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International Economics and Commerce

Chambers of Commerce and the
internationalization of Italian agri-food SMEs
during Covid-19 pandemic.

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Abstract

La seguente tesi di ricerca è il risultato di un'analisi empirica, il cui scopo principale è quello di approfondire il ruolo che le Camere di Commercio ricoprono nel processo di internazionalizzazione delle piccole-medie imprese (PMI) italiane relative al settore agroalimentare. Inoltre, è stato analizzato l'impatto che la pandemia dovuta a causa del Covid-19 ha avuto su questa industria.

Le PMI svolgono un ruolo di notevole importanza nella nostra economia, soprattutto in riferimento al settore agro-alimentare che è considerato uno dei motori principale dell'economia italiana. Inoltre, viviamo in un mondo interconnesso grazie alla globalizzazione, per cui diventa di fondamentale importanza studiare le strategie di internazionalizzazione adottate da queste imprese per poter operare nei mercati esteri. Le Camere di Commercio rappresentano un buon intermediario e, per questo motivo, il lavoro di ricerca approfondisce le loro caratteristiche principali e il supporto pratico che offrono alle PMI quando queste decidono di internazionalizzarsi. Infine, la pandemia dovuta al Covid-19 ha avuto sull'economia globale, e soprattutto sul settore agroalimentare, un notevole impatto. Pertanto, diventa essenziale analizzare i cambiamenti del settore agroalimentare italiano, per vedere come questo si sia evoluto nel tempo e come abbia reagito agli effetti della pandemia.

Al fine di raggiungere l'obiettivo della tesi di ricercar, diversi libri di testo e articoli relativi agli argomenti sopracitati sono stati analizzati. Successivamente, è stata effettuata un'indagine empirica su dati ottenuti dai database ISTAT e ISMEA Mercati.

Partendo da tale premessa, il presente lavoro di ricerca si articola in tre capitoli. Il primo tratta i diversi processi di internazionalizzazione adottati dalle PMI italiane, facendo riferimento alle strategie attuale e considerando i punti di forza e quelli di debolezza. Il secondo capitolo si focalizza sul settore agroalimentare e sull'apertura ai mercati globali delle sue imprese. Il terzo approfondisce il ruolo che le Camere di Commercio hanno nel supporto delle PMI agroalimentari nei processi di internazionalizzazione. Il quarto pone l'accento sugli effetti della pandemia sulle imprese agroalimentari italiane e sui loro processi di internazionalizzazione. Nel quinto e ultimo capitolo vengono presentati i dati analizzati e i risultati ottenuti. La tesi termina con le principali conclusioni ottenute grazie al lavoro svolto.

Introduction

This thesis is the result of an empirical research and its main aim is to investigate the role of Chambers of Commerce in the process of internationalization of Italian small-medium enterprises (SMEs) related to the agri-food sector. In addition, a study on the effect that Covid-19 pandemic had on this sector is carried out.

There are many reasons that pushed me to study this object. First, SMEs play a very important role in our economy, especially when they are related to the agricultural sector that seems to be one of the Italian key economic sectors. Second, since globalisation is increasing and we live in an interconnected world, I was interested in understanding the internationalization strategies adopted by these firms and their way of doing business abroad. Chambers of Commerce represent a good intermediary; therefore, the thesis highlights their key features and what they do practically to support SMEs when they decide to go overseas. Finally, I was also interested in exploring the impact that Covid-19 pandemic had on the global economy and particularly on this sector.

To fulfil the objective of the thesis, many textbooks and articles covering these topics were studied. Then, an empirical research was carried out on raw data taken from ISTAT and ISMEA Mercati databases.

Starting from this premise, the thesis consists of five chapters. The first one investigates the internationalization process adopted by Italian SMEs, in terms of

motives of internationalization and strategies adopted, considering their strengths and weaknesses. The second chapter focus on the agri-food sector and the global openness of its firms. The third one analyses how Chambers of Commerce support the internationalization process of SMEs, especially those related to the agri-food sector. The fourth one highlights the effect that Covid-19 pandemic had on agri-food firms and on their role in the international markets. In the fifth chapter the empirical research is carried out and the main remarks are showed. The thesis ends with the conclusions drawn thanks to the work made.

CHAPTER 1

THE INTERNATIONALIZATION OF ITALIAN SMEs

Introduction

Most businesses in the European Union are represented by Small-Medium Enterprises (SMEs), which form an extremely important part in our economy: they constitute the most attractive innovative system. SMEs produce economic and social beneficial effects to the modern economy that lead us to consider their sector as the *backbone of social-economic progress* (Druker, 2009).

Also, SMEs serve as an important source of entrepreneurship capabilities and of creation of innovative jobs: this is generally used as a strategic tool in maintaining and improving the quality and prosperity of employers.

In Italy, SMEs account for 99.9% of its businesses, 80% of its employment and 67% of its value added: among the highest proportions compared to the other OECD countries (OECD, 2013). This underlines the importance of these firms in the Italian economy and in the international competitive environment.

According to the European Parliament (2012), although not all the SMEs are internationalized, they all need to realize that global competition affects their

domestic markets due to the ongoing globalization, the process by which enterprises or organisations start operating on a global scale. This explains why SMEs are no longer protected from foreign competitors as they were in the past.

Starting from this premise, this chapter will analyse the phenomenon of internationalization of Italian SMEs, highlighting the positive and negative factors related to global competitiveness, as well as their strengths and weaknesses.

1.1 SMEs: DEFINITION AND TYPICAL CHARACTERISTICS

The definition of Small-Medium Enterprises is not universal, but it is very important to have a clear idea of what it means when doing some activities, like monitoring the sectors; benchmarking among economies; providing approaches for the imposition of taxes and regulations; determining the qualification for public support (UNIDO OECD, 2004). According to the EU recommendations 2003/361, the category of SMEs comprises enterprises with less than 250 employees and an annual turnover not exceeding EUR 50 million and/or an annual balance sheet not exceeding EUR 43 million.

Starting from this definition, we can distinguish two types of SMEs in the economic reality. As Neagu (2016) states, on one side, there is the small traditional enterprise, which has not a long-term strategy but works in a small marketplace, and its production process is the result of knowledge passed from

generation to generation. These firms have strengths and weaknesses related to their management and human resources capabilities. Thus, the leaders and managers need to learn how to sustain the risk: studies show how only 10% of traditional SMEs have the chance to survive more than 5 years in the economic market field. On the other side, there are modern SMEs, which use high technology and innovation and make a constant research of new markets where they can operate. Their scope is to maximise the efficiency of their operations to become more competitive.

SMEs are trying to develop a process of consolidation and strengthening, since we are experiencing an economy of transition, but they are constrained by many environmental factors that are very unstable, like legislations that sometimes materialise in contradictory regulations (i.e., taxes), and chronological insufficiency of resources that push companies to deal with banks or insurance agencies in order to reduce the lack of specific services and not enough trained banking staff.

In general, SMEs are characterized by some features that make them completely unique when compared with other forms of enterprises. Firstly, SMEs provide new jobs and are considered as a favourable climate for employers who want to improve their position since they find more motivation. These firms also favour innovation and flexibility, through a process of adaptation to the market changes: sometimes they also create new products and use new technological processes to produce goods for big enterprises that focus their attention on improving old

products, losing advantages that they could exploit. Secondly, SMEs play an active role in boosting competition for prices, products and efficiency. In fact, without their existence, big enterprises would have the monopoly in most areas. Thirdly, SMEs support big firms in certain activities in a more efficient way. Thus, they produce goods and services efficiently, therefore they continue to survive in a competitive economic environment (Neagu, 2016).

1.2 INTERNATIONALIZATION PROCESS OF SMEs

The internationalization process has seen a rapid growth in the past years: global trade has increased 15 times more in 2007 than in 1950. In this international area, SMEs are becoming more active and some countries are encouraging SMEs to increase their activities at a global level in order to boost productivity and economic growth (EC, 2007). Internationalization is seen as a dynamic and evolutionary process that leads firms to improve and increase both their acknowledgment of international transactions as drivers for growth and their commercial bond with other countries (Beamish, 1990).

Nonetheless, there are different ways to explain the process of internationalization of SMEs. The most popular model of internationalization is known as the *Uppsala model* (Johanson and Vahlne, 1977, 2009; Johanson and Wiedersheim-Paul, 1975), according to which this process is characterized by a gradual evolution

through some well-defined stages, as firms learn how to work in foreign markets. Firms have limited resources and knowledge of global markets, so they decide to start foreign operations with indirect methods (i.e., trading companies or exporting agents) towards countries that are psychologically and culturally close (Ellis *et al.*, 1998). In a second moment, when the firm has reached awareness of international business, it can gradually move towards distant markets by using direct methods (i.e., sales office, abroad distributors).

This idea of a multi-stage process has been challenged, since many authors think that the process of internationalization is more complex. In fact, firms can internationalize in a more rapid way by skipping some or many stages (Madsen and Servais, 1997; Oviatt and McDougall, 1994; Ruzzier *et al.*, 2006; Turnbull, 1987): the “*born global*” enterprises are a good example (Crick and Jones, 2000; Knight and Cavusgil, 1996; Oviatt and McDougall, 1994). Some other authors think that firms can choose different paths of internationalization for different markets and sectors, according to cultural affinity and preliminary market knowledge (Chang and Rosenzweig, 2001) that negates the existence of intermediate stages in the process. Moreover, some firms may decide to reduce their exposure to foreign markets at some point in time, so internationalization does not necessarily increase (Benito and Welch, 1997; Turnbull, 1987). It is important to state that exporting firms can decide to withdraw from exporting and

re-enter foreign markets as the market conditions change (Crick, 2004; Wright *et al.*, 2007).

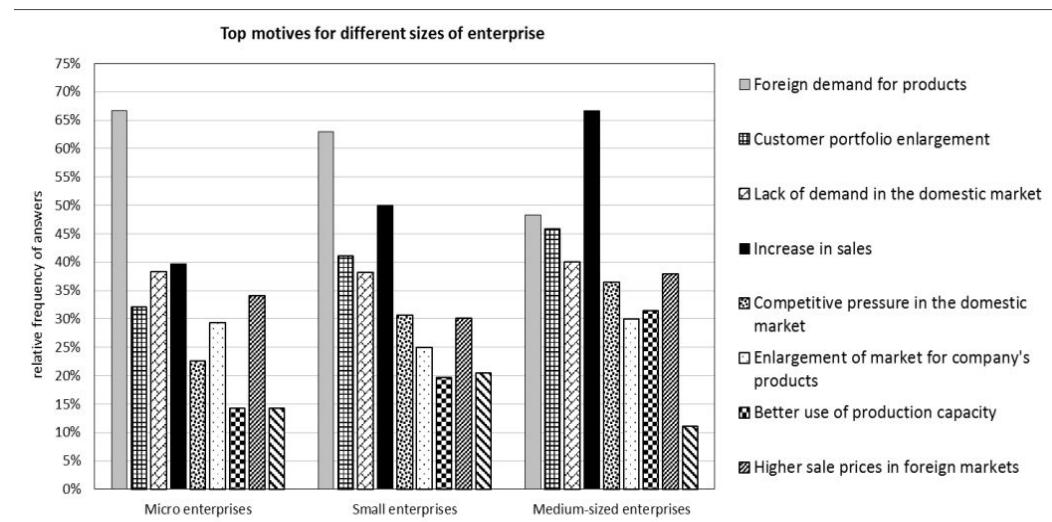
By considering these heterogeneous opinions, the internationalization process can be described by considering the motives that push firms to internationalize and their different modes of engagement.

1.2.1 Motives for internationalization

Firms decide to internationalize because of different reasons, which will influence their approach to internationalization. Frequently, the most important reason is to grow by having access to new markets abroad: firms start exporting their products in foreign markets and/or creating joint ventures and subsidiaries. Many enterprises can also decide to go abroad in order to get new technologies and knowledge. Everything depends on the type of internationalization strategy adopted by the businesses, and this strategy must be initiated before a firm starts its internationalization process (Hollensen, 1998). The opportunities offered by the foreign market have a great influence on the internationalization (Albaum *et al.*, 1998), and they can be considered as *stimuli* only if the company already has the resources to enter the market. As Cavusgil (1982) states, these *stimuli* can be proactive (pull factors) or reactive (push factors). The first ones refer to the fact that the decision-making process of internationalization depends on internal means: the firm already has information about the foreign market, which will

allow it to see and undertake the opportunities offered by the desired location. For example, the management team has the desire, the commitment and the motivation to the market. The second ones arise when the firm faces competition: the firm acts in a passive way and it responds to both internal and external pressure. An example: a firm has a specialised marketing, so it has access to specific knowledge or information that will make them different from its competitors. This marketing advantage can be an entry barrier for competition in foreign markets (Albaum *et al.*, 1998). In Figure 1 we can find an overview of the motives that pushes enterprises to internationalize, according to their size.

Figure 1: Comparison of top internationalization motives for different sizes of enterprises.



Source: Lea Kubičková, Marcela Votoupalová, Martina Toulová, *Key motives for internationalization process of small and medium-sized enterprises*, 2014.

1.2.2 Foreign markets entry modes.

Hill (2007) states that there are three key elements to consider before going international:

- a) *the market*: after an analysis of costs and benefits, the management decides which market is more attractive to the firm;
- b) *when to internationalize*, since the time of entry is very important, and it can be described by making a difference between *first-movers* (firms that go into a foreign market/industry before anyone else) and *later entrants* (firms that go abroad after other enterprises). Of course, first-movers can be pioneers of the market, but they will experience higher costs at the beginning. Later entrants can avoid risks by copying the moves of first-movers and have lower costs.
- c) *the scale*: the firm can decide to enter in the new market with a large or small scale. In the first case, it will need many initial resources and a fast entry. In the second case, instead, the firm learns more about the market before entering, so it is less exposed.

After having analysed these three factors, the firm can decide in which way it will internationalize. Hill (2007) describes six ways to internationalize and the adoption of these strategies strongly depends on the characteristics of the firm itself.

1. *Exporting.* It is considered as the most used strategy of internationalization of SMEs because of their initial lack of resources (Dalli, 1995) and knowledge (Root, 1994). Exporting has both advantages and disadvantages. On one side, by adopting this strategy, the SME can avoid the cost of manufacturing in the host country. On the other side, if these costs are lower in the host country it could be a disadvantage. Moreover, the economies of scale of SMEs can increase exponentially when producing in the home country and exporting in the host country. At the same time, the firm can gain knowledge and increase experience in the host country. Nonetheless, the exporting firms experience costs of transportation and they must face the different regulations of the foreign countries and their tariff barriers (Hill, 2007).

2. *Turnkey projects.* This strategy is adopted by firms involved in specific sectors, like pharmaceutical, construction, chemicals, when Foreign Direct Investments (FDI) is limited by the host country's government. By using this strategy, two firms are both responsible for putting up a plant or equipment: one enterprise can possess the resources needed to produce a good but does not have the technological know-how, and this is when the other enterprise (i.e., *the contractor*) intervenes. The Turnkey project is considered to export know-how to other countries: they are considered as valuable assets since they let the firm gain economic advantages (Hill, 2007). But, when the project is finished, the

contractor will not have long-term interests in the host country and the *birth* of new competitors can become a problem (Hill, 2007).

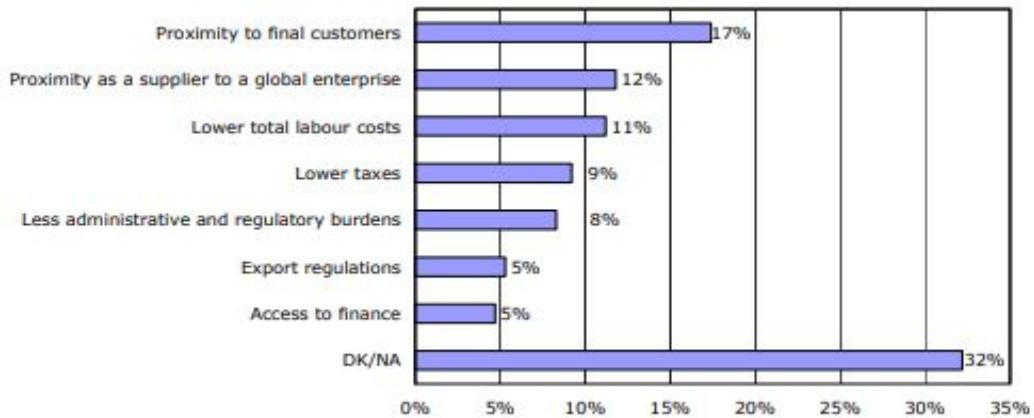
3. *Licensing.* A licensing contract is an agreement between two parties, where the licensor grants the right for an intangible property to another entity for a specific time period. In return, the licensor receives a loyalty fee (Hill, 2007). This strategy is generally adopted in sectors where patents are often used, like in the pharmaceutical industry. This entry mode is used when the firm does not have the capital to produce abroad and when there are specific regulations that will make the entrance to a market more difficult. It is useful for enterprises that do not want to develop the intangible property abroad. But, at the same time, this entry mode can make the firm lose control over the production, the marketing and the strategy used in development and sale of the product (Hill, 2007).

4. *Franchising.* It is the right an enterprise acquires from another firm that allows them to make specific activities under the name of a specific firm. Franchising is a specialized type of license, where the franchisee accepts rules about the activities to carry out and the firm selling the franchise will get a royalty fee. The firm that sells the franchise abroad avoids the costs and risks of opening in a host country by itself. A firm that decides to adopt this entry mode can build a great presence worldwide in a short period of time, but it can face the problem of quality control (Hill, 2007).

