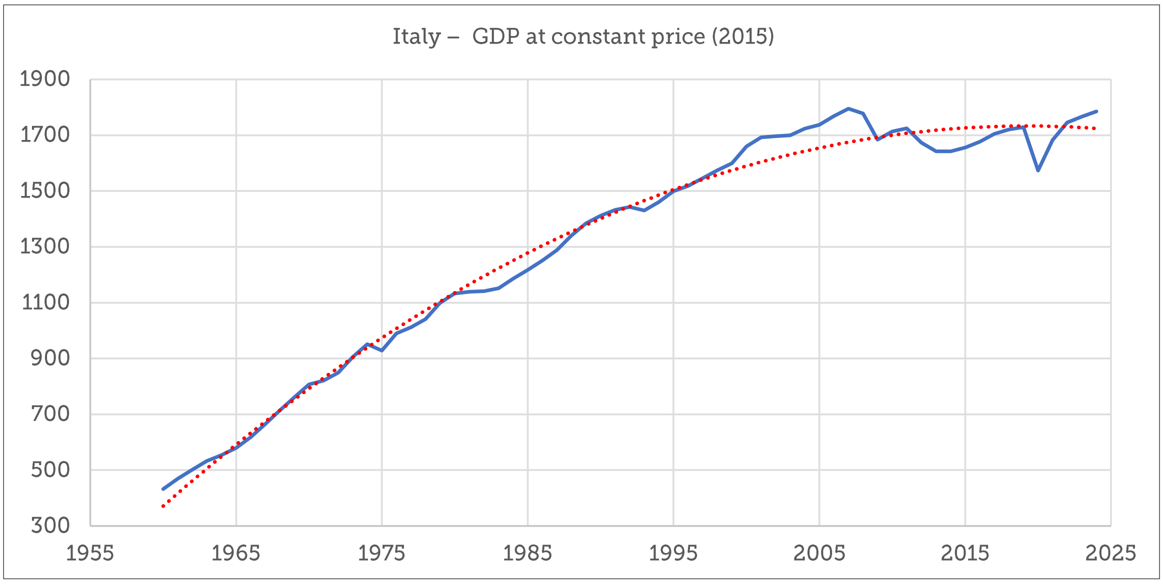
. An earlier version of this paper was presented at a workshop held in Rome on 26 February 2024 in the framework of the project "La cooperazione economica e tecnologica Ue-Usa di fronte alle nuove sfide geostrategiche e il ruolo dell'Italia", organised with the support of the Italian Ministry of Foreign Affairs and International Cooperation, the Fondazione Compagnia di San Paolo and the US Embassy to Italy. Views and opinions expressed are those of the author only.

IAI PAPERS 24 | 12 - MAY 2024

ISSN 2610-9603 | ISBN 978-88-9368-329-6 © 2024 IAI

the Marshall Plan sealed the strategic relationship between the two countries. The main consequence of this set of agreements was Italy's acceptance of openness to international trade and free competition.[1]

Figure 1 | Italian real GDP



Source: Eurostat, AMECO database, https://economy-finance.ec.europa.eu/node/27_en.

These short historical notes – widely known – are useful to trace the trajectory of geoeconomic and geopolitical relations between Italy and the United States over the more recent decades (Figure 2). Since 1945, the United States has been working to reintegrate the Italian nation into the international arena and into the group of its closest partners. The memory of the mistakes made in 1919 with the Treaty of Versailles, where the punitive outcome of that peace was a harbinger of future conflicts,[2] led the US government to adopt a multilateral view of international relations and advocate for a world order capable of laying the foundation for a recovery of Western European economies. In that period, US aid to Western Europe consisted mainly of goods and loans. Most of the loans came directly from the Economic Cooperation Agency (ECA) and from the Export-Import Bank. All this aid represented public investment. The early level of private US investment in the European economic recovery was extremely low.[3] The opening of foreign

[1] Guido Carli and Paolo Peluso, *Cinquant'anni di vita italiana*, Bari/Roma, Laterza, 1993; Adriana Castagnoli, "The US–Italy Economic Relations in a Divided World", in *IAI Papers*, No. 22|12 (May 2022), https://www.iai.it/en/node/15497; Emanuele Felice, *Ascesa e declino. Storia economica d'Italia*, Bologna, Il Mulino, 2015.

[2] John Maynard Keynes, *The Economic Consequences of the Peace*, London, Macmillan, 1919.

[3] Luciano Segreto, "Reopening the Doors: U.S. Private Investments in Italy and the International Economic Integration Policy of the Italian Government, 1945-1965", in *Business and Economic History*, Vol. 24, No. 1 (Fall 1955), p. 231-242, https://www.jstor.org/stable/23703287.

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ISSN 2610-9603 | ISBN 978-88-9368-329-6
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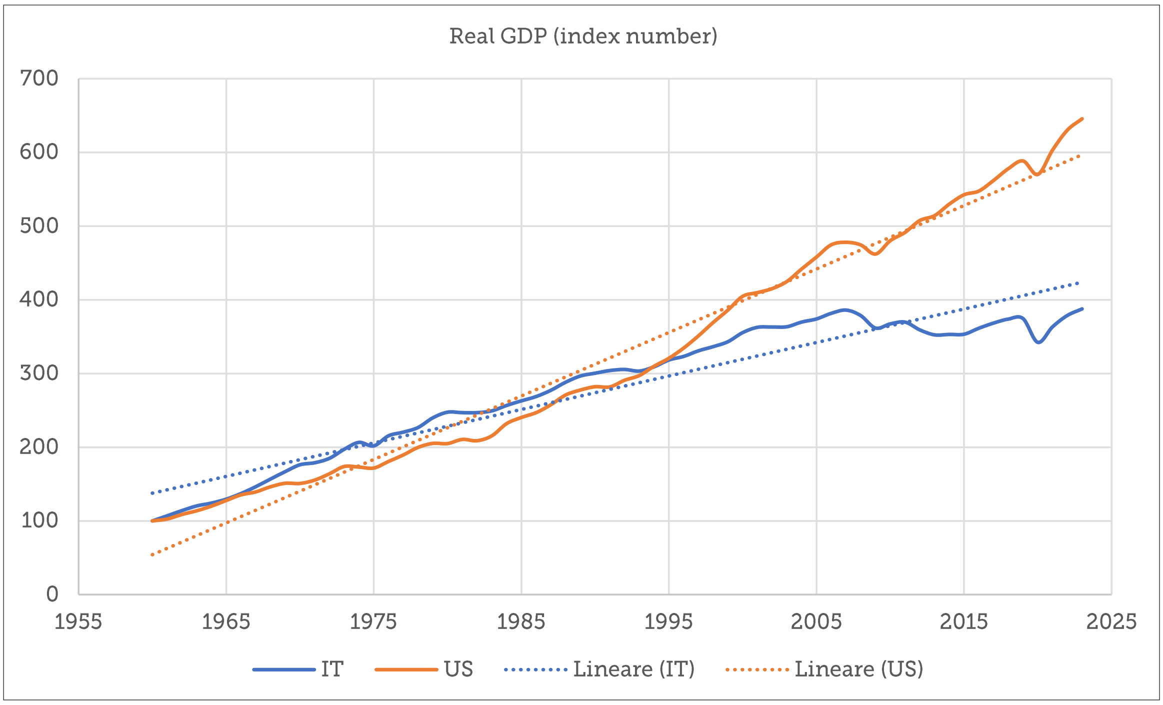
trade and the large increase in exports suggested that the Italian case fit into a pattern of *export-led* development that would characterise the post-war European experience.[4] This pattern has it that a stable rise in foreign demand generates an increase in income that tends to be self-sustaining through investment, which in turn increases productivity by making exports even more competitive.[5]

