

The Italian Mezzogiorno: from a “National matter” to an “European opportunity”

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1 SOCIO-ECONOMIC AND POLITICAL CONTEXT OF THE ITALIAN MEZZOGIORNO

Southern Italy (or “Italian Mezzogiorno” as is even known the area including the regions of Abruzzo, Molise, Apulia, Campania, Basilicata, Calabria, Sicily and Sardinia) represents an area of 123,059 km² with 21 million people, which has always been under-developed.

Such an underdevelopment rendered the Mezzogiorno economically dependent on the central-northern Italy.

The obstacles to economic growth are well known and they are rooted in the historical and socio-cultural background of Southern Italy: public sector’s inefficiency, lack of infrastructures, problems of public order, State-dependence. All these factors couple with other structural aspects (among which: inadequate entrepreneurial culture, low innovation propensity, weak attractiveness towards foreign direct investments, insufficient promotion of internationalisation processes, feeble linkages with global markets and networks) seriously curbing the economic performance of the area.

The particular socio-economic fabric of such regions did not stimulate politicians, policy makers, institutions and local governments in adopting long term planning, vision building and foresight as tools to orientate their actions.

The first evidence of such an adverse context was the extreme fragmentation of social and political spectrum that ended in lower levels of collective identification with the local economy.

A second barrier to the success of institutional intervention was set by the lack of dynamism of local political forces and local administration.

While the North became a modern industrialized area, - with advanced techniques in the agricultural sector, run by an entrepreneurial human network - on the contrary the South remained an underdeveloped agriculture-based area where the only industrial projects of some significance were some big manufacturing complexes run by the Italian government, often built up while not taking into account convenience criteria.

It had been written by several authors that the origin of the persistence in the Mezzogiorno of backwardness was not only (or rather simply) due to the presence of economic barriers but to the existence of particular socio-economic conditions.

It had been stated even that in such a framework, the central state intervention joined with central (and local) political conditions had not simply been incapable of encouraging entrepreneurial initiative and economic activities, but even had ruinous effects on the local entrepreneurial fabric, reducing internal entrepreneurship to its minimum.

Political and institutional intervention in the Mezzogiorno were accompanied by the growth of the dependency of the society on the public sector and by social degradation. The deprived image of the southern Italy had been radicalised: the name Mezzogiorno was commonly associated with backwardness, clientelism and assisted economy. Such an image had been, on the one hand, determined by the national administration that (inspired by the prevalent academic thought) underlined the exceptionality of the problem and gave birth to the *Questione meridionale* that frustrated politicians and policy makers since the end of the Second World War, and on the other hand, sustained and radicalised by newspapers and other advertising media.

The excess of red tape has been another outcome of such a vicious system: excessive bureaucracy in the public administration had been interpreted by citizens as a barrier against self employment that was perceived as too risky. Moreover, the lack of institutional transparency rendered entrepreneurship even more less attractive.

Finally, the presence of strong criminal organizations in large areas of Mezzogiorno represented a definitive knock-out to every business initiative that could develop; that because of the racket and the lack of competition among firms, due to corruption phenomenons, which let firms linked to the criminal networks control contracts.

Until the end of the 80's really huge funds have always been provided by the Italian government to Mezzogiorno development, but they were always directed to no specifically aimed project and very rarely they tried to reach targets different from improving criminality's cash or carrying out useless works.

Obviously there were also some succeeding realities (mostly primary activities in particular productions of this region, and some industrial – more often craftmade – niche productions) emerging from such an awful picture but they were only little lights in a dark world.

It is only from the early '90s that new political and economic circumstances have contributed to the diffusion of strategic and forward planning processes, determining a “cultural” breakthrough in local politicians and other key actors..

The end of the special public support for the Mezzogiorno in the early 1990s – as a consequence of the completion of the Single European Market in 1992 - was followed by a substantial lack of legislative tools for the support of less favoured areas. Since then, the Italian

Southern regions as a whole have gone through a worsening of their economic fundamentals, particularly with regard to income growth and unemployment.

That was a big stroke to Mezzogiorno economy – unemployment increased rapidly to very high levels – but it also permitted renewals and changes into the economic system as well as doing it at a more general level, transforming itself into a renewal wind within society's cultural and people's expectations.