5. *Joint Ventures.* It is an enterprise formed by two or more independent firms that work together. These firms decide to join revenues, costs, and management control, and they both gain international presence. Firms who adopt this strategy benefit from local partner's knowledge and of the host country's competitive conditions, and there is cost and risk sharing. Problems may arise when firms do not follow the same strategies to achieve their goals: in this case there will be problems and conflicts related to the control of the subsidiaries, both locally and internationally (Hill, 2007). The Observatory of European SME (2007) stated that, at the European level, only a small share of firms decides to internationalize by using joint ventures abroad. They are pushed by some reasons, seven of them are shown in Figure 2: the most important ones seem to be the geographical proximity to final customers and the proximity as a supplier to a global enterprise.

6. *Wholly owned subsidiaries.* In this case, the firm owns all the stocks. So, it can decide to set up new operations in the host country (*Greenfield venture*) or it can acquire established firms abroad and use them to promote its products (Hill, 2007). This entry mode gives more control to the firm over operations in different nations. It will provide the firm with 100% of the profits but the enterprise will also have to deal with all the costs and risks.

Figure 2: Main reason for having foreign subsidiaries/joint ventures abroad, percentage of SMEs with subsidiaries/joint ventures abroad.



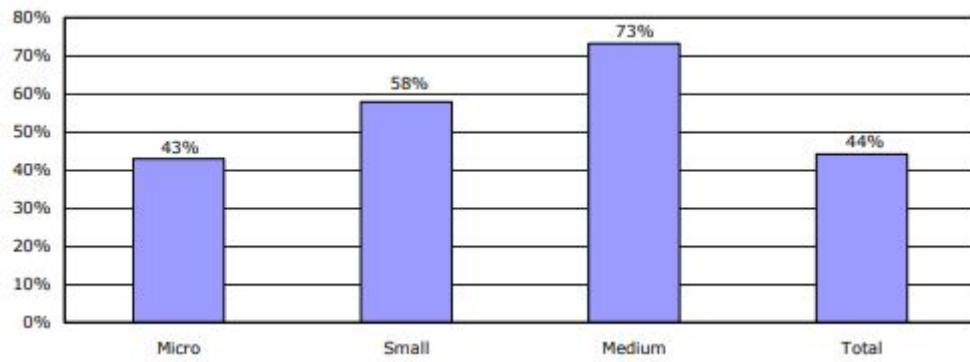
Source: European Commission and the Gallup Organisation, 2007. Flash Eurobarometer 196 - Observatory of European SMEs, Analytical report, p. 60.

1.3 INTERNATIONAL COMPETITIVENESS OF ITALIAN SMEs

When we speak about competitiveness we see “*a field of economic knowledge which analyses the facts and policies that shaped the flexibility of a nation to form and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people*”, according to the International Institute for Management Development’s definition. The World Economic Forum gives an interpretation of international competitiveness, which is “*the ability of a country to achieve sustained high rates of growth in gross domestic product (GDP) per capita*”.

For the international competitiveness of SMEs, it has been proved that size does not represent a constraint because of two main reasons: on one side, these firms give a contribution to the trade balance of their countries (Hardy *et al.*, 1986); on the other side, sales abroad are not affected by firm size (Cavusgil and Tamer, 1980; Edmunds and Khoury, 1986; Ali and Swiercz, 1991; Julien *et al.*, 1994). Figure 3 shows the relationship between SMEs internationalised with one of the six main internationalisation strategies described in 1.2.2 and the size of the firm itself. As we can see, the percentage of SMEs operating abroad range from 58% to 73%, which is a good indicator of the fact that the size of the enterprises does not affect their global activities.

Figure 3: Percentage of internationalised (*) SMEs in 2006-2008 by size of firm.



Note (*): Internationalised SMEs are defined as SMEs either exporting, importing, investing abroad, cooperating internationally, or active in international subcontracting.

Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC (N=9480).

In fact, it has been demonstrated that SMEs' export can reach high levels (Calof, 1993) because of the difficulties of the domestic market that push the firms to enter the international marketplace (Czinkota and Johnston, 1983). But small firms not always can get all the advantages in the internationalization process that are outlined in the literature (Baird *et al.*, 1994; Stampacchia and De Chiara, 1996).

For what concerns the Italian situation of SMEs, it is interesting to point out that those located in southern Italy have lower financial resources than those situated in the north. So, they will probably not be able to follow an international development path based on FDI or to take initiatives with a substantial initial capital needed. Moreover, a conservative culture resistant to change, a centralized behaviour and *country-specific* factors can be considered as obstacles in the process of internationalization of SMEs (Calof and Vivier, 1995; Caruana *et al.*, 1998; Minguzzi and Passaro, 1997, 2001). Consequently, small-medium firms located in southern Italy use mostly export as an internationalization strategy. Nonetheless, Italy has matured a productive and commercial specialisation in many sectors that, along with a pattern of innovation, makes it unique among all the industrialised countries (Onida, 1978; Modiano, 1982; de Nardis, 1997). This is explained basically from a historical point of view: large enterprises have operated into a protected market with lower *stimuli* to innovation, which are a sign of competitiveness. SMEs, instead, operated in a less protected market and

exploited in a better way competitive advantages related to innovative products and services.

The model of Italian specialisation is based on the vertical differentiation of the product and it is characterised by comparative advantages. It confirms many empirical results of the *international trade theory* (Flam and Helpman, 1987), such as the fact that industrialised countries compete with emerging countries by producing high quality products. Emerging countries produce with a lower quality level, and the competitiveness depends mostly on costs (Annachiarico and Quintieri, 1999; Petrucci and Quintieri, 2001). Although, Italian specialisation exposes the country to a certain competitive pressure, which is potential and somehow indirect, by emerging countries. In order to maintain this model and the level of specialisation, Italian firms need to keep investing in innovation.

A very important feature of Italian competitiveness is related to the existence of SMEs and districts, which has contributed to an efficient task allocation and higher profits, even in price sensitive markets like those of consumer goods that suffer the competition of emerging countries (Amighini, 2003).

In terms of market opportunities, it has been stated that the obstacles for a small firm lie within the firm itself rather than outside it, and they are related to internal resources and limited capabilities (Wright, 1993; Bijmolt and Zwart, 1994).

Some studies have underlined how buying support services can improve the international competitiveness of SMEs. Country-specific factors can be exploited,

and distinctive competencies improved, and this will lead to an effect distribution that depends on the firm capacity to learning (De Chiara and Minguzzi, 1996). The criterion for buying internationalization services may depend on two things: the opportunities offered by the exogenous conditions of country-specific comparative advantage and the endogenous capability of creating a firm-specific distinctive trait based on competitive advantage (De Chiara and Minguzzi, 1996).

1.3.1 Strengths

SMEs have beneficial effects in the economic system thanks to their role. First, they are important job creators and contribute to the social stability of the area in which they operate (Zahiu and Năstase, 2004). In fact, their sector represents the main source to educate the middle class that is interested in maintaining a certain social-political stability of the country. SMEs also increase the competitiveness of the market, as mentioned above, creating goods and services and satisfying the consumer needs. They help forming the GDP of the country and increase the national exports. They combine factors of production that, otherwise, probably would not be combined, like local resources or secondary products of big firms with which they collaborate. Since SMEs are managed directly by their owners, the decision-making process is simpler and their internal organization is more flexible, so they can adapt more easily to the changes of the market. Moreover, they can integrate in certain regional economic networks, reducing

unemployment. Thanks to their low capacity, they can reduce bureaucratic practices and depersonalization of human relationships: individual efforts and company goals tend to converge. Finally, innovation and technology represent another strength of these firms (Neagu, 2016).

1.3.2 Weaknesses

These firms are also characterised by *negative* features. They are smaller and have a lower reduced capital, which make them more vulnerable in case of shock. They strongly depend on a group of clients (i.e., the *subcontractors*) and show a lack of functional distribution system. Moreover, SMEs have a lower access to technologies and sometimes to more performant marketing services. Also, they can have lack in management and economic knowledge, since they do not always have enough information about the environment where they operate (Neagu, 2016).

1.4 FACTORS ENCOURAGING GLOBAL COMPETITIVENESS

When SMEs decide to go international, they must consider rules and regulations established by governments that assume a very important role in enhancing competitiveness, both at a local and global level. Governments should promote trade and be more responsive, reducing the bureaucratic procedure. Having said

that, we can underline which are some factors encouraging global competitiveness.

First, physical infrastructure is very important in improving the international competitiveness of a country: people can move more easily, and products and services can be delivered more rapidly. Moreover, the business environment should promote coordination among public sector agencies, by providing support and incentives for R&D activities and education, stimulating creativity and innovation, and enhancing productivity of SMEs. Also, economic growth is boosted by High Total Factor Productivity (TFP), which expresses the linkage between physical and human capital and emphasizes national competitiveness. Productivity campaigns are important as well since they foster public awareness and provide some mechanisms to use productivity tools in a more efficient way. Finally, it is very important to increase R&D investments, in order to increase the activities in this field and improve technological development and the capabilities of SMEs, so that they can become more productive in supply and export (Tutorialspoint.com).

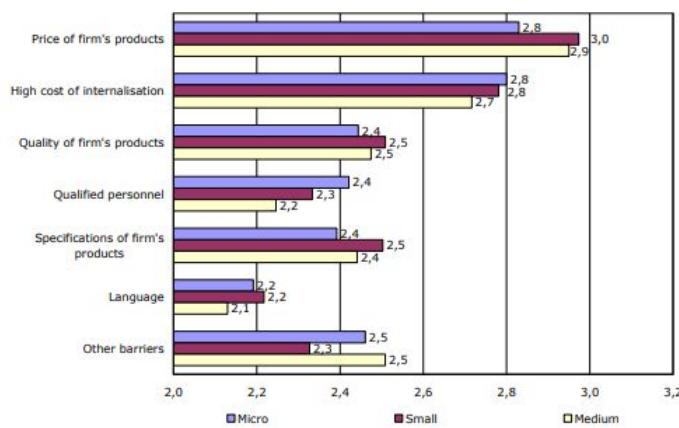
1.5 FACTORS DISCOURAGING THE OPENNESS TO INTERNATIONAL MARKETS

SMEs face many barriers when they decide to enter the international market: the access to market information, the location of possible customers and finding the best partners are just some examples. They also must deal with foreign laws and regulations, such as specific and mandatory rules on contracts, customs rules, technical regulation, property rights laws. In dealing with all these elements, SMEs have less expertise and knowledge than in-house firms and, of course, they will have less financial and human resources (EC, 2011). In order to start operating in a foreign country, it is important to analyse which are the challenges that the SME is facing. The main barriers faced by SMEs, according to the OECD, are: not enough capital needed to finance exports; difficulty in recognising business opportunities abroad; scant information to decide where to internationalize; inability to contact potential customers abroad; struggle in finding representation overseas; lack of managerial time to deal also with global activities; not enough and prepared staff.

Enterprises that are not active in the international field may underestimate some of these barriers and overestimate others, but it is important to have a clear picture of all of them in order to develop an international strategy (EC, 2010). As it is shown in Figure 4, the barriers that are mostly perceived by SMEs are relied within the firm itself: price of their products and services; high cost of the

internationalization process; the lack of trained staff and the product quality; the specification of some products; language barriers. SMEs perceive barriers due to the environment: lack of capital and adequate public support, the costs of transports paperwork, tariffs or trade barriers in the foreign country, cultural differences.

Figure 4: Importance of internal barriers for internationalisation, by size class of SMEs, average score on scale 1 (not important) to 5 (very much important), for internationally active SMEs only.



Source: Survey 2009, Internationalisation of European SMEs EIM/GDCC (N=9480).

CHAPTER 2

THE CASE OF AGRI-FOOD FIRMS

Introduction

The agri-food sector is very important for the Italian economy, in fact it can generate value added from its input used in the transformation/sales (equal to 17,5%) and it registers a substantial labour productivity index (amounting to 1,88). Indeed, the agri-food labour productivity is almost double compared to the personnel costs, which is an indicator of efficient use of the available resources (agrifoodmonitor.it).

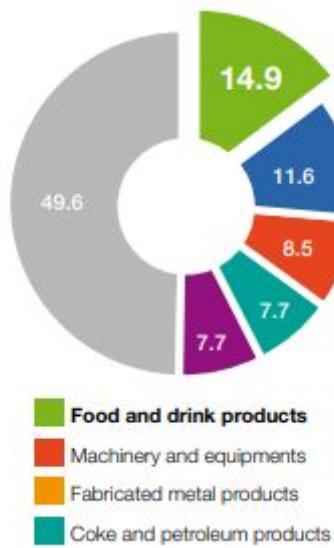
This sector is also related to the *Made in Italy* status, which is currently facing challenges due to the changes in the market. In this context, export activities seem to be the driving factor to push the production sector in the international environment.

Starting from this premise, the chapter will provide an overview of the internationalization of agri-food products, focusing about this sector in Italy. In the end, the mostly used internationalization strategies adopted in the agri-food industry will be discussed.

2.1 THE INTERNATIONALIZATION OF AGRI-FOOD PRODUCTS: A FOCUS

Internationalization has become an essential condition for the success and survival of agri-food firms, due to the expansion of globalization in economic activities. The food industry represents the main manufacturing sector in Europe, covering the 14.9% of total sales and more of one third of global trade in agricultural products (Serrano and Pinilla, 2014), as shown in Figure 5.

Figure 5: Share of turnover in the EU manufacturing industry (%).

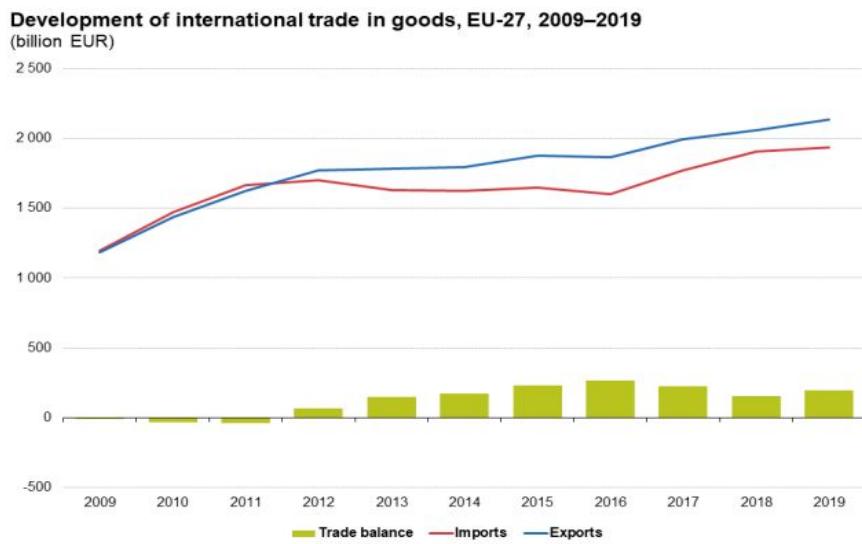


Source: Eurostat 2010 (SBS).

In the last years, the trade of agricultural products has been favoured within regional blocs (Sarker and Jayasinghe, 2007; Grant and Lambert, 2008;

Jayasinghe and Sarker, 2008; Serrano and Pinilla, 2012, 2016). Nonetheless, the European Union has played a very important role in liberalizing the exchange of agri-food products among its members: intra-EU trade among the member states passed from 17% to 30% (Pinilla and Serrano, 2009) from the creation of the EU to the twentieth century. As it is shown in Figure 6, in 2019 international trade (comprising both imports and exports) was valued at EUR 4 067 billion. The increase of imports was smaller than the increase of exports, so the trade balance surplus was EUR 197 billion. This surplus has been stable from 2012 on, as the share of exports increased more than the share of imports, following a quite stable path.

Figure 6: Development of international trade in goods, EU-27, 2009–2019 (billion EUR).



Source: Eurostat (ext_lt_intertrd).

The agri-food exporter follows three different stages when it decides to go international.

In the first phase, it has many costs due to the low information and the research of the market (Hofstede, 1980), which go side by side with an increase of communication and coordination costs (Rosenzweig and Singh, 1991). From the sector's point of view, the agri-food exporter needs to adapt its products to quality standards and technical safety, to a new language, and it will probably need to change its label. All these changes produce costs that will narrow the profits of the firm. Behind this idea, there is the incremental internationalization theory proposed by Johanson and Vahlne (1977), which underlines the fact that in this phase the costs are distributed over a very small volume of business so there is a negative effect on the firm performance.

In the second phase, the firm takes advantages from the economies of scale and the experience acquired in international activities (Buckley and Casson, 1976; Caves, 1996). Moreover, international diversity increases innovation and leads firms to achieve better results in dynamic environments (Kogut, 1983; Ghoshal, 1987; Kim *et al.*, 1993). Agri-food firms have overcome the problem of adaptation costs in this phase and, thanks to the economies of scale, they have established more stable networks, which permit a geographical diversification. When the export volume, which reduces the mean cost, has been reached and the firm has acquired the right experience to exploit opportunities in closer markets,

the agri-food firm can expand throughout Europe, slowly but steadily. So, in this case, there is a positive performance of the firm.

In the third phase, some new costs appear due to the bigger geographical dissemination of activities and operations: more coordination among the units is needed but it becomes more difficult, so firms must implement a new way of operating in order to meet the international customers' needs and it implies costs.

In this stage, there is a negative performance because margins are reduced again: coordination costs increase because of geographical dissemination, which push firms to deal with different regulations (Sundaram and Black, 1992); more complexity faced by the managers (Grant, 1987); an overload of information (Hitt *et al.*, 1997.); a loss of information and problems in governance (Hoskisson and Turk, 1990); entering in markets different from a cultural and an institutional point of view (Bartlett and Ghoshal, 1989).

The food trade is influenced by all these characteristics: it is a protected sector, regulated outside the frontiers of the regional blocs above mentioned (Serrano and Pinilla, 2014). Consequently, due to trade barriers, companies that decide to export will face more costs also related to the geographical dissemination, which will lead to lower margins in foreign operations. Indeed, distance plays a very important role in the wave of globalization, both considering transport costs and some other related costs (Jacks *et al.*, 2011), and this problem is found also in the agri-food sector (Serrano and Pinilla, 2012, 2014).

