



THOMAS WHITE - GLOBAL INVESTING
CAPTURING VALUE WORLDWIDESM



Country Profile: Italy

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It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded in 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

A handwritten signature in black ink that reads "Tom S. White, Jr." The signature is written in a cursive, flowing style.

Italy: Renaissance Revisited



Built in the fifth century B.C., the temple of Castor and Pollux is situated in the *Forum Romanum*, the political and economic center of Rome during the Republic.

Justing out into the Mediterranean Sea in southern Europe is the cachet of European civilization, and the heart of what was once the glorious Roman Empire. Italy comes across as a beautiful amalgamation of the archaic and the modern, while the aura and the grandeur of its ancient legacy gently reverberates. It is indeed astonishing that a country, which slightly exceeds Arizona's area, has two-thirds of the world's artistic heritage as its showcase. Bestowed with timeless charm, with ancient ruins serving as a time capsule of the past, it is indeed ironic that the region's earliest inhabitants, the Romans, laid the foundations of the contemporary calendar that we use today. Boasting the seventh largest economy in the world, Italy plays a vibrant role in the European Union (EU) region, and surges ahead as a formidable economic power in Europe.

A legacy of splendor

Italy's history is inextricably linked to the triumphs and tribulations of the colossal Roman civilization through the ages. The much-celebrated Roman epoch traversed over 1200 years from the eighth century to the first century BC, as ancient Rome, and the illustrious era of the Roman Empire, that spanned from the first to the fifth centuries AD.

Ancient Rome evolved from a non-descript hamlet huddled beside the Tiber River to a mammoth center of an Empire which extended from England to North Africa and from the Atlantic Ocean to Arabia. Originally ruled by kings during the period 753 - 509 BC, the city was then taken over by the Romans, who founded the Roman Republic from 509 - 27 BC. After the collapse of the Republic, the legendary Roman Empire came into being, with a reign lasting for the next five centuries from 27 BC-476 AD.

The seeds of the Roman Empire were sown in 44 BC after the assassination of Julius Caesar, Roman political and military leader, and one of the most prominent men in world history. After

more than 10 years of catastrophic civil war and unrest, Caesar's heir Octavius, re-christened Augustus by the Senate in 27 BC, established a monarchy and assumed power as Emperor. He was instrumental in reviving socio-political stability in the region and heralding two centuries of prosperity referred to as the Roman Peace (*Pax Romana*). With this, the Roman state entered a momentous era, with Rome evolving into the political, social, economic, and cultural stronghold of the Mediterranean region.

Thereafter, the Germanic invasion and the decline of the Roman Empire in the fifth century led to a politically divided Italy, which was also ravaged by numerous invasions from neighboring tribes such as the Goths, Visigoths, Huns and Vandals. In the Middle Ages, the animosity between the Papacy and the Emperors led to the rise of powerful city-states like Venice, Milan, Florence, and Genoa, which also controlled their surrounding territories, and principally relied on trade. There was also a spate of foreign dominance by [France](#) and Italy, including invasions by Napoleon towards the end of the 18th century. The period 1848-70, known as *Risorgimento or resurgence*,

marked the Italian struggle for independence, which culminated in the creation of a unified Italian state. The socialist party became the main political party until the post-World War I period which saw the rise of Fascism under the dominance of Benito Mussolini from 1922-43, until the invasion of Italy by the Allied powers in 1943. This was followed by the German invasion, a two-year period of Nazi occupation, and a bitter civil war, which ended with the liberation of Italy in 1945. Italy became a republic after a popular referendum in June 1946.

The President is the head of the state but without any executive powers, while the national government is run by a Prime Minister. Currently, Giorgio Napolitano, a former communist, is the elected president of Italy. Due to the resignation of Prime Minister Prodi, following a no-confidence vote in January 2008, Italy held general elections in April 2008, and Silvio Berlusconi was elected as the Prime Minister with a landslide victory.