However, the economic and political panorama has sharply changed in the last 10 years, revealing the possibility of profound changes in the Mezzogiorno's economy and society which have created new opportunities for its development.

Italy has moved forward with broad reforms involving privatisation, market liberalisation and public sector modernisation. Over the past ten years, progress on improving the environment for business and on modernising the public administration has been rapid, broad and impressive.

The Italian economy of post-war years – interventionist, rigid and centralised – is step-by-step becoming market based, consumer-oriented and decentralised.

The vicious system described above has been in the last years disrupted as the result, on the one hand, of the implementation of a structural reforms in the Italian legislative system and, on the other hand, of the concrete and correct adoption of the reform of the structural funds introduced by the European Union.

It will be maintained that these two forces, the first determining the attribution of new, wider competencies to regions, the second fostering them in placing emphasis on multi-annual strategic planning and programming, are setting the base for the adoption of foreseeing methodologies, easing the diffusion of foresight in Mezzogiorno regions.

In the latest years, from the '90s onward, the modifications that occurred in development policies addressed to the Mezzogiorno have witnessed the decline of the top-down planning approach and the diffusion of bottom-up policies, focused on localities and local actors actual needs and qualities.

The institutional and political panorama is, consequently, extremely changed.

2 LATEST TRENDS IN THE MEZZOGIORNO ECONOMY

The Italian economy - as the Southern Italy's one – is living a difficult phase of economic growth.

The difficulty to export and the bending of the productive investments hamper the demand. The increase of the Gross Domestic Product (GDP) is still very below to the low growth rate of the productive potential.

According to the forecasts of the observatory Curella-Diste, the 2005 has been for Southern Italy the year of recession. For the Southern regions a 0,5% GDP reduction was verified (in the 2004 the GDP growth in the Italian Mezzogiorno had registered a +0,5% against a national +1,2%), so for the second consecutive year it has been a further increase of the economic gap between North and South. Yet, there was a drop of the occupation (0,5%) and an unemployment rate of 15%.

Positive features regard the agricultural sector that, also for 2005, it records a +2% against a national 10,3% of the 2004.

On other hand, the industries' features are absolutely negative (-2% for the third consecutive year).

Some positive note arrives for the export, that have shown in the South a +7,1% (Sardinia +15,4%, Abruzzo +12,5% and Apulia +11,1%), but counterbalanced by a 10,2% import increase, that has made to worsen the commercial balance of over 1,5 mlds Euro.

The occupation in the southern regions has recorded a 0,4% bending, against a 0,7% national increase. The rate of unemployment however is decreased (22% in 1999, 15% in 2004, with a -2,9% in Sicily and - 2,2% in Calabria).

The trend of the consumptions in the Southern Italy is static and moderate in all the regions, except of Sardinia and Abruzzo. Regarding the spending of the Southern Italian families – the principal component of consumption, in strong deceleration in 2001 and in stagnation in 2002 – it chalked up an increment of 0.9%.

It is clear the tendency for Italian exports to lose market shares that goes beyond the short-term trend of the world cycle, and which seems to a large extent due not only to the effects of the appreciation of the Euro, but also to a “weak” model of specialization in the sectors traditionally most exposed to the competition of the emerging economies of Asia and Central and Eastern Europe. During latest year, on the other hand, domestic demand maintained itself substantially stable, above all due to a recovery of the consumption dynamics, as yet relatively limited in magnitude, but nevertheless such as to compensate the worsening in the investment dynamics. Even if in the latest years the Italian economy has shown a weak indicators, Southern Italy's economy have less suffered than the whole country thanks to its low propensity towards foreign markets and the marginal role of the South as a location for foreign direct investment.

The lower efficiency doesn't depend so much on the poor use or on the misuse of productive elements, as much as on the incapacity of southern business enterprises to give life to increased profits. In fact, the southern enterprises occupy segments, market niches, that permit them to survive but not to develop. The lack of utilization of productive capacity results from a form of self-protection, with respect to unpredictable variabilities in the domestic and international markets.

The 2003 witnessed the end of the accumulation process that had enabled Southern Italy, starting from the second half of the 'nineties, to realize growth rates superior to those of the rest of the country and which, above all, had constituted one of the qualitatively most important aspects of the particular growth phase.