Figure 2 | US-Italy GDP growth (1960–2023)



Source: Eurostat, AMECO database, cit.

Still today the United States is one of the most important markets for Italian exports, with a bilateral trade exchange of more than 89 billion euros.[6] Outside the European Union, the US economy is Italy's leading export partner, absorbing about 10 per cent of Italian exports, while Italian demand amounts to about 4 per cent of US exports.[7] These trade flows strengthened after the 2008 and Covid-19 crises. In 2022, the Italian manufacturing system consolidated its presence in the United States, confirming the international competitiveness of the Italian companies and the attractiveness of its products. It is no coincidence that Italian exports to the United States have reached record values, so much so that the United States is now in second place among Italy's customer countries, surpassing France, which since

[4] Charles P. Kindleberger, *Europe's Postwar Growth. The Role of Labor Supply*, Cambridge, Harvard University Press, 1967.

[5] Augusto Graziani (ed.), *L'economia italiana dal 1945 a oggi*, 3rd ed., Bologna, Il Mulino, 1989.

[6] infoMercatiEsteri, *Osservatorio economico*, novembre 2023.

[7] Ibid.

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ISSN 2610-9603 | ISBN 978-88-9368-329-6
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1971 had firmly established itself as the second largest recipient after Germany.

However, the global scenario is continuously changing.[8] US multilateralism has been replaced by an increasingly unilateral view of its political and economic relations. The EU's commercial policy appears to be often inconsistent in relation to the strategies of individual countries. The international energy crisis, resulting from the Russian-Ukrainian conflict and the instability of oil strategies of Arab countries (as Saudi Arabia) poses new constraints on global economic growth. Further, digital transformation, machine learning and artificial intelligence are having a disruptive impact on many economic activities and global value chains.[9] Meanwhile, the green transition in advanced economies is struggling, with impacts on production, employment, education, and industry yet to be evaluated.[10]

This changing paradigm characterises the relationships between the Italian and US economy. From the overall picture, contradictory elements emerge. International trade between the two countries has grown over the last decade and represents a consolidated basis for industrial and geoeconomic relations. The slowdown is mainly captured by the evolution of the per capita GDP and labour productivity.

However, the US-Italy commercial relations remain a crucial tool to consolidate the strategic relationship in the global context. Both countries can get mutual benefits with the economic integration arising from bilateral trade, foreign direct investment (FDI) and more integrated global value chains.[11] Artificial intelligence and green transition are going to be priority issues in the US-Italy collaboration, and Italy has gathered some excellences in the robotics and energy industries; it is the world's sixth largest exporter of renewable technologies.[12] Hence, bilateral trade and FDIs, with an increasing cooperation among institutions and enterprises can be the 'leitmotif' for new and immediate synergies and win-win results.

[8] Charles A. Kupchan, *The End of the American Era. U.S. Foreign Policy and the Geopolitics of the Twenty-first Century*, New York, Vintage Books, 2003; Sergio Romano, *Atlante delle crisi mondiali. Dalla guerra fredda ai conflitti moderni*, Milano, BUR Rizzoli, 2019; Tommaso Detti and Giovanni Gozzini, *L'età del disordine. Storia del mondo attuale 1968-2017*, Bari/Roma, Laterza, 2018.

[9] Giorgia Giovannetti, Enrico Marvasi and Giorgio Ricchiuti, "The Future of Global Value Chains and International Trade: An EU Perspective", in *Italian Economic Journal*, Vo. 9, No. 3 (2023), p. 851-867, https://doi.org/10.1007/s40797-023-00252-4.

[10] Ettore Greco, Federica Marconi, and Francesca Maremonti, "The Transformative Potential of AI and the Role of G7", in *Documenti IAI*, No. 24|03 (March 2024), https://www.iai.it/en/node/18223.

[11] Filippo Bontadini et al., "Technology, Global Value Chains and Functional Specialisation in Europe", in *Research Policy*, Vol. 53, No. 2 (March 2024), Article 104908, https://doi.org/10.1016/j.respol.2023.104908.

[12] European House-Ambrosetti and National Italian American Foundation, *The Strategic Importance of US-Italy Relations. Past, Present and Future of a Mutually Beneficial Alliance*, September 2022, https://www.ambrosetti.eu/en/news/the-strategic-importance-of-italy-us-relations.