2.2 AGRI-FOOD SECTOR IN ITALY

In 2018 Italy registered a total agricultural production of EUR 55.8 billion (Figure 7), which is 2.1% of national Gross Value Added (GVA), and it was considered the fourth largest agricultural producer in Europe, after France, Spain, and Germany. The agri-food sector represents the largest manufacturer sector in Italy: in 2018 its value of production was EUR 113.8 billion, and the GVA registered increased by 1.8% (Istat, 2019).

Figure 7: Production and value added. Changes in volume, price and value. Year 2018, current values in million of euros and percentage values.

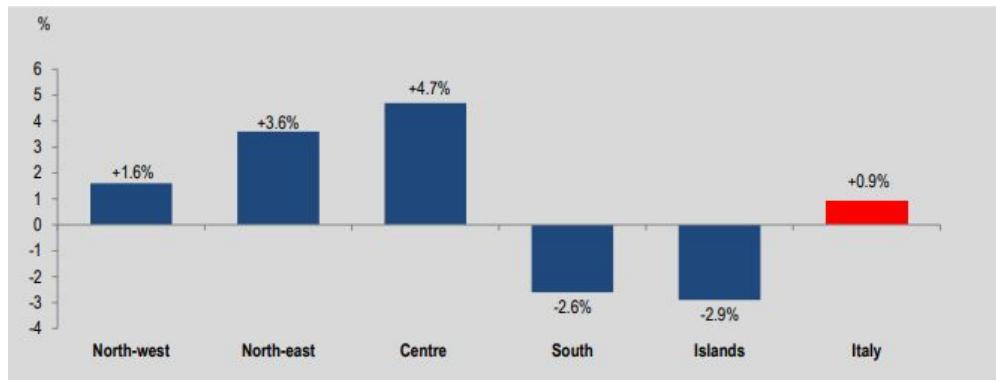
ECONOMIC ACTIVITY	Current millions of euros Year 2018	% Changes of volume 2018/2017	% Changes of price 2018/2017	% Changes of value 2018/2017
Production of agricultural goods and services	52.176	+0.6	+1.1	+1.7
- Herbaceous crops	29.074	+1.3	+3.3	+4.6
- Livestock breeding	16.245	-0.6	-2.2	-2.8
- Agricultural support activities	6.857	+0.4	0.0	+0.4
Secondary activities (*)	3.703	+1.0	+1.5	+2.5
Agriculture production	55.879	+0.6	+1.1	+1.7
Value added of agriculture	30.735	+0.8	-1.1	-0.2
Forestry production	1.645	+1.5	+1.4	+3.0
Value added of forestry	1.384	+1.7	+1.6	+3.4
Fishery production	1.738	+0.5	+2.1	+2.6
Value added of fishing	952	+0.1	+1.2	+1.3
Agriculture, forestry and fishing production	59.262	+0.6	+1.1	+1.8
Value added of agriculture, forestry and fishing	33.070	+0.9	-0.9	0.0

Source: Istat, 2019.

The 98% of the agri-food sector is characterised by micro and small enterprises, but the sector has been registering an increase in the last years thanks to a consolidation process. Nonetheless, large agri-food enterprises produce more than one-third of total production, while SMEs contribute to value-added and export.

The agri-food sector in Italy is characterised by some interregional differences: in the Northern-Central regions we can find larger companies that register a higher labour productivity (see Figure 8). They are more stable from a financial point of view since they have a larger amount of intangible fixed assets, while in Southern Italy firms have larger amounts of technical fixed assets. Indeed, almost 40% of the national turnover is produced in Lombardy and Emilia-Romagna. Nonetheless, at least 46% of the total of firms are in the South and in the Islands, with most SMEs (ISTAT, 2019). Over the last years, enterprises that are in the South have shown more dynamism and growth than those located in the North (ISMEA, 2019, Federalimentari).

Figure 8: Value added in agriculture, forestry and fishing by geographical area. Year 2018, percentage changes in volume.



Source: Istat, 2019.

It is important to highlight that the role of cooperatives is extremely important in the agri-food sector, since they can increase the total value of production: smaller

cooperatives are concentrated in southern Italy and they register a lower turnover, while the larger cooperatives are working in the north.

However, the Italian trade balance of the agri-food sector has been positive over the years: in fact, in 2018 the value of exports reached EUR 34.6, representing an increase of the trend after the crisis of 2007-2008. During the economic crisis, export has played a very important role for the safety and the steadiness of the agri-food sector: wine is the most exported good (20% of total export), then there are dairy products (10%), fruit and vegetables (10%), meat and conserves (9%). For what concerns the imports, meat is the most imported good (20%), followed by fish (15%), oil and fat (15%) and dairy products (13%) (ISTAT, 2019).

The Italian agri-food sector has a very important economic driver, which is the quality scheme, used also to attract foreign direct investments. The *Made in Italy* is what represents a key factor in terms of competitiveness and high value added.

As the ISMEA-Qualivita (2018) states: “*In 2018, Italy claimed a world-record figure of 822 Protected Designation of Origin (PDO), Protected Geographical Indication (PGI), and Traditional Specialities Guaranteed (TSG) products registered at the European level*”. In fact, these products constitute the 13.4% of the value of total production of agri-food goods and more than 25% of the total export value (ICE – Esportazioni del settore Agro-alimentare, 2016–2018).

Another important economic driver of the sector is trade: in a globalised economy

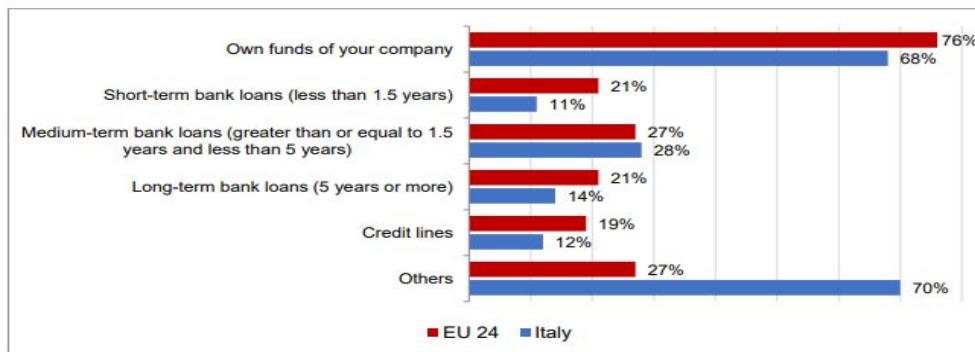
like ours, which has contracted in the last years, foreign trade has been the main tool to sustain growth in the agri-food (EC, 2020).

Nevertheless, the agri-food sector has less negotiating power than the retail sector because agricultural commodities distinguish themselves for their volatility that have an impact on the profit margins since the costs of inputs increase and the selling prices decrease (EC, 2020).

Italian agri-food firms, as Figure 9 shows, rely on different sources of financial aid with the same intensity: their own internal funds, bank medium term loans, leasing, microfinancing, and so on. According to this, it is important to state that Southern firms depend more on external financial resources than those in the North and the Centre of the country (EC, 2020).

Figure 9: Most important financing instrument to agri-food enterprises in 2018.

Figure 18: Most important financing instruments to agri-food enterprises in 2018



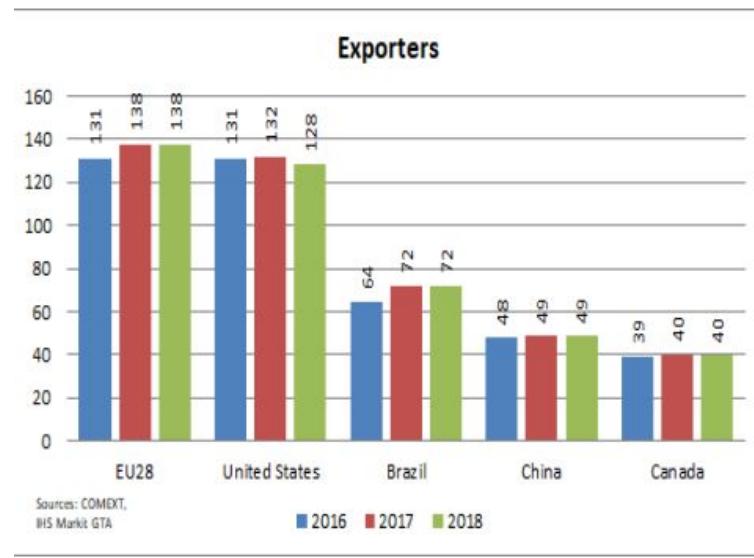
Source: Agri-food survey.

Source: Agri-food survey.

2.3 INTERNATIONALIZATION STRATEGIES ADOPTED IN THE AGRI-FOOD SECTOR

In a globalised market as ours, the opportunities to sell agri-food products abroad has increased exponentially. Among the internationalization strategies adopted by firms operating in this sector, exporting seems to be the most traditional and well-established way to operate in global markets. Indeed, even agri-food firms that are involved in international operations by a long time continue exporting regularly. In this context, the European Union is considered as the largest exporter of agri-food products worldwide: in the last ten years the value of its exports amounted to more than EUR 90 billion, as Figure 10 highlights (EC, 2010).

Figure 10: Top world agri-food exporters (billion EUR).



Source: European Commission, 2019.

The export channel that firms decide to use for their international activities is very important because it affects the resources allocation, it may improve the company's competitive advantages and it could bring more difficulties related to the distribution channels in the home market (Johanson and Vahlne, 1977; Campa and Guill'en, 1999; Hessels and Terjesen, 2010). Moreover, the chosen export channel can affect the capacity of the firm to supply on time and the good quality of agri-food products to international customers, so it will deeply affect the firm reputation. Agri-food firms, therefore, can decide to increase their international presence in order to have a return on expenditures and establish their market position (i.e., Country of Origin and/or Design of Origin), or hire intermediaries to reduce risks and uncertainty associated with international markets (Hessels and Terjesen, 2010). It is important to highlight that agri-food companies, when start exporting, face a concession between indirect and direct exporting with reference to per-unit revenue, fixed export costs and learning by doing from exporting. Moreover, we know that smaller firms prefer using the indirect export method (Osborne, 1996; Rialp *et al.*, 2002) since it involves a lower amount of resources (Johanson and Wiedersheim-Paul, 1975).

It is known that traditional agri-food exporters are small firms with a lack of both financial and human resources that makes it difficult for them to reach their profitability goal (Serrano *et al.*, 2015). Nonetheless, the limits of agri-food SMEs can be overcome by establishing collaborative networks with other companies

(Johanson and Mattsson, 1988) that can help them acquire knowledge of foreign markets, institutions, rules and regulation (Coviello and Munro, 1997; Johanson and Mattsson, 1988), which can facilitate the entire internationalization process. In fact, SMEs need to innovate and commercialize in a more efficient way and this led them to create new forms of aggregation (Tunisini *et al.*, 2013).

This is the reason why many aggregation strategies have been proposed to these firms to face the problem of globalization in many sectors, especially in the agri-food one. Indeed, in this sector the main internationalization strategies adopted are consortia, temporary joint ventures, marketing boards, interprofessional bodies. In Italy, only in the last years a new choice has been added by the Italian legislation in 2009: the *Business Network Contract* (BNC), which gives to the entrepreneurs the opportunity to adopt new organizational solutions, sharing competencies and knowledge, and organize them in a more efficient way becoming more competitive. These new contracts permit cooperation among firms by responding to the needs of aggregation and independence simultaneously. Moreover, they grant the possibility to exploit the synergies of the disparate SMEs that characterize the agri-food sector by offering them the opportunity to make the most out of the cultural heritage and gastronomic biodiversity and, in particular, of the *Made in Italy* worldwide (Sotiriadis, 2017; Thrassou, 2016).

According to Provasi (2012), BCNs can be divided into two different groups:

1. *Simple network contacts vs subject network contracts.* The first type has a simpler asset with a capital fund and a common body, but it cannot be considered as a legal entity. The second one, on the other hand, can assume a legal entity with a capital fund and a governance body, and should be registered at the local firms register.
2. *“Horizontal” vs “vertical” networks.* The first type refers to firms that share the same specialization or are part of the same sector: they could represent potential competitors for each other; therefore they decide to cooperate and improve their negotiation capabilities. The second one, instead, is made by firms that belong to different stages of the supply chain and work together to consolidate production and strategy and put together their resources.

BCNs can have many positive effects on the real economy, thanks to the synergies created among firms (D'Arienzo, 2013; Villimburgo, 2018). In fact, they can help SMEs to overcome some problems related to food safety (Cafaggi and Ferrari, 2012), innovation (Guarini *et al.*, 2017) and international trade (Cantale *et al.*, 2016). As shown by the Centro Studi Confagricoltura (2018) and the CENSIS (2012), simple network contracts have been used, especially in the agri-food industry, to gather different agents of the supply chain. At the production stage, so from the very beginning, the contract states more control and selection of raw materials and defines quality and safety standards that must be respected by

everyone (D'Arienzo, 2013). They also state the certification process, logistics, processing and waste management and they let their adherents to develop innovative processes also for management strategies (Compagnucci *et al.*, 2016).

Nevertheless, cooperation can also have some backways like costs for management, information, coordination, and the loss of independence (Mínguez 2010).

CHAPTER 3

CHAMBERS OF COMMERCE AND THEIR ROLE IN INTERNATIONALIZATION PROCESS OF SMES

Introduction

Chambers of Commerce play a crucial role in the choice of the strategy adopted for the internationalization process: they must support firms, especially SMEs, to develop a plan for going international that must be coordinated with European Union policies and international agreements (Piattella and Montanaro. 2016).

Chapter 3 will explain the structure of Chambers of Commerce, highlighting their main functions, the importance of their presence worldwide, and their role in the internationalization process of agri-food enterprises.

In the end, there will be an overview of the main services that both Italian and European Chambers of Commerce provide to agri-food SMEs, to support them and to let them expand in the international market.

3.1 CHAMBERS OF COMMERCE: MAIN CHARACTERISTICS AND FUNCTIONS

Chambers of Commerce started forming along with the Industrial Revolution in 1980, when trade was promoted and an important structure for economic development was established. In many European countries, among which there is Italy, these are private legal entities with a formal status that is recognised by the government and by public law for which they require a membership on a voluntary basis (Özsungur and Karadal, 2020). For this reason, Chambers of Commerce can hire large and professional staff and have the right to criticize the regulation of the government (Bennet, 2011, 1996).

Chambers of Commerce (CCIA) are associations of companies born to guarantee public interest, to create business opportunities and offer services. In Italy, according to the law 580/1993, Chambers of Commerce are public entities with functional independence, which provide public functions to the system of enterprises to develop local production systems. CCIA are partnered in regional and national organisations - Union of Chambers of Commerce -, and international ones - Eurochambres in Europe and the International Chamber of Commerce (ICC) at a global level (Piattella and Montanaro, 2016).

The Chamber system provides support, information and promotion services for the access and expansion of enterprises in foreign markets, collaborating with other entities (Piattella and Montanaro, 2016).

Chambers of Commerce with the status of private law are generally organized with a general assembly of the administration, supervision, and administrative body. It depends on the country of reference, the type of enterprise and the legal order they must consider. The bodies of the Chambers of Commerce with the status of public law are very different among countries and they depend mostly on the legal order (Özsungur and Karadal, 2020).

Generally, these organisations share the same tasks: meet common demands and satisfy the needs of their customers; facilitate professional activities; guarantee the development of careers in relationship with the general interests; ensure trust and honesty among its members and between them and the public (Özsungur and Karadal, 2020). They also must accomplish the necessary operations for economic development and trade, contributing to the country's economy; they have to make the information on these issues accessible to the public and to their members; the information and documents required by the public must be conveyed in time; they have to permit to their members to improve themselves both from a professional and a commercial point of view; they must provide infrastructure and make proposals, request or give opinions to particular issues related to professional operations (Özsungur and Karadal, 2020).

Along with the tasks, Chambers of Commerce also have some basic functions to carry out. First, they guarantee a reputation to their members in the business world to be recognised by their customers. In fact, enterprises register to the Chambers

to gain recognition and improve their business image, so that they can enlarge their network and acquire more reliability for the customers (Pearre, 2007). Secondly, they provide social benefits through formation, the development of social networks, education, workshops, financial support, and other activities that can improve the society itself. Since social interactions have become very important, these organizations are willing to transform the social network into a business network through newsletter, sponsorships, advertising, and marketing services. Their scope is to boost communication and interaction between their members primarily by using fairs, which help creating international networks, knowing the competitors, learning the business environment, recognising cultural and social characteristics of the customers (Hill and Lynn, 2003). Thirdly, Chambers of Commerce provide financial support to businesses to make them more competitive and help them by balancing the risk (Bunger, 2013). In fact, firms have economic and development improvements thanks to the competitive advantages because of the access to national and international markets (Newton, 1977). Finally, these organizations can create values like establishing a common image and finding shared interests (Snavely, Tracy, 2002). Total benefits can be reached through the organization, which lead to the establishment of a common perceived value, organizational climate, satisfaction, and commitment to the organization (Tsasis, 2009).

3.2 CHAMBERS OF COMMERCE AND THEIR ROLE IN THE INTERNATIONALIZATION PROCESS OF SMES

Chambers of Commerce are particularly active in supporting export activities, which is the main internationalization strategy adopted by SMEs. They mainly assist enterprises during the participation at international trade fairs and, to aid SMEs that want to go international, they have branches (both locally and online) which are connected through the WorldPass. In this way, there is only one contact point that has partnerships with other active internationalization entities (Piattella and Montanaro, 2016).