The 2003 results therefore highlight a change of tendency in the Southern regions. The change that has occurred in the international economic geography, with the coming onto the scene of new competitors, together with other events of an economic and political nature, such as the enlargement of the European Union, now configures itself more than was at first perceived as the opening of a truly new "historical phase", with a profound change of the conditions of development, especially for the weak areas. In this new situation the entire Italian productive system, and with even greater characterization that of Southern Italy appear destined to encounter growing competitive difficulties.

On the one hand, these difficulties are due to a specialization displaced towards various traditional sectors – more exposed to the competition of the emerging countries (China in primis) – and, on other hand, to a relatively modest average size of the Italian enterprises, which implies greater difficulties in facing the initial costs of an autonomous insertion in the foreign markets.

However some local firms are able to be successful despite their limited size and the higher competition which typically characterises mature products:

- by focusing on flexibility and adaptive ability in meeting the customers' and clients' expectations, as well as by focusing on niche products less exposed to competitiveness so as counter-balance manufacturing or marketing synergies;
- by supporting the change of comparative advantages over time and by renewing the competitive ones so as to start a real "dematuration" process of some products;
- by introducing product and process innovations which, in many cases enable to keep the qualitative differential with the foreign imitators unchanged;
- by compensating their low level of financial and human resources with agreements or joint ventures with foreign firms although in a subordinate position.

Another quite impressive feature of the Mezzogiorno has been the progressive decrease of the average firm size. This has involved all classes of dimension in spite of the opposite trend which

has instead characterised the rest of the Italian economy. Such a downsizing process has been, at least in part, the explanation underlying the newly observed higher returns of southern firms, which indeed are mainly due to the reduction of production scales, thus constraining the exploitation of increasing returns similar to those achieved in other Italian regions. Even in the case of the most dynamic exporters in the area, small and medium enterprises (SMEs) in the South are comparatively disadvantaged vis à vis small firms in the rest of the country. Although the importance of high-sized production units (as a result of the governmental economic policy of the past decades) is higher than in the rest of the country, low-sized enterprises are the main players of economic growth in Mezzogiorno as well as in the most of the Italian regions. However, for some years, new small industrial agglomerations are succeeding as alternative productive systems thanks to innovation and efficiency: clusters of firms are now also a reality in Mezzogiorno. They are local systems in which many SME's are linked to a main (bigger) firm representing the outflows for the entire area's production. Some renown clusters are the "living room district" between Apulia and Basilicata (couches, armchairs), shoe producers in Campania, high-tech industries near Naples, textiles in Apulia and Campania, ICT in Sicily.

Indeed, the competitiveness of SMEs in the Italian experience has been the highest where agglomeration economies have given rise to actual local systems – as is typically the case of the industrial districts located in the North and in the Centre - which represent the core of the "made in Italy" in terms of international performance. The effects of dynamic agglomeration economies - both at the level of firm (internal economies) and industry (external economies) – are likely to affect growth rates more than simple unit costs of production and have been recognized as central to enhance the efficiency and the growth of firms in the local system and their reaction to the rapid change brought about by the global competition. The substantial lack of such factors verified in the Italian Mezzogiorno is one of the most worrying aspects of the North-South gap, severely restraining SMEs' development in the area. While some Southern regions (or parts of them) have experienced a re-orientation of the export specialisation patterns towards higher value added sectors - such as machinery and equipment, motor-vehicles and other means of transport, textiles and clothing -, other provinces (mainly concentrated in Calabria, Sicily and Sardinia) have shown a strengthening of their specialisation in traditional and slow-growing sectors. Moreover, in terms of export dynamism, some areas have registered a strong increase in the ratio exports/value added (for example Abruzzo, Campania, Puglia), while others have shown a worrying stagnation (i.e. Sicily and Sardinia).

The emerging of all those new concrete economic elements were promoted by adopting new economic policies aimed to lower public transfers, to the administrative decentralization, to adopt investments evaluation instruments and to changes in territory conduction and monitoring. All these various measures, together with the support of EU funds, strongly contributed to create a more favourable economic environment in every Italian region, particularly in those from the South, where concessions were often larger.

To sum up, in a generally weak context, the economy of the Southern Italy is not growing: neither as much as it should to cover the gap that divides from the Centre-North (which in fact remains., and is of the order of about 40 percentage points), nor what was expected after the recovery signals of the mid-‘nineties.