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ISSN 2610-9603 | ISBN 978-88-9368-329-6
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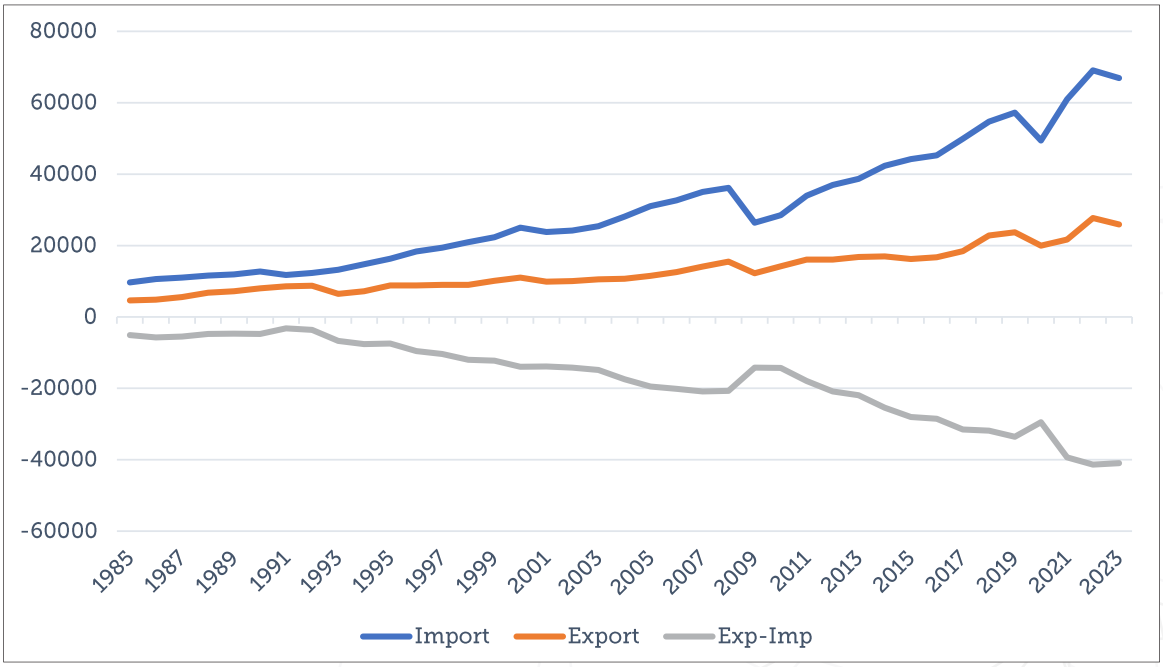
1. Trade and investment in numbers

Italy is the 17th destination market for US exports and the 11th supplier to the US economy.[13] Additionally, the United States is the second destination market for Italian exports (10.4 per cent of total in 2022), after the European Union, and the US production system is the seventh supplier to the Italian economy (3.8 per cent of total imports in 2022).[14]

1.1 Trade balance

Figures 3 and 4 show the net export in goods and services between Italy and the United States over the last decades. Two facts stand out. Since the mid-1980s, US imports of Italian products have grown steadily (blue line) and are now worth more than twice as much as US exports to Italy (red line). Consequently, the US bilateral trade balance deteriorated progressively over the period, with a negative (net) balance of about 40 billion euros in 2023 (grey line). These trends are confirmed by the latest data. In the last decade, Italian exports of goods and services to the United States have shown an overall positive trend, except for the decline occurred in 2008 and 2020 due to the international financial crisis and the pandemic, respectively.

Figure 3 | US trade balance with Italy (million euros)



Source: Federal Reserve Bank of St. Louis, *FRED Economic Data* (2023), https://fred.stlouisfed.org.

[13] Italian Trade Agency, *L'Italia nell'economia internazionale. Rapporto ICE 2021-2022*, 2022, https://www.ice.it/it/studi-e-rapporti/rapporto-ice-2020.

[14] infoMercatiEsteri, *Osservatorio economico*, 2022.

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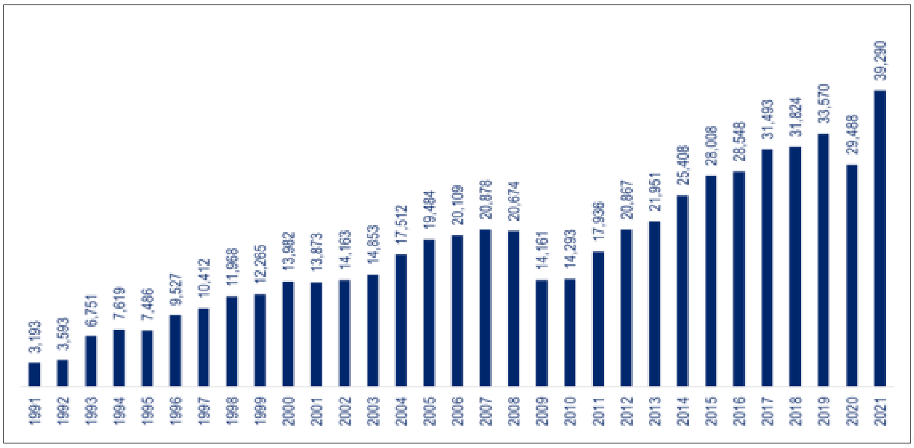
As evidence of the dynamism of bilateral trade, since 2013 Italian exports of goods and services in the United States have almost doubled with an increase of 66 per cent. US exports have grown by 47 per cent since 2013.[15] According to data of ISTAT and ICE, the steady growth of Italian exports across the Atlantic, since 1981, has placed the United States in second position in the ranking of destination countries for Italian exports. Data shows the consistent growth of Italian exports of goods in the United States, from 27 billion euros in 2013 to over 55 billion euros in October 2023, although with a slowdown compared to 2022 when they reached a total value of 65 billion euros. At the end of 2023, Italy was the second commercial partner of the US among European countries. Germany is the first with an export market share of 5.15 per cent, Italy is in second position with 2.36 per cent, followed by the United Kingdom with 2.07 per cent and France with 1.86 per cent.

Figure 4 | Italy-US trade balance, 1991–2021 (million US dollars)



Source: Ambrosetti, Eurostat and US Census Bureau data, 2022.

In recent decades, a significant share of the Italian industry sector has focused on improving the *quality* of its exports to compete with low-cost emerging countries.[16] This change has led to a gradual shift in Italy-US trade towards market segments with higher added-value. As a result, Italian exporters achieved higher average unit values for their exports, increasing their mark-up compared to other countries.[17] Therefore, the improvement of Italy's trade balance with the United States was determined by both price and quality factors.

[15] infoMercatiEsteri, *Osservatorio economico*, 2023.

[16] Sergio De Nardis and Fabrizio Traù, *Il modello che non c'era. L'Italia e la divisione internazionale del lavoro industriale*, Soveria Mannelli, Rubbettino, 2005; Sergio De Nardis, *Imprese italiane nella competizione internazionale*, Milano, Franco Angeli, 2010; Matteo Bugamelli et al., "Back on Track? A Macro–Micro Narrative of Italian Exports", in *Italian Economic Journal*, Vol. 4 (2018), p. 1-31, DOI 10.1007/s40797-018-0072-8.