SMEs require many resources, internal and external, to make their business activities. An example of external resources used is their membership to business associations: they extend from the private sector (i.e. accountants, consultants, banks) to the public sector (i.e. government advice agencies). Among the government advice services there are Chambers of Commerce that provide support at a local level to SMEs not only with reference to consultancy, but also by providing social opportunities, marketing and collective purchasing, self-regulation and representing the interests of the firm itself (Bennett and Ramsden, 2007). Generally, SMEs show their membership to Chambers of Commerce on their shop windows or on their websites as a form of accreditation and empowerment: these organizations, thanks to their local focus, sometimes

have additional market niches that can help SMEs to develop traded and untraded interdependencies (Bennett and Ramsden, 2007).

For what concern their role in the internationalization process, since the formation of the European Union in 1998, regulation and submission for SMEs have started acquiring more importance within the Union itself, but also at an international level. Local governments started losing control over the firms, while national Chambers of Commerce - as well as other business associations - started developing many new activities. Indeed, they run their own EU advice service and offer their EU information service; they reduced EU expertise by joining and operating in EU federation or associations; they pressured Brussels directly.

3.2.1 Italian Chambers of Commerce abroad

When we talk about Italian Chambers of commerce (CCIE) abroad, we refer to organisations of Italian and local entrepreneurs and professionals, which are officially recognised by the Italian government according to the law n.518 (1st July 1970). This association takes the name of Assocamerestero and then there is also Unioncamere, which promote the activities of the Chambers of Commerce and make their network more recognised worldwide (assocamerestero.it).

Unioncamere is a public entity that combines the Italian Chamber system and represents it institutionally. It creates and manages services and activities for the Chambers of Commerce and professional associations, coordinating the Chamber

system's initiatives and addressing the main bodies according to the guidelines.

Moreover, Unioncamere draws up agreements with central governments and local and national public entities to exercise its duties and promote the relationship between the Chamber system and enterprises, customers, and employers (Piattella and Montanaro, 2016).

Assocamerestero makes institutional lobbying thanks to the research of collaborations with public and private entities and the strong communication activity towards the Italian stakeholders (media, institutions, and enterprises).

Moreover, this association works to improve and favour the internationalization of Italian enterprises and to foster the *Made in Italy* worldwide, and it does so by accomplishing many activities. On one side, it improves the organisation of the network of the Chambers: providing assistance to new Chambers of Commerce abroad, organising formation and upgrade sessions for the employers of the Chambers, improving the quality of the services offered by CCIE through the monitoring of activities, offering service activities to their members with meetings and workshops. On the other side, Assocamerestero promotes the CCIE network through communication and information tools and strengthens the relationship with the stakeholders. In order to do so, it creates local marketing projects with the Italian Chambers system; it develops promotional activities with Universities and educational institutions by organising traineeships in their headquarter and Chambers of Commerce; it creates agreements with the main stakeholders of the

CCIE in order to create jointly projects; it cooperates with the national media in order to raise the profile of the projects and strengthen ties with the Italian business communities; it prepares annual publications known as the *Business Atlas* and the *Who's Who*.

Italian Chambers of Commerce abroad were, firstly, a way to create an Italian business community and then consolidate themselves to become a recognised and widespread network. Today, they represent an integral component of the business community of the countries where they are established and operate: 20 000 associated firms are represented by local companies that consider Italy as a great partner both for their investments and their business operations.

These Chambers of Commerce perform different activities. First, they have developed a great ability to understand and analyse international markets, thanks to their presence and rooting in foreign countries and the strong relationship they have built with local authorities and business communities. Also, they are characterised by a particular predisposition to create a direct relationship with firms, due to their nature of entrepreneurs helping entrepreneurs. They also make some promotional activities like the organisation of fairs, exhibits, meetings between enterprises and conferences (Piattella and Montanaro, 2016). Finally, they are known to have a great performance, which is an essential feature to work in a competitive market.

It is important to highlight that there are 81 Italian Chambers of Commerce in 58 different countries; 160 service agencies; 20 000 members (88% of local companies); 300 000 business contacts (assocamerestero.it).

3.2.2 Foreign Chambers of Commerce in Italy

According to the art. 22 of the law n.580 (29th December, 1993), “*the denomination “Chambers of Commerce can be applied to the associations in which Italian enterprises and institutions collaborate with enterprises and institutions belonging to a foreign State but are recognised by the Italian government”.*

Indeed, Unioncamere declares the existence of mixed Chambers of Commerce, which are mixed or foreign Chambers of Commerce based in Italy and recognised by the Italian government. Their scope is to support the match between enterprises and foreign markets through partnerships, joint projects, and specific agreements (unioncamere.gov.it). There are many mixed Chambers of Commerce available on the CamCom.Gov.it website, which provide consultancy, information, formation, and support to the local enterprises to create a direct contact both with the Italian and foreign entrepreneurial system. Nowadays, there are many mixed Chambers in Italy that are cooperating with European, Asian, American and African Chambers of Commerce (camgov.it).

In 2017 an important project has been promoted: the *Chamber Mentoring for International Growth*, which was an initiative launched by Unioncamere, coordinated with Assocamerestero and implemented thanks to the collaboration of the Italian Chambers of Commerce abroad, 78 non-profit organizations, based in 54 countries worldwide, and characterised by Italian and foreign entrepreneurs whose aim was supporting Italian firms in the process of internationalization. These firms could receive free support by a *Mentor*, a specialised manager or an entrepreneur with Italian origins who was working abroad. Firms that decided to internationalize and were facing some challenges due to the foreign market could participate in the *Chamber Mentoring project* and work side by side with their Mentor, creating an expansion plan and starting their internationalization process (chambermentoring.it).

3.3 ITALIAN AND EUROPEAN CHAMBERS OF COMMERCE AND AGRI-FOOD SMES

3.3.1 Informative support to the internationalization of SMEs

Italian Chambers of Commerce recommend some informative tools for the internationalization of SMEs.

3.3.1.1 WorldPass

WorldPass is the local branch for the internationalization of Chambers of Commerce, which has the aim of offering orientation, support, and information services to enterprises before going international. The idea of this *front door* to internationalization came out from the Chamber system and is coordinated by Unioncamere: this tool collects all the information about foreign markets in order to help those firms that want to sell their products in foreign markets (Piattella and Montanaro, 2016). Indeed, in the website we can find sections related to sectors and countries; many databases offering information about import-export activities; statistics on the products traded, countries of destination and FDI in Italy; news about the economic and political situation of the countries worldwide; reports of entrepreneurs; future events and useful contacts.

Studies have shown how this portal is mostly used by firms involved in the agri-food sector (Piattella and Montanaro, 2016) that need information about foreign markets and how to export their products.

3.3.1.2 InfoMercatiEsteri

It is a very innovative platform that provides information about foreign markets directly by national economic agents to help enterprises choose the right internationalization strategy. For each country, it is possible to search information about the country, like the economic and political prospect; business opportunities

and possible partnerships with both local and/or Italian firms; promotional initiatives; trade barriers, investment issues and possible risks; access to capital; framework of Italian admissions and bilateral agreements. It is also possible to search information about the sector and receive suggestions about countries primarily related to that particular sector, according to custom criteria based on investment, trade, market characteristics and notices received by overseas offices (InfoMercatiesteri.it).

3.3.1.3 ExTender

It is an informative platform on business opportunities abroad that comprises 400 establishments, which work constantly to provide information about the international procurement market to Italian enterprises and orient them towards international business opportunities. The opportunities are related to procurement markets in the world for the provision of goods and service and the realization of works; *Early Warning*, a preview of the projects in progress worldwide; information about the schedule of the European Union speech to help non-member countries; scientific and technological information.

3.3.1.4 Agrifood Monitor

It is an informative platform born to help firms and stakeholders involved in the agri-food industry to catch and understand the evolutionary trends of the national and international context. It also suggests solutions related to *market intelligence*

to support firms in a strategic way and the entire food supply chain. Moreover, it creates a network with the agents involved in the food supply chain to share the market knowledge and support firms in the global competitive scenario (agrifoodmonitor.it).

3.3.1.5 Mercato Globale

It was born in 1996 with the aim of providing technical information and legislative updates to enterprises interested in going international. In 2000 the website was launched to point out trends and business opportunities in foreign markets where the *Made in Italy* is strong. It also promotes the initiatives of the Chambers of Commerce on the internationalization of Italian companies (mglobale.it).

3.3.1.6 Newsmercati

It is a newsletter realised by the more dynamic entities of the Italian Chamber system for the enterprises that are operating in foreign markets (Piattella and Montanaro, 2016).

3.3.1.7 Database of Italian Chambers of Commerce abroad

These databases contain country guidebooks, industry information, events, and business contact to help SMEs to do business internationally (Piattella and Montanaro, 2016).

3.3.2 Financial support to SMEs

As already mentioned, SMEs face some financial strains when they decide to go international and this is one of the main causes that prevent firms from starting to operate in the global market. In fact, internationalisation brings many financial issues to SMEs like exchange rate risk, difficulties with granting lending facilities to foreign customers, difficulties in guaranteeing payments from abroad and so on. This is why finances represent a double problem for SMEs: on one side, there are costs associated with the acquisition of information and financial mechanisms of internationalisation; on the other side, these firms would like to have access to additional funds which are needed to make operations abroad. Obtaining these funds will provide more costs for the firm itself and financial institutions will perceive a higher risk that will lead them to use some internationalisation-specific financial tools.

The European Commission (2008) highlights the solutions provided by Chambers of Commerce and other financial institutions to this issue.

First of all, there are “*Short-term export credits insurance*” by which the Export Credit Insurance Organisation (ECIO), based in Greece, encourages SMEs to start their sales operations abroad after having insured export credits that have been granted to foreign customers. ECIO itself does not finance the exports of the firm, but it helps in an indirect way those SMEs that face obstacles in obtaining funds

to operate abroad. Basically, ECIO allows every exporter his or her right for insurance to any financing institution as collateral.

Then, there is the “*Royalty scheme to support innovative new business and business growth in new markets*”, created to help finance SMEs in a practical way, considering the expected revenues, so that the start-up period is facilitated. In this way, the inventor does not have to sell equity, he just needs to undertake a part of future sales. Since revenues are expected to be received in the long-term period, this financing method is considered suitable for projects that are too risky to receive a loan.

Finally, there are “*SME and cross-border finance*”: a way to finance SMEs by grouping the information available about sectors, products, States, the EU, and multilateral institutions in a web file. This idea was initiated by the Dutch Trade Board and it has been considered as a niche in the market by Chambers of Commerce and SME confederation. This is explained by the fact that the page is easy to find and to read and the visitors can be clustered: this is a sign of the popularity of this tool.

3.3.3 Promotion of networks and cross-borders cooperation

Because of their nature, networks promote the interaction between different firms and associations and/or organisations that share the same interests and are a source of cooperation in many fields: cost and risk sharing, more access to potential partners, a faster approach to new technologies and so on. One of the

main features of networks is the low cost for the participants compared to the advantages they provide: the relationships created inside or outside these networks give the possibility to SMEs to extend their operations in foreign markets. Two practices according to this subject are described by the European Commission (2018).

The first one is the “*Finpro export partnership*”: it is a cooperation project of at least four SMEs that decide to enter together in the same market and form a synergetic offering. This network will have an external export manager which will provide local presence in the foreign market. This entry tool is mostly used in Finland and it is very useful because it pushes SMEs to international trade and helps them understand their competitiveness, building internationalisation strategies.

The second one is “*Setting up a networking system for SMEs to promote their exports*”: this programme promotes SMEs networks with the aim of supporting better export activities, focusing on the impact that cross-border operations has on these firms. This project was introduced in Hungary in 2003 and improves modern management and business knowledge of SMEs, increasing the capacity of these companies to export by exchanging experiences, networking, and building relationships.

3.3.4 Using internationalization to enhance global competitiveness

As introduced in Chapter 1, internationalized SMEs perform better than non-internationalised ones and this means that there is a strong relationship between internationalisation and competitiveness and long-term sustainability of the company in the local economy. In very competitive sectors, internationalisation activities can become a solution. The European Commission (2008) shows three main cases according to this subject.

Firstly, there is “*Move or stay and improve*”, which is a measure to provide SMEs with the information of other countries to let them make better decisions in the international market. This tool has been introduced and widely used in Sweden, and it is a computerised instrument that simulates different business productivity outcomes whether the company decides to stay home or go international. It is a good way to strengthen the European dimension since firms are encouraged to cooperate in the European Union.

Secondly, there is “*Industrial research and development contracts (IRDCs)*”, which is a programme whose aim is stimulating and reinforcing the ability of SMEs to make market-oriented research and develop new innovative products and services in order to reach the demand. These contracts are agreements between two or more companies that decide to cooperate to create and develop a new product or service, maximising the benefits.

Finally, there is the “*Grant scheme to support businesses’ internationalisation via product certificates*”. This scheme was introduced because it has been stated that product certificates can represent a barrier to enter a foreign market. The grant will help SMEs by covering 50% of the cost of the product certificate that is required by the regulation of the foreign market, the other costs will be covered by the firm itself.

CHAPTER 4

THE IMPACT OF COVID-19 ON THE INTERNATIONALIZATION OF AGRI-FOOD SMES

Introduction

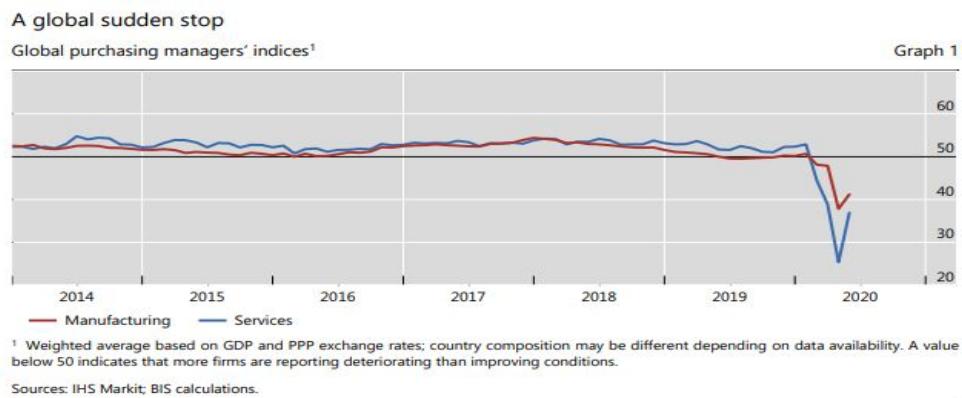
Covid-19 pandemic has caused the spread of fear related to a looming economic crisis and a recession. Many jobs have been lost and there has been a reduction of the workforce in all sectors, due to social-distancing, self-isolation, and the impossibility to travel. Due to this situation, the need for manufacturing goods has been reduced. On the other side, the food sector has registered an increase in demand: accumulation of food products and panic-buying have been two important features of this pandemic (Nicola *et al.*, 2020).

Chapter 4 will describe the repercussions on Covid-19 both on Italian economy and Italian agri-food system, offering an overview of the pandemic. In the end, the importance of introducing food democracy will be presented and some advice on the future of work in the agri-food sector will be discussed.

4.1 COVID-19 PANDEMIC AND ECONOMIC CRISIS IN 2020: AN OVERVIEW

Covid-19 is a disease caused by Severe Acute Respiratory Syndrome Coronavirus 2 (SARS-COV-2) that has had deleterious effects on the healthcare systems worldwide. Sohrabi *et al.* (2020) announced the Covid-19 outbreak as a global emergency on January 30th, 2020: this has led governments to introduce restrictive national regulations, as quarantine, to *reduce the curve*. Moreover, national borders have been shut down and there are travel restrictions which have hit the world's economy, generating fear of recession and economic crisis (Buck *et al.*, 2020). This crisis can be considered as *unique* since it comes from a policy of containment measures, and it has provoked contractions in both output and employment: there has been a sudden stop worldwide (Borio, 2020).

Figure 11: A global sudden stop. Global purchasing managers' indices.



Source: IHS Markit; BIS calculations.

The key features of this modern crisis are basically three. It has been caused by *exogenous factors* and not by previous financial imbalances; it is *uncertain* because possibilities do not depend on economic factors; and it is *global* because every single country is experiencing it. Therefore, there is a unique response to this situation: offering incentives to both firms and households with the coordination of monetary, fiscal, and prudential policies (Borio, 2020). So far, it seems that the policies adopted have worked by stabilising the financial markets: risky assets prices are lower than the realistic assessment of the economic situation and credits keep flowing. Nonetheless, the economic activity has registered a dangerous drop even if, since the easing of containment, there has been the beginning of a rebound. Still, the uncertain evolution of the pandemic creates challenges to face in the near-term and long-term (Borio, 2020).

4.1.1 Near-term challenges

As Borio (2020) states, soon there will be two main issues to consider: the continuing increase of the debt in both the private and public sector, and the possible changes in the demand. Everything will depend on the duration of the pandemic, on the probability of new infection waves and how governments and health systems will respond. Making hypothesis is very difficult, but it is possible to affirm that, if containment measures will be lifted, the economy will return to operate in a more normal way. Moreover, changes in demand will slow down. If

these measures will continue being strict, then the economic situation will be more difficult to handle.

It is certain that there is an urge of public finances to make enterprises get through this situation, and the international community seems to be the most important subject (Borio, 2020).

4.1.2 Long-term challenges

Considering the longer period, three main problems must be considered.

Firstly, up to now policymakers have received aid by banks, but other parts of the financial system have not. In fact, market-based finance has been *victim* of the disruption in financial markets and consequent freeze funding. Central banks have had to intervene massively to reduce this disruption, but it has been a pressure for the financial system, and it could generate moral hazard. So, more regulations and actions must be adopted (Borio, 2020).

Secondly, during the pandemic there has been a tight coordination between monetary and fiscal policies, because of the extraordinary situation the governments had to face. It is important to remark the uniqueness of these policies and differentiate them since they have different goals (Borio, 2020).