In short, in the absence of a decided “change of direction”, the economy of Southern Italy does not seem capable responding to the challenges of a profoundly changed economic geography.

3 MAIN ECONOMIC SECTOR ANALYSIS

Although during the 90’s the agricultural sector value added in the South, has grown more than the national average as well as labour and land productivity, value added per labour unit is still quite below the national level.

The agricultural sector still has an important role within Southern Italy’s economy; in fact, its share on Mezzogiorno GDP is 5.9% compared to a national average of 3.5%; there is also a large share in the level of labour force employed (12% compared to 6.8% of Italy).

A particular feature of Mezzogiorno agriculture is the predominant presence of low-sized firms that together with a lack of infrastructural endowment (transportation ways, water supply) limit the development of the sector.

However, in the latest years, this sector has shown signs of deceleration. The difficult moment of the southern agriculture, is underlined by the data of the sector, whose added value has marked a 3% bending, negatively conditioned of persisting adverse climatic conditions.

A further opportunity of income for the agriculturists is represented by the agritourism, which is based on the change-over of dismissed rural farmhouses, present all over Mezzogiorno’s territory, into touristic resorts whose main appeals are genuine food, close-to nature-living, and hosts’ friendliness. The 2003 data underline as the agritourism doesn't succeed in taking off yet despite the potentiality of the sector and the renewed public attention.

The “mediterranean products” have shown to be vital on both EU and world markets but the competitiveness of Southern Italy in this field has nevertheless decreased. The principal reason for

that is a scarce capacity of connection with the other operators of the food chain, on concentrating the supply and modernising logistic and distribution systems. By so doing, Foreign farmers have increased their shares in the export markets just at the expense of Mezzogiorno agriculture.

The main successful signal of innovation in agriculture is the booming of biological cultivations, a sector in which Italy has become, over the last few years, a leading producer; in this case Mezzogiorno soon caught the opportunity giving an important contribution to the national production.

Strongly linked to the agriculture, the agroindustrial sector, whose value added share on the total of Southern industry is 7% (6.6% slightly higher than the national value), contributes for only 18% to the value added to the national industry. This sector shows a low-sized and family concern-oriented firm model, whose main activity is the initial processing of agricultural products; important products are wine, olive oil, milk derivatives (salt cheeses, etc...) and pasta. A scarce capacity to be directly present on both the national and foreign consumption markets, the lack of investments and innovations (compared to the Northern regions standards) and a weak tendency towards cooperative models, are limiting the development of this sector.

In the last few years the Mediterranean has been characterized by the development of intra-Mediterranean sea trade. By 2008, it is predicted, this trade will become the most prominent activity in all the ports of Europe, including therefore, the movement of goods between Europe, the U.S. and Asian countries.

Between 1980 and 2000 the handling of goods has tripled in European ports on the Mediterranean. The port of Gioia Tauro in Calabria has become, in 5 years, the most important port on the Mediterranean for handling freight. If sea commerce is going to increase, the position of southern Italy in the Mediterranean should become an extraordinary opportunity.

The basic industry is still present with its large plants in some sectors such as chemical and oil refining (Sicily, Apulia, Basilicata) or mechanical (Campania, Sicily) but even when they are efficient businesses (that is not always the case) they can't represent a real opportunity to the development of Mezzogiorno. That is because of productions maturity and of almost no possibility to enhance productivity and profitability; as consequence and confirmation there is the continuing reduction in the number of employed workers. Moreover overall all the Southern entrepreneurs have experimented a drastic reduction of the foreign demand, except for Apulia which has gotten an increase of the orders from foreign countries.

Finally, a view over the main economic sectors of Mezzogiorno must consider tourism: it is one of the most important sectors for Mezzogiorno growth, which strongly represents the future for the whole of Southern Italy's development.

Even though there is an inadequate offer compared to the high potential represented by the elevated environmental and cultural heritage, there are also some favourable features such as excellent hospitality and climate, top class archeological and artistic sites and good organizational skills which are attracting increasing amounts of visitors. The latest trends for the touristic sector highlight a 1,8% increase in comparison with a 0,7% decrease at national level.

4 STRENGTHS AND WEAKNESSES OF THE ITALIAN MEZZOGIORNO

New social and entrepreneurial developments and a big endowment of underutilized productive factors are the strengths of Mezzogiorno economy. Moreover, it has really got important environmental and cultural capitals which, besides an important touristic attractive, represent a potential of competitiveness able to start up development processes involving human and economic resources as well. The Italian Mezzogiorno is realizing its potential in these sectors and the economic benefits from investing in tourism.