[17] Alessandro Lanza and Beniamino Quintieri (eds), *Eppur si muove. Come cambia l'export italiano*, Soveria Mannelli, Rubbettino, 2007.

IAI PAPERS 24 | 12 - MAY 2024

ISSN 2610-9603 | ISBN 978-88-9368-329-6 © 2024 IAI

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However, the benefits of this strategy were not equally distributed among Italian exporters. The highest profit margins were in the higher value-added sectors – such as pharmaceuticals, chemicals, automotive, made in Italy – and in traditional manufacturing sectors. These disparities highlight the need for new bilateral sectorial agreements between Italy and the United States to promote the coordination of innovation and technological advancement along the value chains of their commercial routes.

The specialisation of Italy's exports has shifted towards sectors less exposed to competitive pressures stemming from Chinese producers (vehicles and pharmaceuticals) and towards specific assets as food and beverages. Today, Italian exports to the United States are concentrated in machinery, automotive, chemical sector, food, beverages, tobaccos, textiles clothing and leather (Table 1). In 2023, the Italian production system consolidated its presence in the United States, confirming the competitiveness of national firms, the attractiveness of its products, and the dynamism of the US economy.

Finally, regarding services, US exports to Italy have remained relatively stable since 2013 (8 billion dollars). Italian exports grew from 9 billion dollars in 2013 to a record figure of 11.8 billion dollars in 2019, and then decreased significantly following the Covid-19 crisis in 2020 (-62 per cent) and 2021 (-50 per cent). During the same period, the closure of many activities in the sector due to the pandemics has caused declines for the US exports (-38.5 per cent in 2020 and -32.7 per cent in 2021).

Table 1 | Top sectors for Italian exports towards US

Sector	**Share of total Italian exports (in %)**
Machinery	18.3
Automotive	16.7
Chemical sector	12.4
Food, beverages and tobacco	9.9
Textiles, clothing and leather	8.4
Other manufactured products	8.1

Source: Istat, *Serie storiche commercio estero*, March 2024, https://www.istat.it/it/archivio/297230.

1.2 Foreign direct investment

Foreign direct investment refers to investments made by a firm or government of one country in another firm or project in a foreign country. The investment may involve the acquisition of a substantial share or the complete purchase of a foreign company to expand operations in a new region.[18] FDI is a key tool in international economic integration because it creates stable and lasting links between the economies of different countries. It is a strategic tool and a crucial growth opportunity for Italy.[19]

Data from the Organisation for Economic Cooperation and Development (OECD) and Bank of Italy for 2022 show a structural imbalance between high Italian FDI to the US and low US FDI to Italy. According to the Bank of Italy, in the 2022 the *stock* of Italian FDI in the United States amounted to 58.37 billion euros, while in the same year the US had in Italy a FDI stock equal to just 11.759 billion euros (Table 2). The annual net flow of FDI confirms this trend. In 2022, from the Bank of Italy FDI database emerges that the Italian net FDI to the United States amounted to about 7.7 billion euros compared to only 2.3 billion euros of US net FDI to Italy.

It should be noted that when compared to other countries, Italy is the eleventh investor in the United States.[20] The main sectors in which Italian companies invest in the United States are industrial equipment, automotive, renewable energy, metals, food and beverages, auto components, software, and ICT. Conversely, the sectors in which US FDIs in Italy are most concentrated are chemicals, mechanics, software, electronics, telecommunications, and services (financial, insurance and banking). Added to these are new investments in the energy sector, infrastructure, fashion, and the sport industry.

Table 2 | Italy-US net FDI (million euros)

	2017	2018	2019	2020	2021	2022	Stock in 2022
Italian FDI in US	457	3,236	1,469	1,578	5,488	7,688	58,370
US FDI in Italy	-192	-675	-660	2,284	-304	2,278	11,759

Source: Bank of Italy data, *Direct Investment by Counterpart Country*, December 2023, https://www.bancaditalia.it/statistiche/tematiche/rapporti-estero/investimenti-diretti/index.html?com.dotmarketing.htmlpage.language=1.

FDI is crucial for Italy's domestic economic growth and for its international positioning. According to the Bank of Italy, in 2019 the United States was the first non-EU destination for Italy's inward direct investments. Their value in euros had almost quadrupled compared to Italy's FDIs in China or Russia. Likewise, Italy's foreign direct investment in the United States has increased steadily since the 2008 crisis.

[18] Eduardo Borensztein, José De Gregorio and Jong-Wha Lee, "How Does Foreign Direct Investment Affect Economic Growth?", in *Journal of international Economics*, Vol. 45, No. 1 (June 1998), p. 115-135, DOI 10.1016/S0022-1996(97)00033-0.

[19] Alessandro Borin and Riccardo Cristadoro, "Gli investimenti diretti esteri e le multinazionali", in *Questioni di Economia e Finanza*, No. 243 (October 2014), https://www.bancaditalia.it/pubblicazioni/qef/2014-0243/index.html.

[20] European House-Ambrosetti and National Italian American Foundation, *The Strategic Importance of US-Italy Relations*, cit.

IAI PAPERS 24 | 12 - MAY 2024
ISSN 2610-9603 | ISBN 978-88-9368-329-6
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However, according to the Bureau of Economic Analysis within the US department of Commerce, Italy has been rather unattractive for a long time. As stressed by Castagnoli, in 2020 US FDI in Italy "was as little as 7.6 per cent of US FDI in Germany and 11.1 per cent of that in France".[21] Italy's cumulative inward FDI investment is well below the EU average, due largely to structural problems that affect domestic as well as foreign investment. Despite belonging to the G7, Italy is not the best country in which to do business because of political instability, excessive bureaucracy, a slow judicial system, and inefficient infrastructure and tax system.[22]

Nevertheless, since 2021 the flow of US trade relations with Italy has started to grow and today US FDI in the Italian market mainly focuses on advanced technologies. According to KPMG – the global leader in professional business services – in the first three quarters of 2021, US mergers and acquisitions (M&A) in Italy amounted to 4.5 billion dollars, while that of Italian groups in the United States was worth a total of 1.8 billion.[23]