Finally, policy buffers (fiscal, monetary, and prudential buffers) should be restored as soon as the emergency is over. In fact, they should be balanced,

otherwise there will be serious macroeconomic problems, related also to prices and financial stability.

4.2 EFFECTS OF CORONAVIRUS ON AGRICULTURAL PRODUCTION

Covid-19 outbreaks have tested the toughness of the agricultural sector. Due to the drop in demand from hotel and restaurant, agricultural commodities prices dropped by 20% (Bhosale, 2020). In fact, countries worldwide have introduced a series of containment measures, including social distancing, a ban for crowds and the reduction of unnecessary travels. The possibility of being affected by the virus has had an impact on the delivery staff and inspectors, which has caused consequences on the verification and transportation of goods. Of course, this has had effects on perishable products like meat and vegetables. Also, food trading has been shut down over the last months, and this has had a negative effect on the possibility to exchange products, also agricultural ones (Nicola *et al.*, 2020). “Panic buying” has been another problematic issue of the pandemic that has contributed to shortages of supermarkets’ shelves and stock-piling: the food sector, including food retailing and distribution, has registered negative effects. Since agricultural production is strongly related to poverty and sustainable development (Thirtle *et al.*, 2003; World Bank, 2007), it becomes very important to analyse the effects of this pandemic in the agricultural field. Moreover, the virus spreads and this could lead the global food system to be highly tested,

especially in those countries where food is related to imports, and there could be a potential crisis in food security (Fan *et al.*, 2017).

Epidemics can, indeed, change the way inputs are used (Smith *et al.*, 2009; Dixon *et al.*, 2010), the productivity level of a country (Matthee *et al.*, 2018; Agusto, 2013) and a consequent loss in the GDP. (Keogh-Brown *et al.*, 2010; Duan *et al.*, 2020). In the agricultural sector, the food supply chain is the thing which is mostly hit by the pandemic and there are repercussions both on the supply and demand side.

4.2.1 Supply side

The first consequence of the pandemic on agricultural production is the shortage of labour. Because of the virus, many people have been ill or died, others had to take care of their sick relatives, the period of mourning lasted less (Michiels, 2001). For the uninfected people, the epidemics has led to more absenteeism and a decrease in productivity due to risk transmission and isolation (Mann *et al.*, 2015; Stanturf *et al.*, 2015). This provoked changes in the lands' fertility (Yamano and Jayne, 2004): many farmers had to substitute labour-intensive crops with less labour-intensive ones to cope with the reduction of productivity above mentioned. Secondly, there have been challenges related to the food supply chain that affected food production. On one side, it has been difficult for farmers to obtain inputs, like fertilizers and seeds. On the other side, higher cargos impede access to

some markets, causing higher losses for those households whose primary income comes from agriculture. For many countries, especially those that are less developed, an income loss is strongly related to poverty (Mather *et al.*, 2005).

Finally, zoonotic diseases can have direct impacts on connected sectors. Since viruses can be spread by animals, this provokes changes in domestic demand and international trade in the short term. Controlling zoonotic diseases can be costly and include livestock losses (Zhang *et al.*, 2020).

4.2.2 Demand side

Social panicking seems to be the key factor that influences the agricultural commodities market. A pandemic generates social instability and behavioural changes that create food shortages, price increase and disruption to markets (Gong *et al.*, 2020). Also, this phenomenon can lead to inflationary pressure on the prices of food products. In fact, people choose goods that can last more or that are easy to buy, because of logistic and food storage limitations. This, of course, may change the diet of consumers and can result in nutritional imbalances (Katona and Katona-Apte, 2008; Aberman *et al.*, 2014; Kodish *et al.*, 2019). Moreover, pandemics change the international food security: *The Global Report on Food Crisis 2009* by FAO underlines how 820 million people are facing local food crises worldwide. Indeed, in this context countries will prefer their national

existing food reserves and domestic supplies, reducing exports and raising the risk of a decline in international food supplies (Zhang *et al.*, 2020).

4.3 THE REPERCUSSIONS OF THE COVID-19 PANDEMIC ON THE ITALIAN ECONOMY

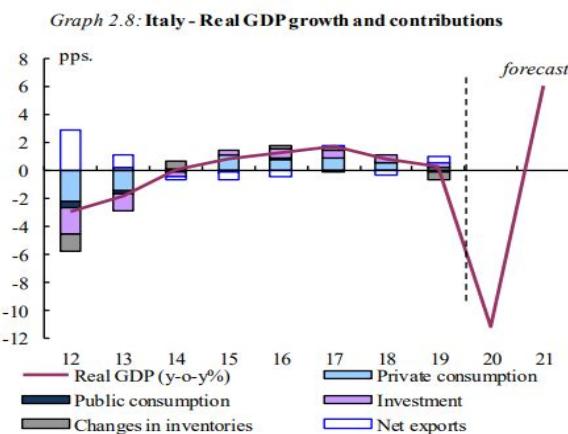
Italian economy is facing a deep contraction due to the Covid-19 outbreaks and consequent containment measures. According to the ISTAT (2020), the real GDP of the country fell by -5.3% in the first quarter of 2020, with a decrease in both exports and investments. In the second quarter of the year, with the more stringent measures adopted by the government, the situation seems to be even worse (EC, 2020).

The economy started recovering from the output inflicted by the pandemic in May, when the restrictions were eased. Without a second wave of infection, the economy would have bounced back in the third quarter of the year thanks to policy support. A rebound in demand is essential to recover some sectors like tourism and consumer-related ones (EC, 2020).

Output losses in the first two quarters of 2020 will be larger in fall: the forecast of real GDP will fall by 11¼ % this year. As shown in Figure 12, in 2021 there will be a more natural rebound even if the GDP rate is not expected to return to 2019 level even at the end of 2021.

Italy is now rebounding from a deep output, but the repercussions of the pandemic on the Italian economy are still negative, especially those related to services. The recovery is unlikely to return to pre-pandemic levels within 2022. In 2020 there was a sharp increase expected, but the government deficit and debt are expected to decline in 2021 and 2022. The inflation of consumer price is likely to turn negative this year to increase moderately in 2021 (EC, 2020).

Figure 12: Italy – Real GDP growth and contributions.



Source: European Commission, 2020.

4.3.1 The manufacturing sector

In the first part of 2020, Italian GDP contracted by -18% but, after the lockdown, the economy related to construction and industrial production recovered quickly. On the contrary, consumer services, which are strongly related to rising infection rates and mobility restrictions, will remain related to the pandemic constraints also

after this year. Real GDP is forecast to drop by -10% in 2020 and rise by +4% in 2021, thanks to substantial carryover effects. In 2022, growth will slow to -2 $\frac{3}{4}\%$ and this means that the level of output of the economy will remain below its pre-pandemic level (EC, 2020).

4.3.2. Domestic demand as backbone of recovery

With the end of the lockdown, consumer spending increased again. Nonetheless, the uncertainty of the period is pushing people saving their money above pre-pandemic levels. Private consumption is expected to rise again in 2021 and this is also due to the family bonus received (EC, 2020).

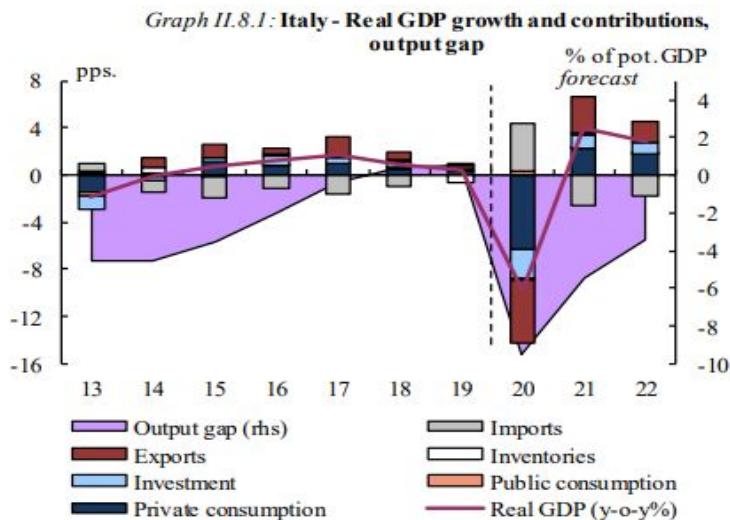
In the first part of 2020, investment decreased because of start-ups' decline and liquidity issues. Over the next two years, capital spending is expected to rise again with fiscal incentives and public investments. Also, good sectors will rebound, and this will limit the market share losses registered in the last year (see Figure 13). Nonetheless, tourism will not fully recover by 2022 (EC, 2020).

4.3.3 Employment

The Cassa Integrazione Guadagni and the dismissal ban until next year are used to prevent and reduce job losses in 2020. Temporary workers are those hit mostly by the labour market adjustments but, once the emergency is finished, also permanent employees may face some issues. The labour force will return to the

pre-pandemic levels, but the job losses level will increase above +11%, especially for workers in the service-sector (EC, 2020)

Figure 13: Italy – Real GDP growth and contributions, output gap.



Source: European Commission, 2020.

4.3.4 Public finances recovery from 2021

In 2019 there was a decrease of -1.6% of GDP, but the government deficit is projected to increase around +10¾% in 2020 due to the pandemic situation. The labour market has deteriorated, and this has provoked lower revenues from taxes and social security contributions. The policy response to the crisis, helping mostly workers and firms, impacted the national budget of around 5½% of GDP in 2020, covering especially the expenditure side (EC, 2020).

In 2021, the government deficit will probably decline to around -7¾% of GDP: government spending will decline, while government revenues will benefit from the rebound of economic activity. Simultaneously, the fiscal expansion will have consequences on public finances: the deficit will be related especially to extension of public support to sectors that have been mainly affected by crisis, a cut in social security contributions for enterprises that are working in poorer regions, the introduction of a family bonus and other aids for healthcare, education and research (EC, 2020).

Table 1: Main features of Country forecast – ITALY.

Table II.8.1:

Main features of country forecast - ITALY

	bn EUR	Curr. prices	% GDP	2019		Annual percentage change					
				01-16		2017	2018	2019	2020	2021	2022
GDP	1789.7	100.0	0.1		1.7	0.9	0.3	-9.9	4.1	2.8	
Private Consumption	1076.4	60.1	0.1		1.5	0.9	0.4	-10.5	3.8	3.1	
Public Consumption	335.1	18.7	0.4	-0.1	0.2	-0.2	-0.2	2.1	0.1	0.3	
Gross fixed capital formation	323.2	18.1	-1.0	3.2	3.1	1.6	-13.6	7.2	5.6		
of which: equipment	122.8	6.9	-0.5	6.4	4.4	0.9	-18.8	9.4	7.6		
Exports (goods and services)	563.8	31.5	1.6	5.4	2.2	1.0	-16.7	10.3	5.9		
Imports (goods and services)	509.2	28.5	1.3	6.1	3.5	-0.6	-14.1	9.9	6.4		
GNI (GDP deflator)	1805.1	100.9	0.1	1.9	1.5	0.1	-9.3	3.6	2.9		
Contribution to GDP growth:				Domestic demand	-0.1	1.5	1.1	0.5	-8.4	3.5	2.8
				Inventories	0.0	0.2	0.1	-0.7	-0.2	0.2	0.0
				Net exports	0.1	0.0	-0.3	0.5	-1.3	0.4	0.0
Employment					0.1	0.8	0.7	0.2	-10.3	6.1	2.4
Unemployment rate (a)					9.2	11.2	10.6	10.0	9.9	11.6	11.1
Compensation of employees / f.t.e.					2.1	0.6	2.1	1.5	0.9	0.6	0.7
Unit labour costs whole economy					2.1	-0.3	1.9	1.3	0.5	2.5	0.2
Real unit labour cost					0.2	-1.0	0.8	0.6	-0.8	1.5	-1.0
Saving rate of households (b)					12.7	10.2	10.1	10.1	15.2	12.6	10.3
GDP deflator					1.9	0.7	1.0	0.7	1.3	1.0	1.2
Harmonised index of consumer prices					1.9	1.3	1.2	0.6	-0.1	0.7	1.0
Terms of trade goods					0.3	-1.9	-1.2	1.3	3.4	0.3	0.5
Trade balance (goods) (c)					0.9	3.1	2.6	3.2	3.6	4.0	4.0
Current-account balance (c)					-0.6	2.5	2.5	3.0	2.9	3.1	2.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)					-0.5	2.6	2.5	2.8	2.7	2.9	2.8
General government balance (c)					-3.2	-2.4	-2.2	-1.6	-10.8	-7.8	-6.0
Cyclically-adjusted budget balance (d)					-2.9	-2.2	-2.4	-1.9	-5.6	-4.8	-4.1
Structural budget balance (d)					-3.4	-2.2	-2.6	-1.9	-5.8	-5.0	-4.3
General government gross debt (c)					116.8	134.1	134.4	134.7	159.6	159.5	159.1

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Source: European Commission, 2020.

In 2022, the government deficit will decline to -6% of GDP thanks to economic growth and improvement of the labour market.

4.4 INTEGRATE FOOD DEMOCRACY INTO POST-PANDEMIC FOOD SYSTEMS

As already mentioned, Covid-19 pandemic has contributed to lead the world economy to a recession, creating pressure and tensions (Gopinath, 2020). The lockdown has been a common feature of all countries and it has provoked a change in the consumption of food, from restaurants to households. To respond to this change in demand, agricultural producers and the retail industry seem to be the best actors (Petentin, 2020).

4.4.1 Disrupted food systems

The food supply chain has been disrupted at both local and international level; therefore, food provision has been modified and new agri-food systems are being integrated (Petentin, 2020). As unemployment rate increases and households' income decreases, people are prioritising their food spending: the percentage of income destined to buying food will increase, as will prices of food products (The Poultry Site, 2020).

To support the struggle of households, many programmes must be introduced. Retailers, like supermarkets, are now the main source to get agricultural products,

even if there is a rationing model to follow and limited places for food products. Since people are forced to stay home as much as possible, home deliveries and online orders have seen an incremental use by citizens worldwide. Therefore, supermarkets had to adapt their activities also for the online demand: shop floors are prepared and packed by employees that pick the products ordered by consumers to make orders online ready. According to the BBC (2020), the supermarket chains are hiring more staff to provide food for the population in every country: food retailers are registering a boom in consumption, number of employees and public orders.

From the citizens' point of view, it seems that there are shortages of food products, but it has been reported that there is so much food waste, especially related to dairy products (Petentin, 2020). The problem stands in the disorganisation of the food supply chain: it is split between providing food products for retailers and for food service business (restaurants, bars, etc...). The former buys reduced quantities of food in small packages, while the latter buy them in bulk and generally prefer high quality products. In the current situation, it is shown that the supply chain has not the right equipment to change its structure in order to meet the new demand, both for what concerns increased quantities and the containers for packages (Petentin, 2020). Moreover, the consumption of food by restaurants *et similia* has decreased, but it has not led to an increase of the food consumption by retailers (Morgan, 2020). In fact, markets are finding some

difficulties in reorganising the food production because this will require more costs and time, since the industry works on a well-established system. To reorganise the chain, coordination and effectiveness among the actors are needed. Still, if one of them is affected negatively by external agents, the entire chain will be affected (Petentin, 2020). It can be stated that the supply chain registers a lack of adaptability capacity and this underlines the weak role of the farmers in food systems, even if they provide raw agricultural products. In the current situation, it is essential to understand how the role of the farmer must acquire more importance in the food supply chain to introduce an approach based on food democracy (Petentin, 2020).

4.4.2 Food democracy as a model for multilevel food governance post-pandemic

The pandemic has caused many problems and the food system must be reconsidered. In fact, food security is lower, so as flexibility and resilience, and this is just a consequence of the marginal role that farmers have in the long food supply chain. Citizens think that they are not in control of the international supply chain and the food provenance (Petentin, 2020).

A food democracy model is needed to give an active role and participation to citizens in a sustainable food system that could consider other perspectives, offering new ways to produce and consume food products. In this way citizens are

empowered: they can express their preferences and get more satisfaction, so the food system reflects their values and can be more sustainable (Petentin, 2016).

There are four key elements, explained by Petentin (2020) to consider when creating a food democracy model after Covid-19:

1. *True information, natural individual choice and alternative food products offered to consumers.* Due to lockdown's conditions, and consequently closure of restaurants, people have to go to local butchers and bakers and this has enabled the possibility to have full charge of their decisions on food consumptions: they can decide what to eat and what to put on their plate, thus building a democratic agri-food system.
2. *Bottom up approach in the decision-making process.* Some small local shops and agricultural producers could adapt their operations to the change in demand, improving their websites for example.
3. *Good public health, food safety, sustainable agriculture and environmental protections, improvement of the rights of farmers and agricultural workers.* Buying locally and deciding what to eat could bring people to adopt a healthier lifestyle, with more nutritious food. Also, shorter supply chains can reduce packaging/processing and food miles and ensure a long-lasting workforce for farmers.
4. *Reconstruction of faith and trust in the food system, its institutions, and farmers.* The importance of farmers can be strengthened thanks to the introduction

of shorter supply chains. Moreover, the shortfall of farmers has decreased and new positions in the agricultural fields are open. It is a first step towards the recognition of the importance of farmers who must receive decent wages in line with food democracy characteristics.

Covid-19 crisis has highlighted the centralization of the agri-food system that leads to uncertainty and insecurity. In this scenario, it is important to introduce a decentralised system through food democracy, which provides the possibility to redesign the food supply chain and focus mostly on the sustainability of local and regional production, creating a direct connection between retailers and local farms. There would be different sustainable types of farming activities and models of production, distribution, and retailing, which can be adapted to people with different income backgrounds (Petentin, 2020).