Italy and the World	
Nominal GDP (\$)	2.3 trillion
GDP Rank	7/191
Per Capita GNI (\$)	35,460
Per Capita GNI Rank	32/210
Population Rank	21/227
Geographical Area Rank	43/250
Global Competitiveness Rank	48/133
Economic Freedom Index Rank	74/179
Human Development Index Rank	18/182
Major Industries	Automotive, Chemicals, ICT, Aerospace, Life sciences, Tourism



Completed in 80 AD, the Colosseum is a marvelous expression of Roman architectural genius and engineering expertise. The amphitheater was capable of seating 50,000 spectators, and remained in use for around 500 years.

A cultural beacon

Italy is a cultural haven, expressed through a variety of mediums like painting, architecture, philosophy, music, cinema, design, and cuisine. As the Roman Empire spread its territorial supremacy far and wide, it assimilated the disparate hues of the Greek, Jewish, Egyptian, Persian, Christian, and Babylonian cultures. This cultural confluence, in the arenas of government, law, and architecture, manifested itself in the Greco-Roman synthesis, which created the underpinnings of Western culture.

A virtual cultural revolution occurred in Italy in the 14th century, ushering in the Renaissance, spanning over three centuries. Transcending geographical boundaries to encompass a large part of the European sub-continent, the Renaissance embraced iconoclastic thought, characterized by abstract discussions of religious issues, the concept of humanism, as well as a debate about the morality of human actions. There was a renewed interest

in the arts, led by virtuosos like Italian painters Giotto, Leonardo da Vinci, Raphael, and Michelangelo, scholar and poet Petrarch, and sculptor Donatello, among others. This paradigm shift in the thinking process also sowed the seeds of the *Age of Enlightenment*, during the 18th century, an era distinguished by reason, science, and a respect for humanity.

More recently, the creative genius of the Italians has contributed immensely to the field of opera, boasting exceptional composers like Verdi Giuseppe and Vincenzo Bellini in the 19th century, and renowned opera vocal performers, like Luciano Pavarotti, in contemporary times. Italy has excelled in the arena of fashion too, with designers like Armani and Versace making an indelible mark on the couture world. Italian epicurean delights figure prominently on the international palate, while Italian coffee culture has permeated all corners of the globe. Espressos, lattes, and cappuccinos are now becoming a *de rigueur* of daily life.

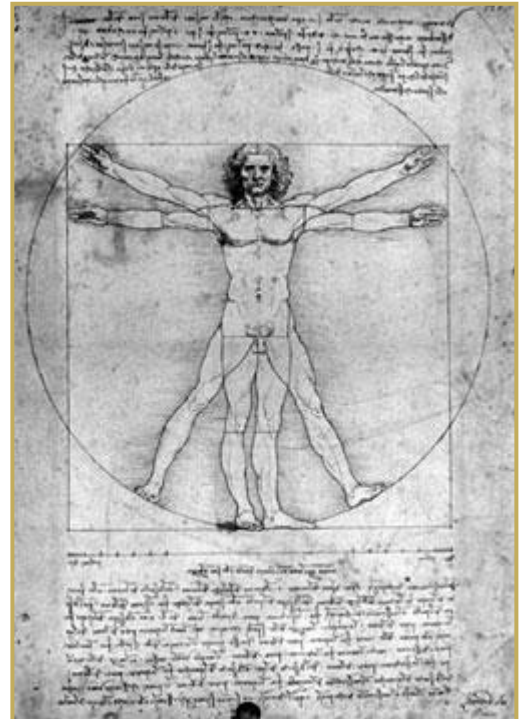
The predominant religion in Italy is Roman Catholicism, which is followed by more than 90% of the people. A small minority of the population professing the Protestant, Muslim, and Jewish faith also exists and is granted the freedom of worship by the constitution. Possessing a fundamentally urban character, two-thirds of the population of Italy resides in towns and cities.