Although a lot of progress has been made there is still a great need for tourism development in the area. Natural and cultural resources are under-exploited. These sites are often locked, inaccessible or insufficiently manned; marketing is inadequate and no proper strategy is implemented; opportunities to develop manufacturing and agro-industrial productions linked to those sites are rarely exploited.

Tourism districts in Southern Italy are widening; the resources for tourism development exist (attractiveness of the territory), there are a variety of quality entrepreneur systems, and there are entrepreneurial projects already using investment incentives. The regions must work with investors to create integrated tourist poles that attract tourists year round, thanks to weather's conditions.

The way of improving such resources certainly passes through the upgrading of actually deficient infrastructure; that is why the Italian government is trying to increase investments to boost the quality of infrastructure in Southern Italy. Clear examples among a quantity of projects are the plans to develop a new international airport in Campania and the pharaonic project of the Messina Strait Bridge.

Infrastructures' development could be attractive to both local and foreign investments. Particularly foreign investors can take advantage of many facilities such as offers of loans and tax incentives, no need for special authorisation, no limit in purchasing existing local enterprises as well as real estate or in hiring of local workers, no requirements to meet regarding any export or output targets.

New businesses are also on the increase, especially in Calabria, Sardinia, Apulia and Campania, which are the four top-ranking regions in the whole of Italy. The agrifood, the manufacturing sectors and business services are also in a phase of constant improvement. Southern Italy has a huge user base and has a strong propensity to make a quality improvement, from supplier of raw materials to market player, with quality processed products that can generate a high added value.

According to experts in the 2000's olive oil will experience a boom similar to the prosperity that quality wine production has enjoyed over the past two decades. This will apply primarily to Southern Italy. The name "green gold", is a clear sign of the efforts that are needed to support small- and medium-sized companies in Southern Italy in moving ahead: from suppliers of raw materials to added value products which is guaranteed by processing raw materials to obtain superior quality fina products. Apulia, Sicily and Campania urgently need to adapt vineyards and wine production to market needs. In many cases, this is still a production with a limited added value, although the enological world in Southern Italy is becoming more dynamic and major producers from the North are showing a greater interest in the potential of Mezzogiorno vineyards and wines.

About local initiatives we want to underline the role of the growing clusters of firms whose propension to export-oriented activities enhances this crucial economic trend of Mezzogiorno.

The growth can be sustained, in every sector, by the huge presence of a young, well-educated, low-cost labour force which has strong possibilities in increasing productivity and in creativity skills.

A positive feature comes from the dynamic of population aging that is more favourable if compared to the European standards; moreover a strong immigration flow contributes to maintain good expectations about this social aspect.

The geographical position of Southern Italy can also bring significant advantages: Mezzogiorno is right in the middle of the mediterranean area which is showing high development potentials and is itself a large potential market. Moreover, belonging to the E.U., Southern Italy can take advantages from an increasing good utilization (in previous times it wasn't so good) of European funds as well as from economic stability.

Regarding the institutional and political context, we can highlight some positive trends. The governmental capacity of local administrations has improved over the last years and they started to pay more attention to increasing and promoting territories' resources. Thanks to the growth of the privatisation process - wich is linked to a rediscovered capacity for self-government by the cities of the area - , multinational companies have shown interest in the Mezzogiorno.

There has also been a major ability to face criminality and corruption and a new “social disapproval” towards illegal phenomena is growing, thus improving a confidence-based relationship between society and Institutions.

Among weaknesses the infrastructural endowment still seems to be inadequate.

The Italian Mezzogiorno remains an area as yet far too scarcely competitive; it appears to be afflicted by the infrastructures weakness of attracting foreign investments in a consistent and continuous manner. Transportation infrastructures present low integration between the different modalities (railways, highways, seaports, airports) with the consequence of difficult reachable market outflows. Logistic systems are still underdeveloped.

Although there have been significant improvements, criminality is still strong in Southern Italy limiting entrepreneurial initiatives, investments, establishment of new firms.