It should be noted that Italy is the seventh European country in terms of number of employees in US-controlled companies. According to data of the Italian Embassy in Washington,[24] as many as 3,151 Italian companies operate in the United States. They are active in the energy, textile-clothing, instrumental mechanics, and wholesale trade sectors, with more than 252,000 employees and a total turnover of 166.106 billion euros. In the United States, there are 1,826 Italian investors who hold stakes in 3.519 companies, supporting approximately 260,000 jobs and generating 143.7 billion of dollars in revenue. From the report emerges that 1.451 Italian companies have only one branch or joint venture in United States, while 375 have multiple shareholdings. Many companies operate in the manufacturing sector (522 subsidiaries, of which 479 with controlling interests): 22.8 per cent in instrumental mechanics, followed by metallurgy, information technology and electronic products, food and beverage industry, automotive sector, defence, wholesale and retail trade and catering. No less important is the fact that 2,564 companies in Italy are with US participation and that they employ 340,000 Italian workers. Their presence is substantial in Lombardy (51.4 per cent), Emilia Romagna (10.1 per cent) and Lazio (9.8 per cent).[25]

Italian companies investing in the United States are a mix of a few large companies and many Small and Medium Enterprises (SMEs). SMEs are the backbone of the Italian economy. They usually employ limited staff and make a massive use of

[21] Adriana Castagnoli, "The US–Italy Economic Relations in a Divided World", cit., p. 3.

[22] World Bank, *Ease of Doing Business Rankings*, 2023, https://archive.doingbusiness.org/en/rankings.

[23] Adriana Castagnoli, "The US–Italy Economic Relations in a Divided World", cit., p. 3.

[24] Marco Mutinelli (ed.), *L'impatto economico italiano negli Stati Uniti*, Washington, Italian Embassy, June 2023, https://ambwashingtondc.esteri.it/it/?p=2976.

[25] Ibid.

'state of the art' high-tech machinery. Geographically, most Italian companies are in the northern areas of the country. They are representatives of the Italian 'fourth capitalism', which includes the well-known "Made in Italy" and a considerable number of highly specialised suppliers of complex and advanced products and components, grounded in technological.

Italian companies with at least a hundred employees are mainly located on the east coast of the United States (Northeast and South Atlantic together reach 50 per cent) and in the states of the Central-Eastern Northern regions (22 per cent). The state of New York is home to the largest number of businesses with at least a hundred employees. Interestingly, over three quarters of Italian investors come from Lombardy, Veneto, Emilia-Romagna and Piedmont. Investors from these regions represent more than two-thirds of companies and approximately 90 per cent of employees and turnover.[26]

1.3 Some critical aspects of FDI

Over the past thirty years, at the global level there has been a decline in FDIs to advanced economies, including Italy, in favour of emerging countries. In 1990, Italy represented 2.9 per cent of global FDI, but by 2012 this share had reduced to 1.6 per cent. This trend is common among major world economies, and currently, over a third of FDIs are held by emerging economies, with a significant role of China and the other BRICS nations (Brazil, Russia, India and South Africa).[27]

The role of emerging economies has not only grown as a *destination* for foreign investments, but also as a *source* of these investments. In 1990, over 90 per cent of FDI originated from advanced economies, but today, this percentage has drastically decreased. The United States, though still the primary source of FDI, accounts for less than one-fifth of the global stock.

Typically, FDIs in advanced countries are characterised by a prevalence of mergers and acquisitions, while in emerging countries, *greenfield* investments (investments in new projects or enterprises) make up most of the operations both in number and value, despite an increase in M&A transactions. Accordingly, it is important to note that recent studies indicate that foreign multinational enterprises (MNEs) engaging in FDIs have technological advantages over domestic companies. Therefore, in general, it is believed that incoming FDI brings benefits to local businesses, including new technical skills, organisational and managerial routines, as well as access to new markets. However, the impact depends on the heterogeneous composition of FDI innovations within productive sectors.[28]

[26] Ibid.

[27] Avisha Malik and Ash Narayan Sah, "Does FDI Impact the Economic Growth of BRICS Economies? Evidence from Bayesian VAR", in *Journal of Risk and Financial Management*, Vol. 17, No. 1 (2023), Article 10, https://doi.org/10.3390/jrfm17010010.

[28] Konstantinos Dellis, David Sondermann and Isabel Vansteenkiste, "Determinants of FDI Inflows

IAI PAPERS 24 | 12 - MAY 2024
ISSN 2610-9603 | ISBN 978-88-9368-329-6
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The study by Ascani et al. investigates this issue of FDI for Italy, using the dataset collected by the Bank of Italy.[29] This dataset categorises FDI inflow amounts by provinces and sectors. Employing the Pavitt taxonomy[30] of manufacturing sectors the study reveals that the knowledge advantages of MNEs may diffuse to local actors and enhance their innovative capacity, particularly in certain types of inward FDI.

Specifically, the study identifies that knowledge diffusion occurs more prominently in 'Science-based' sectors (these industries include electrical equipment manufacturing, fine chemicals, including pharmaceuticals and biotechnology, and aircraft) and, to a lesser extent, in 'Specialised supplier' activities (they include the sectors producing machinery and equipment; these products are new processes for other industries. R&D is present, but an important innovative input comes from tacit knowledge and design skills embodied in the labour force). These sectors are considered branches of manufacturing that can contribute knowledge input to other sectors through inter-industry linkages. The research also points out that different sectors may experience negative outcomes in terms of local innovation. For instance, FDI in 'scale-intensive' activities (they include industries where scale economies are relevant, as automotive, and basic metals, and a certain rigidity of production processes exists, so that technological change is usually incremental), where foreign MNEs are present, appears to be particularly detrimental to local knowledge generation. The same study emphasises the importance of considering *intersectoral* linkages in understanding the impact of FDI on innovation. It suggests that sectors relying heavily on external knowledge inputs, such as traditional 'supplier dominated' activities (they include traditional sectors, such as food and textile, where small firms are prevalent and technological change is introduced through the inputs and machinery provided by suppliers from other industries) may face more frequent challenges to innovation due to the presence of inward FDI.[31]

2. The US-Italy economic relation in the long run

For policy considerations, the previous analysis suggests that strategies to strengthen international trade and FDIs help promote economic development, innovativeness of the local economy, technology progress, and research and

in Advanced Economies: Does the Quality of Economic Structures Matter?", in *ECB Working Papers*, No. 2066 (May 2017), https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2066.en.pdf.