Bracing to join the big league

Italy has indeed come a long way, moving from a World War II agricultural economy, to the fourth largest economy in Europe today with a diversified sector base. One of the six founding members of the European Union (EU), this culturally incandescent country accounts for about 17% of the Euro-zone economy, and has fortified its position as a global economic power.

At the time of Italy's unification in 1861, the country harbored a fragile economy, with an underdeveloped industrial base, and significant inequalities between the more affluent north and an economically depressed south. Unemployment pressures led to a massive exodus from the country to the U.S. towards the end of the 19th century, and subsequently after World War I. The tyrannical fascist rule thereafter also prompted large-scale migration to other European countries.

The prosperity of the 1960s marked the catapulting of the economy to a global stature. Italy's strong economic growth, averaging 5.3% for the decade, was facilitated by foreign assistance from the U.S. under the Marshall Plan, aimed at fortifying European countries to counter the emerging wave of communism. Italy also benefited from increasing economic integration within Europe and the launch of the European Economic Community (EEC) in 1957. Strong foundations for the export sector were also laid, with the northern industrial triangle of Milan-Genoa-Turin leading the economic boom. The north exported machinery, engineering products, textiles, and clothing, fueling the economic growth engine. This accentuated the divide between northern and southern Italy, resulting in a large migration from the south to the north in the 1970s. The country, which has a rather tumultuous economic history, is today the fifth largest economy in the world and the third largest in Europe.



Perfectly embodying the spirit of the Renaissance, Leonardo da Vinci's drawing, the Vitruvian man, exemplifies a blend of art, science, and humanism. Inspired by the ancient Roman architect Vitruvius, the image draws an analogy between the mechanics of the human body and the working of the universe.

While the EU beckons, Italy embraces radical reforms



Built between 1865-77 by Giuseppe Mengoni, the glass domed *Galleria Vittorio Emanuele* in Milan is an architectural masterpiece, and recognized the world over as the progenitor of the modern glazed and enclosed shopping mall. The Galleria stands as a shining example of Milan's prominence as a center of commerce in Italy, and a global trendsetter.

While the 1970s and the 1980s saw the emergence of Italy as a maturing economy, the chasm between the haves and have-nots continued to plague the country. While the economy continued to clock a reasonable growth rate of 3% in the 1970s, the oil crisis of 1979, coupled with political turmoil, played havoc with unemployment and inflation. As such, the growth rate slowed down to 2.4% during the period from 1980-90. Confronted with civil unrest, strikes, and agitations, the political parties were compelled to form a Grand Alliance. This resulted in a wave of socialism, with Italy selecting its first socialist Prime Minister since the war.

The government managed to pull out the economy from the brink, and a recovery was in place by 1983. Thereafter, successive governments promoted a welfare state, committed to providing health care, education, pensions, infrastructure, and benefits.

Though modeled on the premise of a free market economy, state control continued to play a major role in Italy. While earlier on, the state-owned companies did contribute to economic growth, by the mid 1980s, state enterprises were riddled with corruption and

inefficiencies. The situation was further exacerbated by the high costs of the welfare system which put a strain on the country's finances. This economic crisis, coupled with pressure to qualify as an entrant to the European Monetary Union (EMU), triggered radical reforms by the end of the 1980s and early 1990s. This ushered in a phase of austerity, with measures to rein in the ballooning public debt, and control the escalating inflation. The role of the state was limited through rapid privatization, and concerted policies for labor market reforms were also initiated. These measures enabled Italy's participation in the EMU in 1998, and its subsequent adoption of the euro in 1999.

By 2000, the health of the economy was substantially restored, with growth surging to 3.6%, and registering an annual average of 1.5% during 1990-2000. Over the next six years, growth

remained sluggish, clocking an average of 0.7%. Yet a recovery was on the horizon in 2006, with growth pegged at 1.8%. Strong export growth, easy credit conditions, employment growth, and an improvement in consumer and business confidence stoked Italy's economy, which clocked a growth rate of 1.5% in 2007.