It is not certain that these conditions will be followed once the pandemic is over, therefore financial agricultural support needs must be considered to help small family farms in their role of local producers. Farms are very important in the local economy, as SMEs: they can establish and improve business and economic operations, but also provide local employment. The development of cooperatives could help them improve their financial situation and strengthen the agri-food system (Petentin, 2020). Furthermore, small family farms are generally located in the countryside and they tend to be environmentally friendly, generating

biodiversity and using alternative agricultural practices (Brush, 2007), like agroforestry and agroecology (Petentin *et al.*, 2018).

Another important step to take would be the integration of agricultural policies, since today they are formulated at a local level (Sustain, 2018). A similar approach has already been taken by the European Union with *The European Green Deal* that includes a “Farm to Fork Strategy”, whose aim is increasing sustainability by providing more nutritious food (EC, 2019). But the pandemic has shown how policies that combine both agricultural and food aspects are required, and they should be adopted by a large community (Petentin, 2020).

In particular, food democracy is working to provide a multilevel food governance that everyone should follow after the pandemic: many different actors are involved in both design and delivery of future food systems (Petentin, 2020).

4.5 THE FUTURE OF WORK IN THE AGRI-FOOD SECTOR

Agriculture has always been a source of employment and economic multipliers, thus reducing poverty and improving economic development (World Bank, 2007; Townsend *et al.*, 2017). The agri-food system (AFS) is, indeed, a major employer, especially in the poorest countries of the world (Abdelaziz *et al.*, 2020), while it has registered a drop of -10% in richest countries due to the fact that here the workforce has shifted out of the AFS. In fact, the introduction of digital

technologies is favouring automation of labour-intensive agricultural tasks, and Covid-19 is reinforcing these trends (Christiaensen *et al.*, 2020).

With the change in demand explained in paragraph 4.4, there is the need to introduce new agricultural-related jobs, especially for food processing and services. At the same time, jobs in farms become more remunerative and competitive than jobs off farms (IFPRI, 2020). Also, the technological advancements of the 21st century are influencing structural and agricultural transformation worldwide: the global organisation of the food system, labor and skills demand have changed a lot; transaction costs have been reduced and the optimal labour/capital mix in the agricultural production has been modified. In this context, societies pass from a surplus to a deficit of domestic farm labour; food prices drop as productivity increases; inefficient land markets slow farm consolidation; social protection for the employers is limited. As a result, domestic workers shift from the primary to secondary and tertiary sector (Christiaensen *et al.*, 2020).

All these characteristics explain the socioeconomic backdrop against which the future of work in the AFS across countries is revealed and is certainly affected by Covid-19 pandemic: income growth has already decreased, influencing the slowdown of structural and agricultural transformation. In the future, it will reinforce the trends of automation in AFS and it will decrease trust in agricultural

labour migration and trade, causing a new wave of protectionism (Siche, 2020; Richards and Rickard, 2020; Gruszczynski, 2020).

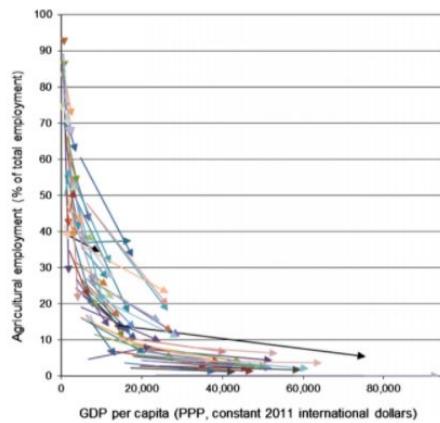
It is important to understand how countries will respond to this situation to understand which shape AFS will take in the future. For a possible solution, a policy and a business environment that support an inclusive food supply chain will play a crucial role. Possible solutions come also from quality education to the rural population, including the use of digital technologies, so that the agricultural workforce can get the maximum benefit (Christiaensen *et al.*, 2020). Moreover, an adequate social protection system must be introduced to prevent agricultural policy distortion and problems arising from labour transition. With regard to this, the dissociation of social protection from employment can be an initial step to take (Packard *et al.*, 2019): a massive expansion of social protection worldwide to stop Covid-19 consequences is needed, especially through cash transfers (Christiaensen *et al.*, 2020). Solutions must be taken primarily in the following directions.

4.5.1 From surplus to deficit of agricultural workforce

In poorer countries, on-farm works will continue being a primary source of employment as there is high population growth (Christiaensen and Brooks, 2019; ILOSTAT, 2020). So, the quality of farmers' jobs must be improved to facilitate

the transition out of agriculture. In middle income countries, instead, the number of agricultural workers has decreased over time (Fuglie *et al.*, 2020).

Figure 14: Proportion of Countries' Workforce Employed in Agriculture vs. GDP per Capita.



Note: The beginning of each arrow represents each country's position in 1991, and the arrowheads show where they wound up in 2017. Both the positions of the arrows and the fact that nearly every country arrow points to the southeast indicate that as countries get richer, the workforce becomes less reliant upon agriculture.

Source: The data used in this figure were retrieved from The World Bank Group (<https://data.worldbank.org>).

Agricultural productivity will continue rising as well, even if it is understated, especially in developed countries (Fuglie *et al.*, 2020). In fact, if micro-data is considered, it can be proved that agricultural productivity is not lower than those of other sectors (Gollin *et al.*, 2014; Hicks *et al.*, 2017; McCullough, 2017). The misunderstanding may arise from the underemployment, which is connected with the seasonal nature of agricultural production (de Janvry *et al.*, 2018) and this

could be overcome by developing complementary activities during slack season, like double cropping or using a mixed farming system (de Gorter *et al.*, 2015). In this way, poverty can be reduced (Christiaensen and Martin, 2018), and agricultural productivity increased thanks to improvement of employers' conditions.

Moreover, people are improving their consumptions approaches, by transforming eating in an *experience* (Swinnen *et al.*, 2012): as a result, societies depend more on the AFS, which will provide new job opportunities related to food processing, marketing, logistics, food retails and services (Christiaensen *et al.*, 2020).

Covid-19 pandemic has affected many SMEs and it could jeopardize the beneficial effects abovementioned. To respond to the transformation of food markets, AFS has boomed mostly in developed countries and it operates in dense networks of food processing SMEs and in many retailers in public wholesale and wet markets (Reardon *et al.*, 2020). This concentration has been changed by national lockdowns and other restrictions that have contributed to disrupting the food supply chain (Christiaensen *et al.*, 2020).

Also socio-demographic changes play an important role: the decrease of fertility rates, the rise of rural school levels and the increase of women participation in agricultural workforce are stimulating the diversification of labour in non-farm jobs (Liu *et al.*, 2020).

To deal with farm labour shortages, there are four strategies described by Martin (2017) that can be adopted.

1. *Satisfy*. Farmers can satisfy existing workers by providing them better employment conditions and wages.
2. *Stretch*. They can stretch employers by increasing labour productivity, introducing technological tools.
3. *Substitute*. They can substitute the workforce and/or rely on food imports rather than on local production.
4. *Supplement*. They can supplement the existing laborers with foreign workers.

These four strategies can be adopted by countries with different degrees, but they all consider the same key points to create a global model of the AFS and an international policy (Christiaensen *et al.*, 2020).

4.5.2 Technology as a factor of enhancement of productivity

Research and Development (R&D) has been used to find more labour-saving solutions for more difficult agricultural activities (Vougioukas and Fountas, 2019): the data collected can create new possibilities to increase efficiency in agri-food firms. This can provide many positive outcomes, like introducing more environmentally friendly operations, thus reducing adverse impacts on food production; reduction in the usage of inputs and labour; and promoting the

production of healthier goods. Many of these solutions are already in progress (Charlton *et al.*, 2019). Adopting technological tools can increase the agricultural productivity and, at the same time, the income of laborers (Adu-Baffour *et al.*, 2019; Hassan and Kornher, 2019). To expand food supplies it is important to understand how labour productivity can be increased by technological change, so employers must be trained correctly to get efficient results, throughout the entire food supply chain (Takahashi *et al.*, 2020).

In this context, Covid-19 can represent a way to accelerate the digitalization of AFS, by helping workers worldwide to acquire the right skills and become more efficient, thus improving the participation in modern markets (FAO, 2020). Since the cost of *productive use leveraging solar energy (PULSE)* is decreasing and new payment models are being introduced, there are two main policies described by Christiaensen *et al.* (2020) that can be adopted in order to get more efficiency through this technology:

1. become financially sound, through government subsidies and recovery tariffs;
2. have regulations that specify the conditions.

Many initiatives are being already taken on both fronts (Banerjee *et al.*, 2017; Tenenbaum *et al.*, 2014; World Bank, 2020).

4.5.3 Solutions provided by migration and help

The transition out of agricultural work is generally linked to an inflow of migrant workers, who replace native workers who do not want to be employed in the agricultural field (Taylor *et al.*, 2012). Covid-19 pandemic has caused a relax of mobility restrictions for agricultural laborers to save the food production worldwide, regularizing undocumented migrant workers (Beatty *et al.*, 2020; Cortignani *et al.*, 2020; Haley *et al.*, 2020; Ramiro, 2020; Santa Fe Relocation, 2020; USCIS, 2020).

The World Bank forecasts a decrease in remittances due to lockdown measures and this could prevent migration (Bisong *et al.*, 2020) and increase poverty. So, to reduce reliance on immigrant farm labour, countries may decide to import labour-intensive crops from countries with lower wages. But it should be considered that consumers' willingness to pay for local and more genuine products keep increasing and this may pose a limit to the reliance on food imports to the farm labour product (Christiaensen *et al.*, 2020).

4.5.4 Ways forward in lower- and middle-income countries

Everywhere the structural transformation is linked to economic development, so the policies suggested should be adapted to the stage of development of each country and on social and institutional regulations. Something should be common at a global level: these policies must increase agricultural labour productivity,

reducing poverty and mitigating the social-adjustments costs of this transition (Christiaensen *et al.*, 2020).

Christiaensen *et al.* (2020) underlined three implications related to this policy.

1. The investment aimed at enhancing the productivity in the agricultural sector must accelerate in lower-income countries with the increase in population and the movement of laborers off the farm.

2. It is crucial to develop systems to monitor and enforce quality standards in the agri-food system. On one side, the agricultural ministries must act in this direction; on the other side, more experiments must be carried out. In the meantime, supportive operations for SMEs must be introduced due to the reduction of liquidity provoked by Covid-19.

3. To raise agricultural labour productivity, it is essential to invest in people, so that they can have access to new jobs and meet their aspiration in the AFS. So, it will be necessary to increase the quality of rural education, facilitate the adoption of technology and occupational mobility, and reduce inequalities related to wages.

4.5.5 Ways forward in higher income countries

In high-income countries the policy implications are more immediate. Farmers will be asked to produce high quality food products to be traded to an international market, and they will be asked to do so by following environmental

and social welfare standards. They will have to do so with a lower number of workers, since the transition off farm of laborers is higher in these countries. Even in this case, Christiaensen *et al.* (2020) proposes three key policy implications.

1. Farmers will have to contract new workers from abroad, especially now that Covid-19 has exposed the AFS to the dependence on immigrant labour.
2. Technological change must be increased over and over to support the food supply chain, because in this way the reduction of the number of workers can be felt less. Of course, a complete automatization may become a danger for these countries so policymakers must adopt adequate policies to still be competitive worldwide (Carolan, 2020).
3. With the increase of technological tools used in the supply chain, it is crucial to have high skilled labour who know how to use them properly. The more technological agricultural workforce of the future will be younger and with a better education. As Packard *et al.* (2019) states, it is important to decoupling social insurance from employment: Covid-19 has shown how we need a better food system resilience, which can be generated with food trade diversification rather than protectionism. In this scenario, it is important to highlight that without social insurance, the evolution in the agricultural workforce will necessarily raise inequality and anti-trade conditions, even and especially in the agri-food sector.

CHAPTER 5

THE EVOLUTION OF THE AGRI-FOOD SECTOR IN ITALY AND THE IMPACT OF COVID-19 PANDEMIC

5.1 RESEARCH METHODOLOGY

The following research is the outcome of an empirical analysis that has a twofold aim. On one side, the structure of the Italian agro-food sector, in terms of number of firms and evolution over the medium-long-term, was analysed. The purpose was to understand how the sector changed in the last twenty years, also by considering its international openness, in order to make statements about the current situation and provide economic forecasts. On the other side, a study on the effects that Covid-19 pandemic, with all the governments' restrictions, had on the agro-food sector, was carried out by highlighting the repercussions on the import-export activities, prices, and costs.

The empirical research was carried out from October 2020 and January 2021 and it is based on data obtained from ISTAT and ISMEA databases.

A twofold analysis was carried out simultaneously. The first analysis is made upon data about the number of agri-food firms, especially SMEs, for the years

2000 and 2010 to see the evolution of the sector in the first decade of the 21st century; and for the period 2010-2018 to analyse the structural evolution in the second decade, also by considering Italian macro-regions concentration. In addition, the performance of these firms, in terms of value added and production, was analysed in the period 2010-2017. Moreover, data about import-export of agri-food products were analysed, with a focus in the same time period to have a general overview of the situation of Italian agri-food industry.

The second analysis is made upon data collected from 2019 to 2020, on a quarterly basis, to investigate Covid-19 effects on Italian international operations, on the prices of its agri-food products and the costs sustained in the sector. Moreover, a focus on four Italian agricultural sectors was made in order to see which were the effects on the economic crisis on one of the main sources of profit of Italian economy.

Data were collected to answer to the following research questions:

RQ1: which is the structural evolution of the agro-food sector from 2000 to 2020?

RQ2: has Covid-19 pandemic had repercussions on the agri-food sector? If so, with which intensity and to which extent?

5.2 THE STRUCTURAL EVOLUTION OF THE AGRO-FOOD SECTOR IN ITALY

An analysis of the structural evolution of the agri-food sector is essential to understand how the industry changed in the last 20 years, in terms of numerosity of firms and value added. Moreover, it is interesting to understand how global activities of the sector changed over the last two decades, in order to judge if Italian SMEs are exploiting strategically their internationalization resources or not.

Table 2: Comparison between the numerosity of Italian agro-food firms in 2000 and 2010 (million).

Years	Nº of Italian agro-food firms (million)
2000	2.40 Million
2010	1.62 Million

Note: Data related to the decade were not available so a comparison between the two years was made).
Source: Istat.

From the empirical research, as showed in Table 2, it emerges that the total number of Italian agricultural firms decreased between 2000 and 2010 by -32.36%. In 2000 there were 2.4 million of agricultural firms, while in 2010 the number decreased to 1.6 million. This decrease was uniform in all Italian regions, even if it hit mostly SMEs, which are firms covering less than 30 hectares.

As Table 3 shows, the numerosity of firms continued decreasing even more in the second decade of the 21st century, especially in the period between 2011 and 2017, passing from 1.62 million to 1.49 million firms. It is interesting to notice that the number of agricultural companies decreased in a quite homogeneous way throughout the country, but in the centre and north Italy the total number of firms was lower than the one registered in the south. A possible explanation to this phenomenon can be the fact that firms working especially in the food industry, started specialising and created territorial concentration in agri-food districts. In fact, there is a highest concentration of these firms in northern Italy compared to those located in the south.

Table 3: Numerosity of Italian agricultural firms divided by macro-regions from 2011 to 2017.

Years/ Macro-regions	North	Center	South	Italy
2011	397.1 K	252.0 K	971.7 K	1.62 Million
2012	396.8 K	251.8 K	969.7 K	1.62 Million
2013	365.3 K	236.4 K	914.6 K	1.52 Million
2014	397.1 K	252.0 K	971.8 K	1.62 Million
2015	381.4 K	245.1 K	947.1 K	1.57 Million
2016	379.5 K	240.3 K	892.2 K	1.51 Million
2017	378.1 K	236.4 K	874.5 K	1.49 Million

Dataset: Economic performance of agricultural holding – Number of agricultural firms.
Source: Istat.

Comparing the number of agricultural firms, with a focus on the food and beverage industry, to the total number of manufacturing firms in Italy between

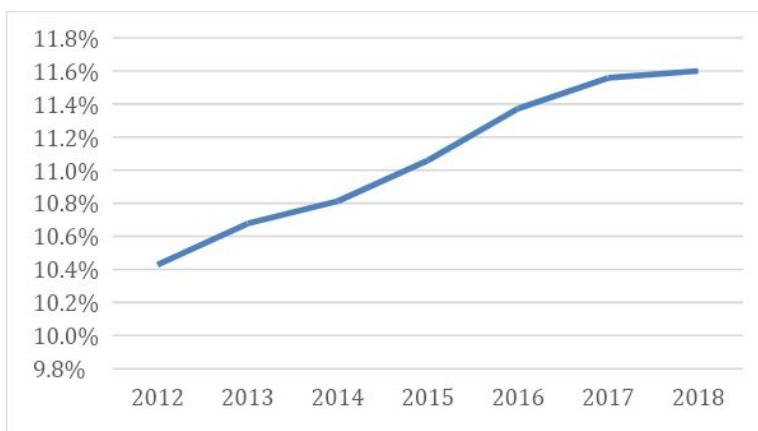
2012 and 2018, it can be stated that it represented a share of 10.43% in 2012 (see Table 4). This share continued increasing in a proportional way over the decade reaching 11.60% in 2018, which explains the increasing relevance that the agricultural sector acquired in the Italian economy over the years (see Figure 15).

Table 4: Comparison between the total number of Italian SMEs and Italian food and beverage SMEs from 2012 to 2018.

Years	Total n° of Italian SMEs	N° of Italian food and beverage SMEs
2012	209,120	7,379
2013	201,849	7,272
2014	196,848	7,216
2015	197,588	7,328
2016	206,254	7,688
2017	213,910	7,875
2018	219,723	7,997

Dataset: Statistical Register of Active Enterprises. Data were collected for firms having 10-249 employees.
Source: Istat.