[29] Andrea Ascani, Pierre-Alexandre Balland and Andrea Morrison, "Heterogeneous Foreign Direct Investment and Local Innovation in Italian Provinces", in *Structural Change and Economic Dynamics*, Vol. 53 (June 2020), p. 388-401, DOI 10.1016/j.strueco.2019.06.004.

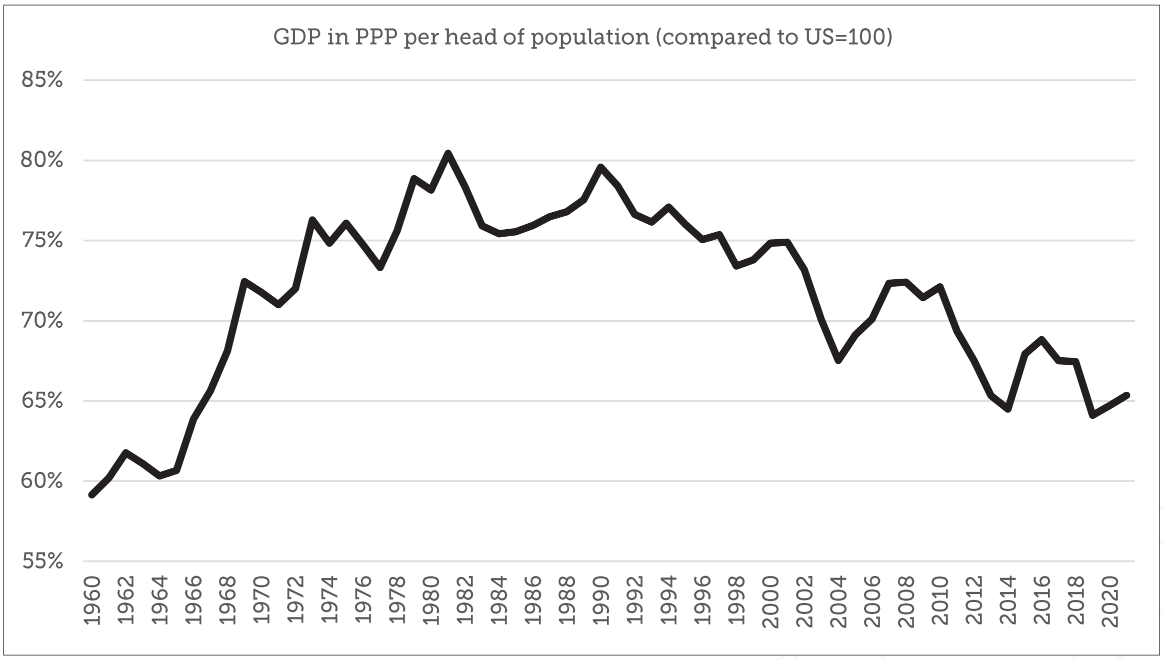
[30] Keith Pavitt, "Sectoral Patterns of Technical Change: Towards a Taxonomy and a Theory", in *Research Policy*, Vol. 13, No. 6 (December 1984), p. 343-373, DOI 10.1016/0048-7333(84)90018-0.

[31] Francesco Bogliacino and Mario Pianta, "The Pavitt Taxonomy, Revisited: Patterns of Innovation in Manufacturing and Services", in *Economia Politica*, Vol. 33 (2016), p. 153-180, DOI 10.1007/s40888-016-0035-1.

development (R&D). For Italy, this has crucial implications for its long-term relationship with the United States.

As said, the US-Italy economic dynamics changed profoundly during the last decades. An economic measure of this change is provided by the comparison of their real GDP per capita. This measure approximates the relative variations in the average income per head of population. Further, it is an index of the capacity of the economies to advance at similar or different growth rates over time. Obviously, the evolution of the ratio depends on many factors, including the initial level of development of the economies, the geopolitical scenario, production specialisation, and international trade and investment links.

Figure 5 | Italy's GDP per capita compared to the United States



Source: Author's calculation on Eurostat, AMECO database, cit.

Figure 5 provides information on the long-term US-Italy economic changes. In the post-war period the geoeconomics and geopolitics of Italy and the United States were aligned to get the reintegration of Italy into the international community. This resulted in the 'catching up' of the Italian economy. As it emerges from Figure 5, the trajectory of the Italian economy *towards* the US one characterised the Italian development until the end of the 1970s. It was only with the end of the 1980s (caused by the changing international scenario, a consequence of the collapse of the Soviet Union, with the decreasing centrality of Europe on the international chessboard) that the weakening of the US-Italy relationship began to emerge. This structural change had a negative impact on Italian growth.

IAI PAPERS 24 | 12 - MAY 2024
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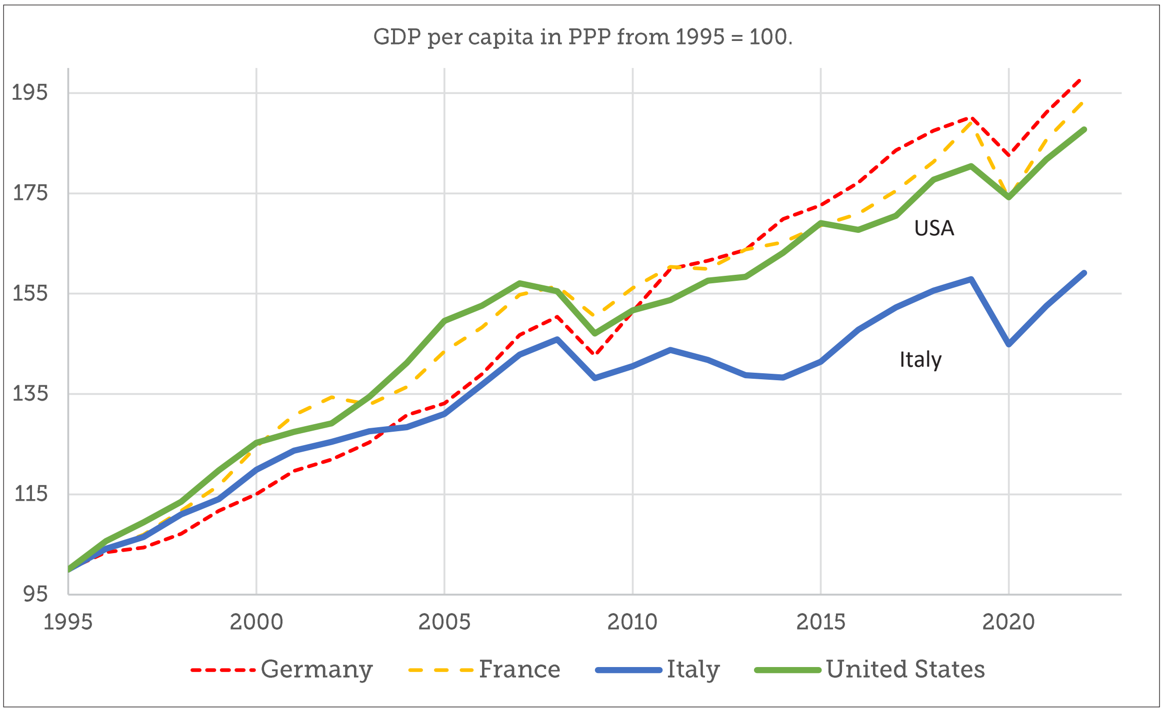
Figure 6 | GDP per capita of the major EU countries compared to US



