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**TITLE: A TALE OF TWO BAZAAR ECONOMIES: AN INPUT-OUTPUT ANALYSIS FOR GERMANY AND ITALY**

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**ABSTRACT:**

The paper evaluates the degree of internationalisation of production between 1995 and 2004 for Italy and Germany. We use the annual "import-use" input-output tables compiled by the two national statistics institutes, which allow us to outline the pattern of internationalisation of production for more recent years and in a more robust fashion with respect to other studies based on symmetrical tables updated to 2000. We find that in both economies the growth of off-shoring level was very intense in the first sub-period (1995-2000), and weaker (or even declining in the case of Italy) in the following four years. Our results for the 1995-2000 period confirm and strengthen the overall findings of previous studies, which could be partly biased by the exceptional cyclical peak reached by international trade in the year 2000. German firms, which started from a lower level of internationalisation of production, experienced a stronger growth in the overall period; in particular, they relocated a significant part of their production to the neighbouring Eastern European countries. This swift and evident phenomenon triggered academic and press debates on Germany becoming a "bazaar economy". For Italy, the slower growth in the first sub-period may be explained by a lower pressure to transform firms' organisation, due to the delayed positive effects on price competitiveness of the 1992 and 1995 lira crises, while the decrease in the 2000-04 sub-period was caused by a production shift towards services, whose production processes are much less internationalised than the production processes of manufacturing sectors. From a static point of view, in 2004 the intensity of international off-shoring appears instead to be similar in the two countries. For Italy the direct and indirect import content of production is equal to 14.8 per cent, and just a slightly higher value (15.3 per cent) is estimated for the German economy. By examining the manufacturing sector, international outsourcing appears to be even higher for Italian firms: the same indicator stands at 27.5 per cent for Italy and at 25.3 for Germany. In both countries, international fragmentation of production is more intense in medium and high-tech sectors.