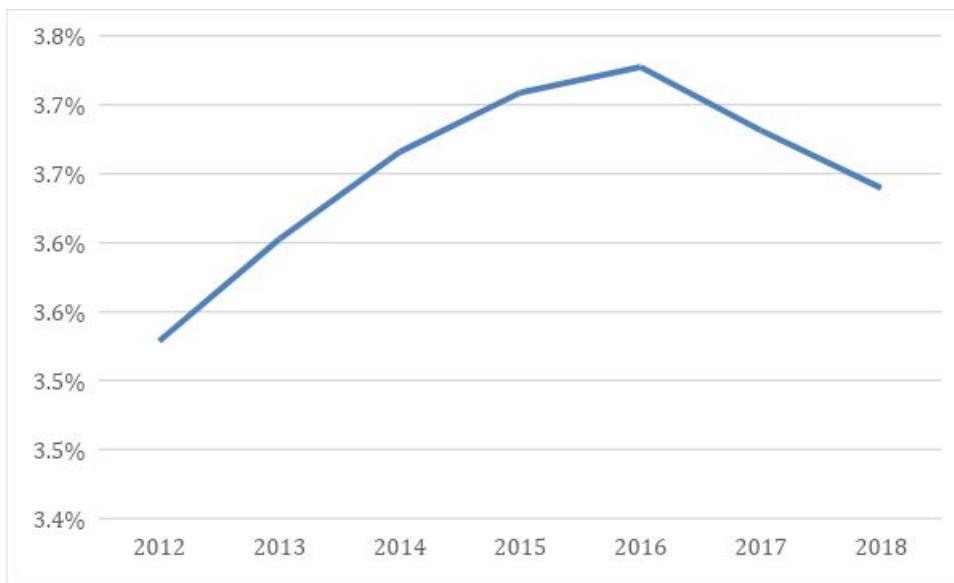
Figure 15: Share of food and beverage firms on manufacturing firms (2012-2018).



Source: Istat.

For what concerns SMEs, it can be stated that food and beverage SMEs represented the 3.53% of total Italian SMEs in 2012 and this share continued increasing until 2016 when it reached the peak of 3.73%. Then it decreased again reaching 3.64% in 2018 (see Figure 16).

Figure 16: Share of food and beverage SMEs on total Italian SMEs (2012-2018).



Source: Istat.

5.2.1 The economic performance of agricultural firms in Italian macro-regions

The economic performance of agricultural firms, in terms of production and value added, in Italy was not very homogeneous in the last decade. In fact, by

considering the three main Italian macro-regions, different outcomes can be highlighted. First of all, the macro regions are divided in the following way:

1. *north-Italy*: Piedmont, Aosta Valley, Liguria, Lombardy, Trentino Alto Adige / Südtirol, Bolzano / Bozen, Trento, Veneto, Friuli-Venezia Giulia, Emilia-Romagna;
2. *center*: Tuscany, Umbria, Marche, Lazio;
3. *south-Italy*: Abruzzo, Molise, Campania, Apulia, Basilicata, Calabria, Sicily, Sardinia.

The production of agricultural products in Italy - valued in million EUR - registered a decrease from 2011 to 2017. As it highlighted in Table 5, it ranged EUR 41.6 million at the beginning of the decade, showing a slightly increase over the next five months and reaching its peak in 2014 with an overall production of EUR 46.3 million. Then, it started decreasing losing almost EUR 8 million in 2016 but it recovered from 2017 on.

The majority of the production of agri-food products relies on firms located in the north of the country, and this can be an effect of the better efficiency that this firms can achieve compared to those of the south. Nonetheless, southern companies register a production valued almost EUR 18 million, which is not so much lower than that registered in the north. The “worst” results are achieved in

the center of the country, where the overall production decreased a lot through the decade by reaching EUR 4.7 million in 2017.

Table 5: Production of agri-food products (in EUR million) in Italy divided by macro-regions. Data from 2011 to 2017.

Years/Macroregions	North	Center	South	Italy
2011	20.4 Million	7.8 Million	13.3 Million	41.6 Million
2012	22.2 Million	5.5 Million	14.9 Million	42.6 Million
2013	23.3 Million	5.4 Million	15.2 Million	43.9 Million
2014	22.1 Million	6.9 Million	17.2 Million	46.3 Million
2015	22.6 Million	5.3 Million	17.6 Million	45.4 Million
2016	20.4 Million	5.5 Million	13 Million	38.8 Million
2017	22.1 Million	4.7 Million	14.1 Million	40.9 Million

Dataset: Economic performance of agricultural holdings – Production in EUR million.

Source: Istat.

In terms of value added, as depicted in Table 6, at the national level there was an increase from EUR 23.3 million in 2011 to EUR 24 million in 2017, with the highest value reached in 2014 amounting to EUR 26.3 million. By focusing on the macro-regions, we can find a similar situation to the one related to the production of agri-food products. In fact, the highest value added was registered in the north of the country, which could be considered as an indicator of the greater performance of its firms. Also companies located in the south performed in a very good way and in some cases they almost reached the same value added generated in the north, like in 2014. The center reached a value added of EUR 2.8 million in

2017, which is quite low compared to the other macro-regions and can be considered as an indicator of bad performance of its agricultural firms.

Table 6: Value added of agri-food products (in EUR million) in Italy divided by macro-regions. Data from 2011 to 2017.

Years/Macro-region s	North	Center	South	Italy
2011	10.7 Million	4.3 Million	8.4 Million	23.3 Million
2012	11.3 Million	3.1 Million	9.2 Million	23.8 Million
2013	12.2 Million	3.1 Million	9.6 Million	24.9 Million
2014	11.6 Million	3.6 Million	11.1 Million	26.3 Million
2015	12.1 Million	2.8 Million	10.9 Million	25.8 Million
2016	12.3 Million	3.2 Million	8.2 Million	23.6 Million
2017	12.1 Million	2.8 Million	9.1 Million	24 Million

Dataset: Economic performance of agricultural holdings – Value added in EUR million.
Source: Istat.

5.2.2 Import-export activities of Italian agri-food products

Analysing the trend of import-export activities of Italian firms in the agri-food sector may be a proxy of their level of internationalization and their propensity to operate in the global market.

Table 7: Comparison between Import/Export operations of Italian agro-food firms, in terms of quantity produced (tons) and value added (EUR million), in 2000 and 2010.

Years	Export of agri-food products (tons)	Import of agri-food products (tons)	Export of agri-food products (EUR)	Import of agri-food products (EUR)
2000	22.20 Million	27.38 Million	16.60 Million	22.83 Million
2010	26.55 Million	37.40 Million	27.70 Million	35.01 Million

Dataset: Foreign trade on annual cumulated period.
Source: ISMEA Mercati.

Table 7 shows the comparison between export and import operations in 2000 and 2010. At the beginning of the century, the export of agri-food products in Italy, in terms of value added (EUR million) and quantity produced (tons) amounted, respectively, to EUR 16.6 million and 22.2 million tons. These numbers increased a lot during the first decade, reaching EUR 27.7 million of value added and 26.5 million tons in 2010. Indeed, there was an increase of +66.84% of the value and +19.58% of the quantity produced.

For the import of agri-food products there is a similar situation. In fact, in 2010 Italy imported agri-food products valued EUR 22.8 million and a quantity of 27.4 million tons. The share of imported goods increased over the decade by +53.33% in value added and +36.59% in quantity, reaching EUR 35 million and 37.4 million tons in 2010.

Table 8: Comparison between Import/Export operations of Italian agro-food firms, in terms of quantity produced (tons) and value added (EUR million), in 2000 and 2010.

Years	Export of agri-food products (EUR)	Import of agri-food products (EUR)	Export of agri-food products (tons)	Import of agri-food products (tons)
2011	30.0 Million	38.3 Million	26.2 Million	37.7 Million
2012	31.7 Million	37.8 Million	27.7 Million	35.3 Million
2013	33.2 Million	38.8 Million	29.7 Million	37.1 Million
2014	34.2 Million	39.9 Million	22.2 Million	41.0 Million
2015	36.8 Million	41.1 Million	29.0 Million	39.7 Million
2016	38.4 Million	41.6 Million	30.9 Million	41.0 Million
2017	41.3 Million	43.5 Million	26.6 Million	41.8 Million

Dataset: Foreign trade on annual cumulated period for export-value, export-quantity, import-value, import-quantity.

Source: ISMEA Mercati.

During the next decade, especially in the period 2011-2017, Italy increased its trade activities with foreign countries, both for import and export. As shown in Table 8, export increased from EUR 30 million to EUR 41.3 million, following a quite stable path. The share of import increased even more, passing from EUR 38.3 million in 2011 to EUR 43.5 million in 2017, and even in this case there was a constant increase.

For what concerns the quantity, the outcome was quite similar to the previous one when referring to the import. In fact, the quantity of imported agri-food products passed from 37.7 million tons in 2011 to 41.8 million tons in 2017, recording some decreases over the entire period (especially in 2012). In the case of exported good, the situation remained quite neutral: the quantity passed from 26.2 million tons to 26.6, registering the highest increase in 2016 when the quantity of agri-food export amounted to 30.9 million tons.

From the data abovementioned, it emerges that Italy imported more agri-food products rather than exporting them abroad: in fact, the quantity of imported products represented almost $\frac{3}{4}$ of the total. Nonetheless, the share of exported goods increased more over the decade than that related to imported goods: this could be due to the fact that Italian agri-food firms boosted their international activities, especially by exporting their products.

5.2.3 Prices and costs of agri-food products in Italy

For the analysis of the evolution of prices of agri-food products it was taken into account the price index, used as the “*index number measuring changes over time in the prices of products manufactured by industrial companies resident in Italy and sold directly on the Italian and foreign markets*” (Istat.it).

Since the annual price index of agri-food products sold in 2000 and 2010 was 99.99, a comparison between the quarters was carried out.

Figure 17: Comparison between Average Consumer Price Index in Italy 2000 and 2010 on quarterly basis.



Dataset: Prices of agricultural products.
Source: Istat.

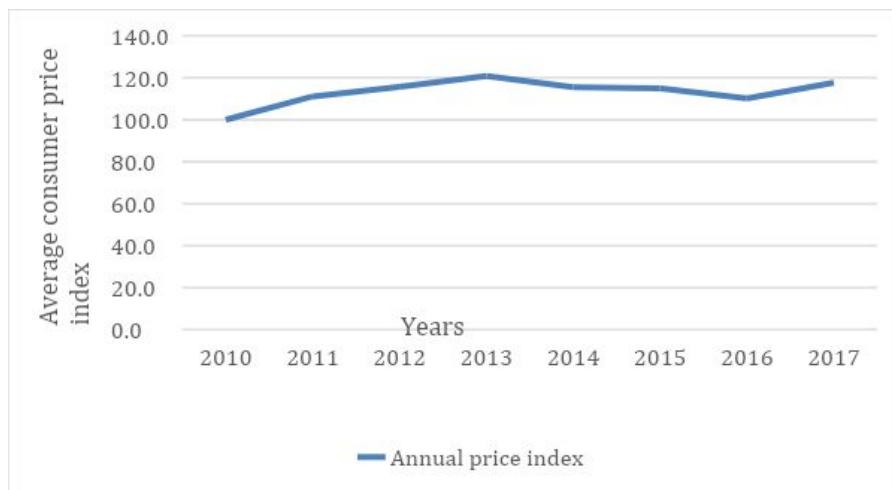
As Figure 17 demonstrates, the price index of both years follows a similar trend.

In the second quarter of 2010 there was a decrease of -2.24% compared to the

second quarter of 2000, while in the fourth quarter the price index registered an increase of +2.09%. So, it can be stated that prices of agri-food products increased in the first decade of the 21st century.

In the next decade, especially from 2010 to 2017, the evolution of prices was quite stable, showing a constant increase until the average consumer price index amounted to 117.60, as it is highlighted in Figure 4.

Figure 18: Trend of prices of agro-food products in Italy (2010-2017).



Source: Istat.

For what concerns the costs, the average price index of products purchased by farmers and used as inputs was considered.

Even in this case, costs in 2000 and 2010 follow a similar trend, which is quite linear.

Table 9: Price index of products purchased by farmers in 2000 and 2010, on a quarterly basis.

Quarters	Q1	Q2	Q3	Q4	Annual
Input price index 2010	129	129	130	133	130
Input price index 2000	98	99	101	102	100

Dataset: Prices of agricultural products. Indices of prices of products purchased by farmers.

Source: Istat.

As it is shown in Table 9, over the decade the price index of products purchased by farmers increased by +30.33%, following a constant increasing path during the quarters.

The trend of the second decade (2010-2016) of the 21st century was not so linear.

The price index followed a constant increasing path until 2013, reaching 111.30, which is the highest point in the entire trend. Then, it stabilised and started decreasing from 2014 on, amounting to 105.08 in 2016.

Figure 19: Trend of total input price index from 2010 to 2016.



Dataset: Prices of agricultural products. Indices of prices of products purchased by farmers.

Source: Istat.

5.2.4 A focus on the principal agri-food sectors in Italy

The agri-food industry is composed of many sectors, but some of them are considered more important than others in Italy because they contribute to sustain the entire industry. Four sectors were studied in terms of trade activities, prices of their products and costs sustained, and these comprise fruit and vegetables, wine, olive oil and cereals.

Table 10: Comparison of the four main agro-food sectors in Italy in terms of value of export (EUR million) from 2011 to 2017.

	Value of Export in EUR million						
	2011	2012	2013	2014	2015	2016	2017
Fruit and vegetables	6.8 Million	7.0 Million	7.0 Million	7.1 Million	7.4 Million	7.6 Million	7.8 Million
Wine	4.4 Million	4.7 Million	5.0 Million	5.1 Million	5.4 Million	5.6 Million	6.0 Million
Olive oil	1.6 Million	1.7 Million	1.8 Million	1.8 Million	1.9 Million	2.1 Million	2.1 Million
Cereals and rice	4.5 Million	4.6 Million	4.8 Million	5.1 Million	5.7 Million	5.7 Million	6.0 Million

Dataset: Foreign trade on annual cumulated period for export-value.

Source: ISMEA Mercati.

As shown in Table 10, there was an increase of the value of exported products over the period 2011-2017. The most important results were achieved in the fruit and vegetables sector whose value registered a constant increase over the years, amounting almost to EUR 8 million. Also the sectors of wine and cereals seem to perform well and we can suppose that the export of these products is very effective abroad. For what concerns olive oil, the outcome is less clamorous: even

if it registered an increase of the value over the years, it reached EUR 2 million which is quite low compared to the results obtained from the other sectors.

Table 11: Comparison of the four main agro-food sectors in Italy in terms of value of import (EUR million) from 2011 to 2017.

	Value of Import in EUR million						
	2011	2012	2013	2014	2015	2016	2017
Fruit and vegetables	4.8 Million	4.7 Million	5.1 Million	5.3 Million	6.1 Million	6.0 Million	6.2 Million
Wine	0.3 Million	0.3 Million	0.3 Million	0.3 Million	0.3 Million	0.3 Million	0.3 Million
Olive oil	2.9 Million	2.8 Million	3.0 Million	3.5 Million	3.8 Million	3.7 Million	4.0 Million
Cereals and rice	4.4 Million	4.0 Million	4.3 Million	4.6 Million	4.5 Million	4.5 Million	4.7 Million

Dataset: Foreign trade on annual cumulated period for import-value.

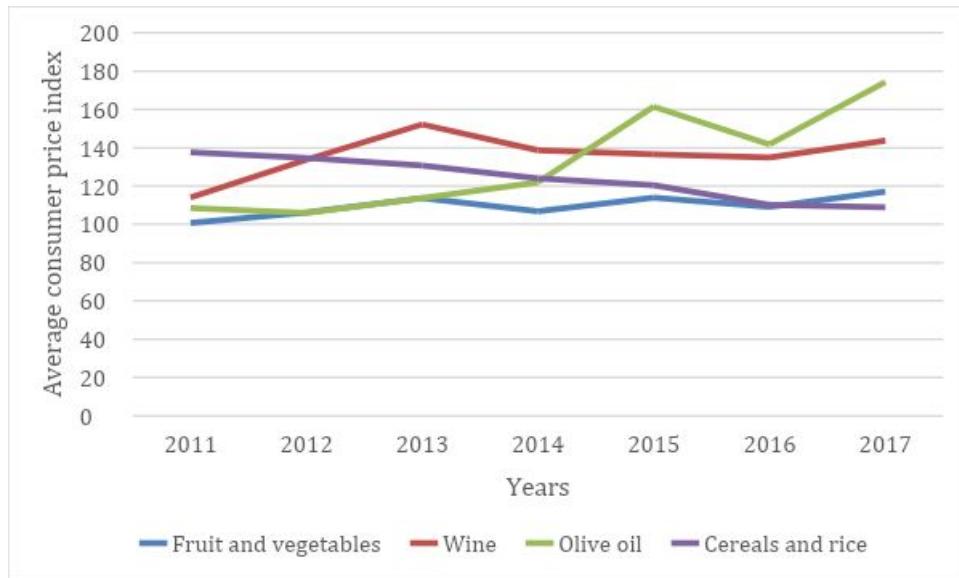
Source: ISMEA Mercati.

For what concerns the imported goods (see Table 11), fruit and vegetables represent the sector that registered the highest value, passing from EUR 4.8 million in 2011 to EUR 6.2 million in 2017. Also the value of imported olive oil and cereals was quite high, amounting respectively to EUR 4 and 4.7 million at the end of the period considered. Moreover, it would be interesting to highlight that the value of imported olive oil (4 million) is almost the double of the value of the exported one (2.1 million), which could mean that the Italian agri-food sector is characterised by a higher amount of imported olive oil than the exported one. Another interesting point to underline is the value of imported wine that remain constant to EUR 0.3 million over the entire period. In this case, Italy performs

better in export activities related to the wine industry, maybe exploiting the *made in Italy* and the excellent quality of its wines.