Source: Author's calculation on Eurostat, AMECO database, cit.

Figure 5 again shows this great transformation. In the early 1960s, Italy's average GDP was only 57 per cent of that of the United States. However, the growth rates of the Italian economy (6 per cent on average) – driven by the 'Marshall Plan', the openness to international trade, and the entry of the lira into the dollar area – drove the nation into the 'economic boom'. The ratio between per capita GDP improved in favour of Italy until the 1980s, when the value exceeded 81 per cent. It remained around this threshold until the beginning of the 1990s. But thereafter the Italian economy entered a phase of prolonged slowdown, which caused it to lag not only the US economy but also the major European economies. To better describe the severity of this trend, Figure 6 reports the GDP growth patterns (measured in purchasing power parity) of Italy, the United States and of other major European economies since 1995. It emerges the dramatic slowdown of Italy when compared to others.

Finally, it is important to emphasise that the Italian slowdown is strictly related to the collapse of labour productivity, capital accumulation and technological progress. Tables 3 and 4 show the contributions of these inputs to the GDP growth as they result from the 'growth accounting' analysis.[32] From 1960 to 2022, there was

[32] Robert M. Solow, "A Contribution to the Theory of Economic Growth", in *The Quarterly Journal of Economics*, Vol. 70, No. 1 (February 1956), p. 65-94, DOI 10.2307/1884513. See also Enrico Saltari and Giuseppe Travaglini, *Le radici del declino economico. Occupazione e produttività in Italia nell'ultimo*

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a continuous deterioration in the structural forces of growth for Italy, resulting in a negative average GDP growth rate in most recent years. For the United States, on the other hand, relative stability prevailed, and this has contributed to maintaining its position as the world's leading economy.

Table 3 | Growth accounting – Italy

Growth rates of:	> 60	61-70	71-80	81-90	91-2000	2001-10	2010-22
Real GDP	6,65	5,66	3,40	1,94	1,68	0,33	-0,10
Technology progress	4,74	4,19	1,28	0,57	0,86	-0,86	-0,05
Capital stock	1,78	1,78	1,48	1,04	0,79	0,78	-0,02
Labour	0,13	-0,30	0,64	0,33	0,03	0,40	-0,02

Table 4 | Growth accounting – US

Growth rates of:	> 60	61-70	71-80	81-90	91-2000	2001-10	2010-22
Real GDP	3.12	4,11	3,07	3,19	3,61	1,71	2,07
Technology progress	_	1,87	0,77	1,13	1,78	0,78	0,72
Capital stock	_	1,12	1,01	0,99	1,05	1,05	0,81
Labour	_	1,12	1,29	1,07	0,79	-0,12	0,54

Source: Author's calculation on Eurostat, AMECO database, cit.

These features stress once again the necessity for Italy to restart the investment in tangible and intangible assets,[33] focusing on sectors that can drive the realignment of the Italian economy with that of the United States. An intense effort that requires a revival of international cooperation. This should involve more structured synergies between the two nations, large companies, research institutions, universities, and emerging technology fields.

Conclusions

As the literature on international trade has extensively shown, the Italian economic growth in the post-World War II era was driven by Italian exports, with a consistent flow to the United States, and US investments in Italy.[34] However, the current global

decennio, Torino, Utet, 2006; Enrico Saltari and Giuseppe Travaglini, *L'economia italiana del nuovo millennio*, Roma, Carocci, 2009; Enrico Saltari and Giuseppe Travaglini, "The Productivity Slowdown Puzzle. Technological and Non-Technological Shocks in the Labor Market", in *International Economic Journal*, Vol. 23, No. 4 (2009), p. 483-509, DOI 10.1080/10168730903377819.

[33] Alessandro Bellocchi, Giuseppe Travaglini and Beatrice Vitali, "How Capital Intensity Affects Technical Progress: An Empirical Analysis for 17 Advanced Economies", in *Metroeconomica*, Vol. 74, No. 3 (July 2023), p. 606-631, https://doi.org/10.1111/meca.12421.

[34] Augusto Graziani (ed.), L'economia italiana dal 1945 a oggi, cit.; Luciano Segreto, "Reopening the Doors",

scenario reveals a weakening of the economic relations between the two nations.

Over the last thirty years, the Italian growth model has lagged the global one. Many factors are at the basis of the slowdown. At the end of the 1980s, the geopolitical context of European countries changed. In this transition, Italy witnessed a decrease of its strategic role in the transatlantic alliance, and an increase of its responsibility towards the EU for the reliability of its public finance. The combined effect of these changes was a shrinkage of resources for economic growth and an updating of its historical relations with the United States.

During this period, Italy has lost many large firms, lacked excellence in R&D, underfunded its university system and public research, struggled to consolidate its industrial positioning in the new sectors of communications, digital, ICT, and machine learning. Today, it has limited resources to meet the new challenges faced by firms oriented to internationalisation and innovation.

Currently, EU countries are supporting the recovery of the European economic system within the recovery plan named NextGenerationEU.[35] The objectives of the Italian National Recovery and Resilience Plan (NRRP) funded by NextGenerationEU are to promote the economic and social recovery of European nations after the crisis caused by the Covid-19 pandemic, enhance the country's resilience to potential future shocks, and strengthen the competitiveness and sustainability of the European economic system.[36] These objectives also include digital transformation, green transition, social and territorial cohesion, as well as the enhancement of the research and innovation sectors.