Negative features are also present within the productive system. Traditional businesses with scarce innovation capacity are still too strong and generally the whole system is not improving network connections and scales economy; moreover there are difficulties in promoting products/services and business services are not broad. Then bureaucracy, even though much less than in the past, is an obstacle especially regarding the start-up of new firms. The entrepreneurial tissue undoubtedly presents islands of excellence, but does not yet manage to “create a system” within an archipelago of undersized undertakings.

Regarding the market, enterprise, and labor they have all shown differing performances in the last few years. The South has a deficit of markets though not of enterprises nor of labor. The awakening of difficult and unusual growth is expected. This growth doesn't, in fact, come from autonomous events; the market, if it emerges, will emerge through the stimulus of public institutions. Yet, the unequal distribution of wealth among the people of the South and of Italy greatly limits the process of development: there are great income and productivity differences in the area in which the public administration does not yet present standards of efficiency comparable to those guaranteed in the “strong” areas. We can mention, to this purpose, the absence in the South of a productive middle class, which is present in the Central- North of Italy and which has played a pivotal role in the development of that area.

A very big threat is represented by the growing competitiveness of developing countries in some traditional sectors of Mezzogiorno production. The massive entry of new low-income national States, – who are direct competitors of our Southern Italy - implies an important change of perspective: with the present rules the prospect is that of a diminution of the community resources at the disposal of the Southern regions, an increase of the degree of competition between the

European macro-regions, more frequent processes of delocation of undertakings towards areas of lower labour costs.

In a profoundly changed scenario of politic-economic geography there is the very concrete risk that the choices of the European cohesion policy will privilege interests “other” than the one. The widespread sensation that Southern Italy did not succeed in the last two years to set out on a road of real convergence with the strong areas of the Union. And the confrontation between Ireland and Southern Italy is significant in this sense.

Anyway the change of the international context also presents opportunities. First of all, because the opportunities of developing an area in which there are ample as yet unutilized resources become greater within a great market of about 450 million citizens. There will thus be greater possibilities of outlets for Southern enterprises, just as the potential tourist demand will become greater. It should be firmly kept in mind that the development of the Euro-Mediterranean relationships constitutes the opportunity for Southern Italy to reacquire a new geographic centrality. There are political spaces and economic terms for configuring the South of Italy as a ‘bridge’ of the Union towards the South and South East shores of the Mediterranean, a privileged European interlocutor of a great new market and, even before that, of a great cultural basin, a basin of human resources. An occasion that must not be missed and calls for a radical change: cultural, institutional, and economic.

The present phase – characterized by a persistent stagnation of the European economy and the risk of a competitive regression of the national economic system – constitutes a further element of the picture. In short, the ills and traditional weakness of the South, run the risk of becoming supplemented by the difficulties of the entire country system.

5 NEW EUROPEAN HORIZONS FOR SOUTHERN ITALY

While for 700 years the South of Italy has always been presented as an issue for the Italian system, nowadays the Mezzogiorno represents more an opportunity than a matter for the Italian government and Europe as a whole.

With its age-old traditions and idiosyncratic culture and with its peculiar heritage of social relations that goes potentially beyond enlarged family networks to reach out towards international links (hospitality, open-mindedness), the Mezzogiorno can get out of its stalemate if this heritage is exploited to the full by an appropriate institutional design.

Market-driven and local policy-driven turnarounds revolve around a better economic exploitation of the peculiar resources to many areas of the Mezzogiorno and largely under-utilised: Apennine mountain and coast environments; cultural heritage; skilled human capital, both intellectual and manual.

The current trend in the Mezzogiorno calls for a radically different approach that faces up to the challenge of high capital mobility by enhancing territories' present and potential opportunities and attractions so as to create a permanent incentive for local entrepreneurs to set up and enlarge their businesses and for external ones to come to the area.

The implementation in the Italian Mezzogiorno of a new development policy aimed at increasing territorial competitiveness represents an important test case for the whole of Europe.

At the same time, Europe provides Mezzogiorno with an indispensable framework for credibly carrying out such a policy. (such as the 2000-2006 European funds for the "Objective 1" regions).

Increasing territorial competitiveness requires highly qualified public investments with as much private financial support as possible; this in turn requires a drastic modernization and streamlining of public administration and the introduction of binding incentive devices on public officials.

