INDIA AND ITALY IN THE GLOBAL ECONOMY:
ENHANCING TRADE AND CO-OPERATION
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KEY NOTE SPEECH
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Professor Acharya, Mr Simon, Ladies and Gentlemen,
First of all let me thank ICRIER and Unicredit Group for organizing this seminar.
I am deeply honoured for having been asked to deliver the keynote speech and I will try my best not to disappoint you.

As you may know, the Italian Government has in the two recent years invested extraordinary efforts in order to bring Indo-Italian economic ties closer to their immense potential, in full cooperation with the Indian Government but also in close collaboration with important institutions, such as FICCI. I know very well how important it is to be able to rely also on the support of academic institutions and think tanks in trying to catalyze the interest of all the potential players in such an attempt to boost bilateral economic ties. I therefore really appreciate the institutional presence here today and wish to thank you for that.

Now, coming to the subject of my speech, let me begin with an observation. The path towards what we could define as a “satisfaction point” for Indo-Italian economic relations still has a long and windy road ahead. However, the momentum has finally picked up at a speed that is in line with our ambitions.
The financial year 2005-2006 has seen Italian exports to India increase by 35% and bilateral trade by more than 20%. Provisional figures for the financial year 2006-2007 are indicating that we have reached a 50% growth in both directions. Now, considering that India’s trade with the world has increased 20-25% in the last years, this means that our cruising speed has actually doubled! This begins to look like good news.

BUT. Are we satisfied? Not really. Why? Because we feel that at 7.5 billion dollars worth of trade we are still underperforming if we look at the existing potential. On one hand, the booming Indian economy could be a much bigger buyer of Italian goods, whether industrial machines (the main item of export of Italy world-wide), food products or high-end fashion, design and lifestyle goods. On the other hand, India's exports to Italy in terms of textiles, components, raw materials, agricultural products could also grow at a much faster pace. We are keeping our fingers crossed that the ongoing negotiations for the EU-India FTA may end up well and results may be consistent with expectations.

But our goal is not only to expand bilateral trade. Our real aim is to actively promote the integration of our two economies. Only then can we enjoy a strong and long-lasting strategic partnership. This is why we are keen to see that Joint-Ventures, mutual investments, fully integrated production chains and other innovative business agreements are established throughout the two countries. This would be what I call a win-win situation, since a lop-sided balance –no matter who is on top at one given time-, is never a winning situation in the long term.

It is, I admit, an ambitious goal, but it is heartening to see that things have begun to move in this direction. Just in the last couple of weeks, two major deals have been closed: Fiat and Tata have signed their JV, with a projected investment of over 600 billion dollars in the next few years, while Generali's insurance tie-up with Future Group is poised to become one of the major providers of financial services on the Indian market. On the other end, Videocon had decided to expand its industrial basis in Italy through a new green-field investment of over 1 billion dollars. This is a tangible example of a mutually rewarding business balance.

Having looked at trade and investment separately, we must now examine whether there are further benefits that can derive from a well planned synergy between trade growth and business integration, for it is in this synergy that our greatest opportunity may lie. Think of intermediate goods trade and related task fragmentation and look at the advantages that can accrue to both Indian and Italian companies from the wise use of these instruments. From the point of view of an Italian Company, the simplest example so far would be to concentrate labour-intensive activities in India and finishing activities in Italy, but this would be just the most obvious and widely practiced option. Many more, increasingly diversified options can become available along the entire production chain once partnership management begins to shift its focus from the concept of alliance to that of integration. And I bet that Indians and Italians are just the best combination when it comes to adding a good dose of lateral thinking and creative planning to the integration recipe. Look no farther than here today if you want a proof of that.

Creative innovation is also demanded to respond to the challenge posed by what I call the "SME Conundrum".

If we stick to traditional models, we will see that multinationals and large international businesses have been already exploiting the huge opportunities of the Indian market and have delocalized to India first their production and services and now, growingly, even R & D activities.

But when we talk Italy we are forced to talk Small and Medium Scale Companies who, often grouped in industrial clusters, are the basis of our economy. The SME Conundrum is: how do you get a small-scale business of a small-scale country to succeed in the largest growing market in the world? As a Government, our challenge is to bring our SMEs to India. It is a difficult challenge, but not an impossible one. Italian SMEs are no doubt limited in dimension but not in technology nor in quality and certainly not in innovation. Above all, they are not novices in the game of internationalization, a game whose joys and pains they have experienced, alas often unprepared.

Italian SMEs began looking Eastward in the 90s, starting with Eastern Europe. The aim was then to delocalize low-end production while keeping at home the overall management and the more sophisticated production. Later they explored China, which promised to be a viable manufacturing basis even for a diversified number of goods. It seemed to work well for Multinationals who held a strong negotiating power over several delicate issues including intellectual property, unlike SMEs who had to learn their lessons in the hard way.

That is why, I feel, SMEs have looked at India for sometime and with some caution, before some decided to take the plunge. Now, time is ripe and the changed world scenario has made it clear to everyone that India is no longer just an option to cut labour costs, at a time when even the competitiveness that one would gain in the European market is challenged by the shrinking of the target market itself. Today Italian SMEs are learning to view India much more as an opportunity to sustain their existing growth in the medium term and possibly grow larger in the long term through a combination of delocalization, integrated production financial investment, intermediate trade, outsourcing, competitive exports, all of which would be tailored to different markets including, primarily, the vast Indian market itself. I would invite the Indian industry to look at specialized tie ups with Italian SMEs, especially those with leading roles in the respective districts. In the climate of fierce competition prevailing today in India, quality is fast emerging as the winning competitive edge. Even though the idea of quality volumes is yet a nascent concern, it will soon be the benchmark of success. I feel Italy can contribute its experience here and it would be wise for Indian Companies to co-opt the specialized competencies that Italian SMEs have developed in 50 years of delivering quality volumes to the demanding markets of the west.

Let us now take a brief look at the service sector, where Italy seems to lag far behind other countries. An impressive number of companies world-wide have seized the opportunities offered by India since it emerged in the past decade as a major service hub and BPO power. Why not Italy? The answer is easy: language gap, a factor that will probably prevent a massive shifting of service activities from Italy to India. But, interestingly, we have evidence that successful service delocalization from Italy to India has happened in areas such as engineering, R&D and software development. The numbers are low but quality is once again, very high. Considering that quality in such areas is paramount, we are confident that Italy can increase its presence in these sectors.

In conclusion, one has the impression that the interest of Italian business towards India will drive a sustained expansion of bilateral economic ties and that the lessons learnt by Italian companies from their wild delocalization to China have helped them in better focusing their aims and strategies towards the Indian market.

Conversely, Italy welcomes Indian companies, knowing that they will find in our country a well diversified industrial basis, qualified competences and quality guarantees that can be fruitfully harnessed to fulfill their aims and strategies towards entering and serving the European Market.

I cannot think of two cultures who have a better potential for supporting reciprocal economic integration than Italy and India. It may not be a fluke that Italy and India host one wing each of the prestigious Institute for Biotechnology and Genetic Engineering. In fact, I don't know if it is the mountains in the North and the sea on all other sides, the Sanskrit-Latin connection or just our mutual obsession with family and food, but from whichever angle I look at it, it seems like we are genetically engineered to work well together.

Thank you!