Building blocks

Located strategically in the heart of the Mediterranean region, Italy provides a convenient link between southern, and northern and central Europe via air, sea, and land. More importantly, the country also is a hub of the international market, spread over Europe, North Africa, and the Middle East. Most prime European cities are within three hours flying distance from Rome, and the country facilitates inter-regional flows between Asia, Europe, and North America. A predominantly skilled workforce, strong inclination towards innovation and research, coupled with reasonable business costs have made Italy a much sought-after location for the biotech, R & D product testing, chemicals, and the electronics sectors. While services contribute to 71% of the gross domestic product (GDP), industry constitutes a crucial 27%.



Automobiles await shipment at the Tyrrenian Sea port of Salerno in southwestern Italy, which moves nearly seven million tons of goods a year. One of the top five global auto-manufacturing countries in Europe, Italy is home to most of the world-class auto majors.

The automotive sector in Italy, with a strong historical record in technological innovation and design, has remained a front-runner, firmly positioning Italy among the top five auto manufacturing countries in Europe. Italian cars have traditionally succeeded in carving a niche for themselves in the global automobile market, showcasing their exceptional creativity and design. All major global players in the auto-components sector have established their plants in Italy, capitalizing on the pool of skilled human resources, and Italy's design expertise.

Italy's chemical industry has also proved to be a coveted location for leading multi-nationals, who benefit from the country's strong research orientation, and a robust domestic demand stemming from the Italian automotive, electronics and pharmaceuticals sectors. The country has

also made its mark in the mechanical engineering sphere, with a 9.3% share in the global production of instruments. Exporting over 70% of its output, Italian instrument manufacturing stands fourth in the world and second in Europe. Boasting of exceptional quality, customization, and skilled labor, Italy is proving to be a hotspot for global majors in this sector.



A haven for tourists, the charming city of Venice stretches across 110 small islands in the marshy Venetian Lagoon along the Adriatic Sea in northeast Italy. This "City of Water" has canals serving as roads, and almost all transport is either on water via *gondola* or on foot. For several centuries now, the city has housed the flourishing Venetian glass industry, primarily on the island of Murano. Nearly 260 companies produce the highly prized glass art, with a turnover in excess of €100 million (\$157 million) a year.

The Information, Communications, and Technology (ICT) market in Italy is the fourth largest in Europe, which constitutes a large pool of sophisticated consumers who yearn for technological innovations. This makes the country an excellent pilot market for the development and launch of ICT products and services. A strong world-class research system forms the backbone of this sector, with a network of centers of excellence and qualified ICT graduates attracting companies worldwide. Standing third in Europe in terms of turnover, Life Sciences is also one of the core sectors of the economy which draws from Italy's intense R & D focus.

The country also houses a vibrant aerospace industry, which is a world leader in helicopter manufacturing, and modern technologies like unmanned aerial vehicles and vertical take-off and landing planes. Italy is a major stakeholder in the international aerospace and defense program arena, enriching the sector with its design, development and manufacturing expertise.

Acclaimed worldwide as a tourist hot spot, and among the top five tourist destinations of the world, it is not surprising that tourism is a key driver of the economy. The remarkable historical and cultural heritage of Italy has been a magnet for millions of tourists every year, generating significant revenues and employment opportunities. This service-oriented sector continues to

have a high growth and investment potential.

Economy combats its worst slowdown ever

The Euro-zone's third largest economy emerged from its worst recession in over six decades in the third quarter of 2009. Italy experienced five consecutive quarters of contraction, witnessing a massive 4.8% decline for the year 2009 as a whole. However, the economy slumped again in the fourth quarter, its GDP falling by 0.1%, indicating a tenuous recovery. For the year 2010, Italy is expected to clock a modest GDP growth of 1.1% according to government estimates.