Italy is among the nations that will benefit most from the resources and benefits associated with the NextGenerationEU fund (750 billion of euros in six years), but this is contingent upon its ability to fulfil the commitments made to the EU and achieve the goals agreed upon by the government. Importantly, many of the economic issues discussed in this paper are included in the recovery plan, as well as strategic policies aimed at promoting greater competitiveness and sustainability of Italian economic system.

In this scenario, the data presented above show that the US-Italy international trade remains a key factor for global economic growth and a milestone of the geopolitical relationship between the two countries. But in the current context of international relations some further key questions arise.

Today, the US establishment is concerned about the economic relationship between Italy and Russia. Even before the Russian-Ukrainian conflict, companies from both countries started significant investment projects in the field of energy

cit.; Giacomo Nardozzi, *Miracolo e declino. L'Italia tra concorrenza e protezione*, Bari/Roma, Laterza, 2004.

35 European Union website: *NextGenerationEU*, https://next-generation-eu.europa.eu/index_en.

36 See Italia Domani portal: https://www.italiadomani.gov.it/en/home.html.

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and oil extraction. Many Italian small and medium-sized firms played a relevant role in international supply chains from European countries to Russia.[37]

Similarly, Italian interests in 'routes to Asia' are the consequence of the new international (dis)equilibrium that sees the Chinese economy as a major player in international trade and value chains in high technology, communications, industrial vehicles, and microchip manufacturing.[38]

The framework of Italy's relations with African countries also deserves consideration because of the political instability of these regions and because of the strategic role they can play in global economic development. Italy possesses considerable potential soft power, including extensive expertise in various fields. It is widely recognised as a nation that promotes peace and fosters development. Consequently, Italian-led investments, peacekeeping efforts and economic initiatives are generally welcomed by local authorities. Italy has the potential to relaunch its strategic role in African countries. This opportunity can be a reason for a renewal of US-Italy relations in cooperation with African countries and a springboard for contributing to political stabilisation in the region.[39]

No less important is the EU's overall role in trade relations with the United States. The European Union, despite its heterogeneity, remains one of the major international economic players. Therefore, the strength of US-Italy relations also depends on the strategic value of the EU's role. As the European Commission recently emphasised "trade is key to the EU's long-term competitiveness" and the EU draws economic and political strength from its position as a major trader and investor.[40] The EU is today the world's largest exporter. The Italian economy and the "made in Italy" supply chain benefit from this positioning. In this geoeconomic scenario, it is important that the EU and the United States avoid tariffs and export restrictions, which would only slow down the development of Western countries and their transition to sustainable economic growth.

Today, the United States holds 15.4 per cent of the world's GDP in purchasing power parity. China accounts for 18.8 per cent and India for 7.5 per cent. Russia reaches the 2.9 per cent. In Europe, Germany accounts for 3.3 per cent and France for 2.2 per cent. Italy, at 1.83 per cent, is still among the top economies, albeit with some

[37] Giovanna De Maio and Nicolò Sartori, "Le relazioni tra Italia e Russia", in *Approfondimenti dell'Osservatorio di politica internazionale*, No. 144 (November 2018), https://www.iai.it/en/node/9691.

[38] Baker-McKenzie, *Chinese Outbound FDI Held Steady in 2021, As Global FDI Rebounded*, 26 January 2022, https://www.zawya.com/en/press-release/chinese-outbound-fdi-held-steady-in-2021-as-global-fdi-rebounded-qnca1zlk.

[39] Ian O. Lesser, "The United States and the Mediterranean in an Age of Shocks", in *IEMed Mediterranean Yearbook 2020*, p. 248-250, https://www.iemed.org/publication/the-united-states-and-the-mediterranean-in-an-age-of-shocks.

[40] European Commission, *The 2024 Annual Single Market and Competitiveness Report* (COM/2024/77), 14 February 2024, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52024DC0077.

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difficulties.[41]

If the current GDP is measured in *per capita* levels the positions among countries change greatly and Western economies jump to the top of this ranking. So, in 2023 the US current per capita income is more than 80 thousand dollars, while in China it is only 13 thousand dollars and in India it drops down to 2.9 thousand. Also, in Russia it is 14.4 thousand dollars. For Europe, in Italy the GDP per capita amount at 39 thousand dollars, in France 48 thousand and Germany 54 thousand dollars. These facts confirm the centrality of the European and US economies in the global economy and the strategic role of Italy for the stability of the US economy and its international relations.

It has often been stressed that the White House has never really believed in the primacy of markets over sovereignty.[42] The United States has been accustomed over the last seventy years to rule the world order. The United States knows that it is the strength of the economy, the institutional stability and the military power that make it the world's political leader and the dollar the international reserve currency. In this imperial vision, the United States does not consider trade deficits a risk because only a negative commercial trade balance allows the dollar to spread across the world. This is certainly not the case with China, jealous of its trade surplus and greedy for dollars, or the EU still uncertain between a federal vision of itself or a minimalist vision of a community of nations.[43]

American multilateralism characterised the international relations with European countries until the end of the 20th century. Instead, a unilateralist orientation has prevailed over the last three decades with the end of the Cold War.[44] Even in this new scenario, Italy remains a key partner of the United States because of its geopolitical and geoeconomic position. Moreover, a global leader like the United States benefits from sharing political and economic goals with its historical partners. Thus, strengthening trade between the two countries still emerges as a strategic asset of their international relations, not just their economic relations.

Updated 20 May 2024

[41] International Monetary Fund (IMF), *World Economic Outlook, April 2024. Steady but Slow: Resilience Amid Divergence*, https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024.

[42] Dario Fabbri, "Burro e cannoni: Il segreto del dollaro è la grandezza dell'America", in *Limes*, No. 2/2015, p. 23-32; Marcello De Cecco and Fabrizio Maronta, "Il dollaro non teme rivali", in *Limes*, No. 2/2015, p. 47-52.

[43] Sergio Fabbrini, *Sdoppiamento. Una prospettiva nuova per l'Europa*, Bari/Roma, Laterza, 2017.

[44] Charles A. Kupchan, *The End of the American Era*, cit.

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