The prices of products related to these sectors, as Figure 6 demonstrates, showed an average consumer price index quite stable over time, except for olive oil. In fact, in this case prices increased a lot in 2015 and 2017 because these were poor crop years. The prices of wine and fruit and vegetables increased little over the period considered, while prices of cereals registered a consistent decrease (the annual price index passed from 138 to 109).

Figure 20: Trend of Average Consumer Price Index in the four main Italian agri-food sectors from 2011 to 2017.



Note: Data were collected on a monthly basis and then the annual average of the price index was calculated.
Source: Istat.

5.3 THE IMPACT OF COVID-19 ON THE AGRI-FOOD SECTOR IN ITALY

The Covid-19 pandemic has had many repercussions on the global economy, as discussed in Chapter 4. It would be interesting to understand if the pandemic, along with all the restrictions that have been introduced to reduce the contagion, has had a positive or negative effect on the agri-food sector, which has been one of the sectors that have not stopped operating completely during the lockdowns.

5.3.1 Import-export activities of Italian agri-food products

Analysing the international operations of Italian agri-food firms in 2019 and 2020 (Table 11), it can be noted that the export of agri-food products increased by +2.64% (value) and +2.10% (quantity). On the contrary, the import of the same goods showed a decrease of -3.54% (value) and -2.32% (quantity).

Table 12: Comparison between import/export activities of Italian agri-food firms in 2019 and 2020.

Years	Export of agri-food products (tons)	Import of agri-food products (tons)	Export of agri-food products (EUR)	Import of agri-food products (EUR)
2019	18.6 Million	32.3 Million	32.6 Million	32.3 Million
2020	19.0 Million	31.6 Million	33.5 Million	31.2 Million

Dataset: Foreign trade on annual cumulated period for import-value, import-quantity, export-value and export-quantity.

Source: ISMEA Mercati.

To analyse the effect of COVID-19 it is interesting to focus on the first three quarters of 2019 and 2020 and compare the value of import-export activities of both years.

Table 13: Quarterly comparison of Italian import-export activities in terms of EUR million.

Quarters	Import - value (EUR)	Export - value (EUR)
Q1 2019	107.4 Million	116.2 Million
Q2 2019	109.2 Million	124 Million
Q3 2019	101.9 Million	115.7 Million
Q1 2020	100.5 Million	112.7 Million
Q2 2020	77.9 Million	88.7 Million
Q3 2020	90.6 Million	110 Million

Dataset: Imports and exports by country and goods Ateco 2007 on quarterly basis.

Source: Istat.

As illustrated in Table 13, the export activities registered a greater performance in terms of value added during the entire period analysed. It can be important to highlight that there was a general increase in the second quarter of 2019, where the export amounted to EUR 124 million and the import to EUR 109.2 million. In the second quarter of 2020 there was a tremendous decline, which registered EUR 77.9 million for the import and EUR 88.7 million for the export. Comparing the second quarter of 2020 and 2019, it can be highlighted that import activities decreased by -28.67%, while export activities decreased by -28.55%. This reduction of both export and import activities can be considered a consequence of the pandemic and the economic crisis. Nonetheless, starting from the third quarter

of 2020 there was a general increase in both activities, which could be seen as a small, gradual recovery.

The import and export activities follow more or less the same pattern in the first three quarters of 2019 and 2020, as it can be observed in Figure 7.

Figure 21: Quarterly import-export comparison in Italy (2019-2020).



Source: Istat.

5.3.2 Prices and costs of agri-food products in Italy

The Covid-19 pandemic seems to have had an impact also on the prices of agri-food products. In fact, comparing the average consumer price indexes in 2019 and 2020, especially referred to the first three quarters of both years, it can be seen that the trend is not linear (see Table 14).

Table 14: Agro-food annual price index (2019-2020).

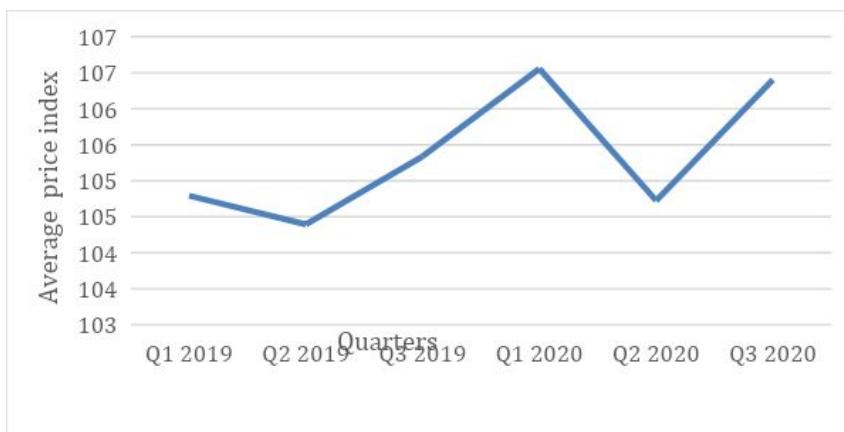
Quarters	Q1 2019	Q2 2019	Q3 2019	Q1 2020	Q2 2020	Q3 2020
Annual price index	105	104	105	107	105	106

Dataset: Prices of agricultural products on quarterly basis.

Source: Istat.

There was a decrease of the price index in the second quarters of both years, reaching 104 in 2019 and 105 in 2020. Then, the index increased again in the third quarters, and it reached its peak in the first quarter of 2020, which registered 107 and an increase of +1.68%. In general, in 2020 the price index showed a positive increase in percentage compared to the price index of 2019. The non-linear trend of the average price index of agri-food firms is illustrated in Figure 22.

Figure 22: Agro-food price index trend in 2019 and 2020.



Source: Istat.

For what concerns the costs, the comparison between the first three quarters of 2019 and 2020 (see Table 15) shows that in 2020 there was a decrease of the price of inputs purchased by farmers: the highest difference is found in the comparison between the second quarters, which registered a decrease of -2%.

Table 15: Agro-food annual price index of products purchased by farmers (2019-2020).

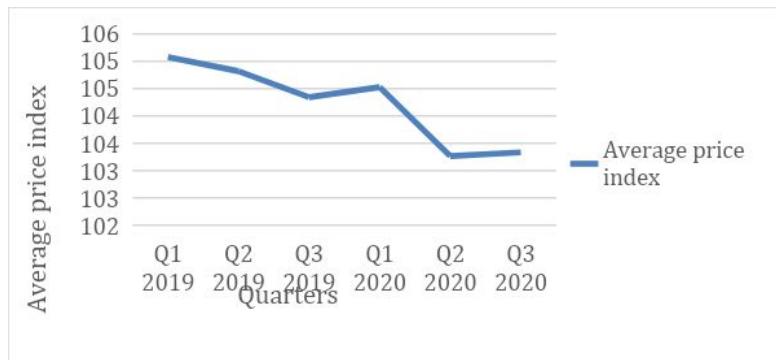
Quarters	Q1 2019	Q2 2019	Q3 2019	Q1 2020	Q2 2020	Q3 2020
Annual price index	105	105	104	105	103	103

Dataset: Prices of products purchased by farmers on quarterly basis.

Source: Istat.

The price index followed a decreasing path passing from 105 in the first quarter of 2019 to 103 at the end of the third quarter of 2020. As shown in Figure 9, the tremendous decline started in the second quarter of 2020, which corresponds to the period of the national lockdown and the change in consumer behaviour. So, it can be stated that Covid-19 has impacted negatively the costs sustained in the agri-food sector in terms of inputs purchased.

Figure 23: Agro-food price index trend in 2019 and 2020.



Source: Istat.

5.3.3 The impact of Covid-19 on some sectors of Italian agri-food industry: a focus

Four sectors (fruit and vegetables, wine, olive oil, cereals and rice) of the Italian agri-food sector were analysed to understand how the international operations related to them changed since Covid-19 pandemic hit the world.

As it is shown in Table 16, in both years the share of export is higher for all sectors except for the one related to olive oil. In terms of value, expressed in EUR million, the best results were achieved in the fruit and vegetables sector, where the share of export did not change very much, and in 2020 it increased. A slight increase was registered also for the export of cereals and rice, while in the wine sector there was a decrease of the value of exported goods. In terms of quantity,

registered in tons, the situation is quite similar: olive oil is the only sector which remained constant.

Table 16: Comparison between export and import activities in four main Italian agro-food sectors in terms of value (EUR million) and quantity (tons). 2019-2020.

	Value (EUR million)				Quantity (tons)			
	2019		2020		2019		2020	
	Import	Export	Import	Export	Import	Export	Import	Export
Fruit and vegetables	0.53 Million	0.70 Million	0.52 Million	0.75 Million	0.45 Million	0.61 Million	0.41 Million	0.62 Million
Wine	0.04 Million	0.59 Million	0.03 Million	0.56 Million	0.02 Million	0.20 Million	0.02 Million	0.19 Million
Olive oil	0.26 Million	0.16 Million	0.26 Million	0.16 Million	0.28 Million	0.07 Million	0.27 Million	0.07 Million
Cereals and rice	0.44 Million	0.62 Million	0.31 Million	0.63 Million	1.48 Million	0.47 Million	1.12 Million	0.45 Million

Note: Data were collected on an annual basis and they cover the period september 2019-september 2020.
Source: ISMEA Mercati.

For what concerns the imports, there was a decrease in all sectors in both value and quantity. The biggest turndown is referred to the cereals and rice sector which went from EUR 0.44 million to EUR 0.31 million of value and from 1.48 million tons to 1.12 million tons of quantity.

Generally, it can be stated that both import and export activities suffered because of the pandemic, that caused a decrease of value and quantity in all the sectors analysed, with a major impact on the import. Focusing on the cereals and wine sector, which is the most hit in terms of import, a decrease of -30.8% of value and

-24.2% of quantity was registered. Export operations were hit differently, in the case of fruit and vegetables there was an increase of +8.4% of value and +1.4% of quantity.

It is interesting to see how the average consumer price index changed in 2019 and 2020. From Table 17, it emerges that prices of fruit and vegetables started increasing from the first quarter of 2020, registering an increase of +9.4% in the third one. In the case of wine, prices remained unchanged in the first quarter while they increased in the second one by +1.3% and then decreased again. Comparing the prices of olive oil, an interesting thing arises: in fact, they registered a decrease of -11.9% since the first quarter of 2020, to reach -6.7% at the end of September 2020. Cereals and rice products registered the lowest consumer price index in 2019, and after the pandemic these prices increased notably, especially in the second quarter of 2020 (+5.4%).

Table 17: Comparison of average consumer price index of products related to four main Italian agri-food sector in 2019 and 2020.

	Fruit and vegetables		Wine		Olive oil		Cereals and rice	
Quarters	2019	2020	2019	2020	2019	2020	2019	2020
Q1	104.4	109.9	108.6	108.5	103.8	91.5	97.8	98.7
Q2	106.3	119.5	106.4	107.8	100.2	91.1	96.9	102.1
Q3	115.7	126.6	106.1	105.3	100.1	93.4	94.9	99.4

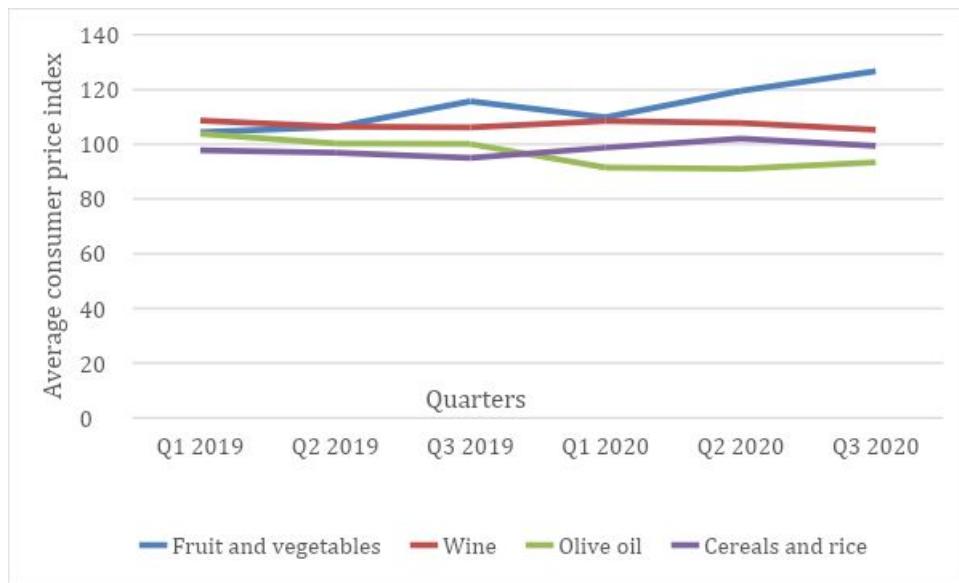
Dataset: Prices of agricultural products on a monthly basis. The average price index by quarters was calculated.

Source: Istat.

So, Covid-19 pandemic also hit prices of food products, even if in different ways.

Sometimes it made prices increase, like in the case of fruit and vegetables and cereals and rice; sometimes it provoked a decrease of the prices, like for the olive oil sector; sometimes it did not have a huge impact on the prices, like in the case of Italian wines. Figure 24 illustrates the trend of prices.

Figure 24: Trend of average consumer price index of main Italian agri-food products in the first three quarters of 2019 and 2020.



Source: Istat.

It would have been interesting to make an analysis on the effect that Covid-19 had also on the performance of the Italian macro-regions, but unfortunately data are not available yet.

5.4 CONCLUSIONS AND REMARKS

From the analysis carried out throughout the chapter, it is possible to draw out two main conclusions.

On one side, it is interesting to highlight how the agri-food sector has not changed enormously in the last 20 years. The substantial difference stands in the numerosity of firms: many agri-food firms are concentrated in specific areas of northern Italy rather than in the south. Nonetheless, the presence of agri-food SMEs, especially related to the food and beverage industry, appears to be homogeneous all over Italy and they represent 3% of manufacturing SMEs. The share of agricultural firms over the total number of enterprises in Italy is even higher, amounted to 11%. This means that the agri-food sector represents a good industry in Italy, providing good profits thanks to the good economic performance of these firms. Moreover, from the analysis it emerges that Italy performed better in import activities during the last twenty years, whose share represent almost $\frac{3}{4}$ of the total international operations. Nonetheless, the share of export increased in a faster way over the decade and this can be a consequence of the fact that Italian agri-food firms increased their international presence by exporting their products abroad. For what concerns the prices of agri-food products and the costs sustained in the sector, it can be stated that in the last 20 years there was a general increase of both indexes, especially for the price of olive oil, which was more imported than exported.

On the other side, it can be stated that Covid-19 pandemic had an impact on the agri-food sector, even if not in a negative way. In fact, in the second quarter of 2020 there was a decrease in import-export activities related to the sector, of prices, and costs. This might be related to the lockdown measurements introduced in March 2020 by the Italian government, which have changed substantially the lifestyle and eating habits of Italian people. Nonetheless, the decrease does not seem to be catastrophic, and import activities decreased more than the export ones, which could be considered as an effort to use local inputs from farmers. Covid-19 pandemic hit prices of food products in a heterogenous way. In fact, fruit and vegetables, and cereals and rice prices increased; olive oil prices decreased, and wine prices did not have any impact at all. The costs sustained by farmers decreased as well, due to the phenomenon of deflation linked to the pandemic. But the situation seems to improve from the third quarter of 2020: prices and costs started increasing again, and this could be a sign of a small recovery from the economic recession that hit the world economy in the last year.

Conclusions

The aim of the research carried out throughout the thesis is twofold: on one side, it was interesting to investigate how Chambers of Commerce support agri-food firms in the internationalization process and understand if there were structural changes in the industry; on the other side, it was important to analyse the impact that Covid-19 pandemic had on the sector and on the agri-food firms' internationalization activities.

There were two research questions: one related to the structural evolution of the agri-food sector from 2000 to 2020, and another one on the repercussions that Covid-19 had on the sector.

According to the results obtained, it can be stated that the structure of the agri-food sector did not change a lot over the past twenty years. The main difference relies on the numerosity of firms, in fact the number of agri-food SMEs decreased a lot, and this is due to the concentration in districts, especially in the Northern area of the country. Nonetheless, these firms seem to perform well, and they still represent a good industry for the Italian economic sector. For what concerns the internationalization strategies, the most adopted one is *export* since it is easier and less expensive to sell agri-food products abroad rather than establishing a firm in another country. In the last decade, import activities outperformed export ones, representing almost $\frac{3}{4}$ of the total global operations.

However, the share of export increased in a faster way providing good profits for the Italian economy, underlining the *made in Italy* and boosting the international presence of Italian agri-food firms abroad. Prices of agri-food products and the costs sustained for their production increased over the last twenty years, especially in some sectors like the one related to olive oil.

The Covid-19 pandemic hit the sector but not in a negative way. Comparing the shares of import/export activities, costs and prices of agri-food products in 2019 and 2020, it can be seen how only in the second quarter of 2020 there was a decrease of the shares of all the indicators. This was probably due to the national lockdown and government's restrictions, which changed Italian people lifestyle and eating habits. Especially import activities decreased and this can be seen as a positive outcome for the Italian economy since it pushed people to buy locally, improving the profits of local firms. Prices of agri-food products were affected in different ways: olive oil prices decreased; fruit and vegetables and cereals' prices increased notably; wine prices did not change at all.

Starting from the third quarter of 2020 there was a small recovery, but the repercussions on the economy of the next months cannot be predicted. In fact, with the second wave of the virus in October 2020 there were more national restrictions with local lockdowns. This could influence Italian people lifestyle and eating habits again and push them to consume less. So, even if the agri-food sector was hit in a less dramatic way compared to the other sectors, we cannot state

accurately if this situation will remain in this way in the future or not. Everything will depend on the trend of the pandemic and the impact it will have on both the economy and the society.

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