The Italian government initiated various measures to battle the steep slump. To start with, a €12 billion (\$15.5 billion) rescue package to unfreeze credit markets was implemented towards the end of 2008. It incorporated measures such as the recapitalization of banks, tax breaks for low income households, as well as extended allowances for companies paying VAT. Apart from this, in 2009, the government spent over €1 billion (\$1.2 billion) on incentives, mainly encompassing a car scrappage program, which was successful in sparking a revival in the economy. However, this program was not renewed in 2010, while subsidies for consumer goods were scaled down to €300 million (\$407 million) for the same year. The incentives slated for 2010 are geared towards the sales of energy-efficient appliances and low-polluting scooters.

High public debt levels restrain spending

While stimulus spending was the need of the hour for resuscitating the Italian economy, it has been constrained by the fragile state of the economy's public finances. Though its budget deficit at 5.3% of GDP in 2009 seems deceptively low when compared to some its Euro-zone counterparts, Italy has the highest public debt to GDP ratio in the Euro-zone. In 2009, the public debt soared to the precarious level of 115.8% of GDP and is further expected to escalate to 118.4% of GDP this year. Italy has been plagued by persistent deficits since the 1980s, averaging around 11% of GDP. By the mid-1990s the public debt of the country was touching an astounding 120% of GDP, making Italy's burden among the highest in the world. However fiscal consolidation and pension reforms introduced in the mid-1990s, along with privatization, worked wonders. The deficit was brought down to less than 3% in 1997, and even below 1% in 2000. However, spending pressures caused deficits to increase thereafter, with the debt topping 4% in 2005.

Saddled with a steep public debt, the government has approved an austerity package worth €24.9 (\$30.2 billion) billion for 2011 and 2012. The measures outlined include freezing public sector salaries for three years, lowering ministerial budgets by 10% and dealing with rampant tax evasion. By 2012, the fiscal deficit is expected to be scaled down to 2.7% of GDP, well within the 3% mandated target of the European Union (EU).

While a fragile economic recovery is underway in Italy, the unemployment situation remains deeply disconcerting. Joblessness is at its worst since 2001, with the unemployment rate spiraling to over 8.5% in the beginning of 2010 from 7% recorded at the end of 2008.

Battling chinks in the armor

While tackling unemployment is a center stage issue, the country is also hampered with the highest aging population in the world. A population aged 65 years and above constitutes 19.7% of the total number of inhabitants in Italy, the highest level recorded in the EU.

The economy is also afflicted with the existence of a parallel economy, the traditionally infamous mafia, which not only siphons off money from the economy, but also inculcates an uncertainty and lack of confidence among the business community. The mafia has widened its scope from conventional drug trafficking, to extortions from businesses, and draining out of huge amounts from public works contracts. With revenues that amount to a whopping 9% of Italy's output in 2009, the mafia has turned out to be a significant dampener for economic growth.

Moreover, Italy's public finances have always been a matter of concern, as its economy has been battling chronic deficits for over 25 years.



The highest aging population in the world has created a serious challenge for Italy's public finances. With increasing deficits, fiscal sustainability has become an issue.

The aura of archaic and modernity meet



Amidst the face of Italy's modernity, the Piazza del Popolo in Rome stands tall as an icon representing Italy's rich historical and cultural legacy.

Economic challenges notwithstanding, Italy has most certainly carved a niche for itself in this globalized and increasingly integrated world today. More importantly, it has confronted and triumphed over economic crises in the past admirably. Resorting to far-reaching, bold reforms, Italy has turned the tide in its favor. It is not surprising hence, that despite the trials and tribulations that it faces today, the country inspires confidence from the global community, stemming from an innate belief that the country will overcome and prevail, as always. Italy's legacy seems throbbing with life even today, as the country embraces modernity with grace and a steely spirit, while still remaining deeply connected with its resplendent past. It is this exquisite *mélange* of antiquity and modernity that makes this country unique and a stalwart of sorts. With this determination, the people of Italy stand poised for yet another *Renaissance*. 🌍

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