It is clear that niche- and cost-based competitiveness is a matter of simple resistance; top-level competition instead implies quality, specialisation, network and system capability. Encouraging investment in the new high-tech, strategic lines of production, assist their integration and develop industrial districts represent the right way for the development of the South.

However, product innovation and upgrading of production models will not be enough unless combined with policies addressing the system. Material and other networks, as well as training, are decisive factors of competition.

The proposals have to have an European horizon, and think of the development of Southern Italy looking towards the markets of Central Europe; projects that have to bear in mind the possibility of growth of the Mediterranean basin; lastly, projects that will be capable of coming to grips with the nodes of the Southern metropolitan areas.

A great opportunity for the Italian Mezzogiorno is represented by the ICT sector. New economy related investments don't need large infrastructural endowment as well as very large capitals, so they could lower the existing gap of Mezzogiorno acting, at the same time, towards an increase in links network and integrations among firms and territories.

Thanks to skilled labour force, low turnover rates, growing involvement of local universities and fiscal incentives, more and more ICT companies are discovering the South of Italy as one of the most convenient areas in Europe to invest. Clusters of firms are growing in Naples, Caserta, Bari, Palermo, Catania and Cagliari often following the previous establishment of Science and Technology Parks (Bari, Naples).

Some mentioned reasons for this interest, need to be more detailed. First of all, the Italian ICT market is one of the fastest growing market in Europe and is itself a large market with a strong potential demand.

Afterwards, Italy enjoys a clear competitive advantage in this area thanks to its large pool – especially in the South – of young, skilled, well educated, flexible workers with a low turnover rate. Of particular interest is the jump in the number of university degrees awarded in the disciplines of greatest interest to ICT firms (i.e. engineering, economics and statistical firms).

Moreover, according to the OECD, in Italy wage and salary levels per employee in the ICT sector are significantly lower than in all other European countries, except France.

Those results are confirmed by research conducted by KPMG (2002) which highlights the position achieved by Italy in terms of attracting foreign direct investments in relation to the high-tech fields; now Italy ranks first among Eurozone countries and third among all other countries considered. The same research particularly shows that Catania is the ideal European city to invest for high-tech enterprises: it defeated 19 more economically renowned competitors like Dusseldorf, Wien, Grenoble, Toulouse, Turin and Vicenza.

The ICT district, known as “Etna Valley”, grown in Catania during the latest years is already a surprising reality and is succeeding as an emerging electronics and high-tech hub. After STMicroelectronics first established its plants there in 1981, many other multinational enterprises followed, namely: Canon, Applied Materials, Arch Chemicals, Nokia, Tegal, Vodafone, IBM, Wyeth, Alcatel and Nortel Networks.

Even though Catania is a really impressive reality, other Southern areas have already successfully developed in the high-tech field, for example Sardinia with Tiscali (internet provider company) or Naples’ surroundings with, among others, Alenia Aerospace.

Other ICT branches who are developing in different areas of Mezzogiorno are audio-visual, network and information-oriented enterprises. Those are all high value added sectors but they suffer from the low-size of firms and a weak local entrepreneurial initiative.

Besides an opportunity coming from the international economic scenario, Southern Italy also has a great chance for its development from one of its traditional sectors. Since the local

governments have begun to capitalize on their huge cultural and historical heritage dedicating more attention to unique archeological and natural resources, tourism's potential has definitely grown.

Together with well-known holiday resorts (Costiera Amalfitana, Capri, Ischia, Taormina, Panarea, Costa Smeralda and the Adriatic coast), artistic and archeological sites (Palermo, Syracuse, Temples Valley, Pompei) there are plans to realize interregional cultural itineraries (colonies of ancient Greece, colonies of Phoenicia), to build marinas, thermal baths, golf courses, high-quality hotels and holiday villages for family tourism, as well as the introduction new types of tourism such as eco-tourism, adventure travel and virtual reality parks.

To realize how big tourism's potential is, we can underline that according to SviluppoItalia Mezzogiorno is only using 20% of its resources and has enormous resources to continue developing in the tourism sector.

The challenge of the coming years is that of "Europeising Southern Italy" and thus to render it actor and participant in the great challenge of integration, making it become an integral part of the ongoing competitive dynamics between the various European regions.

The recent economic history of continental Europe has shown that there has not been a spread of development from continental Europe to the South, considered the last bit of rich and prosperous Northern Europe.

It will clearly not be left to individual Southern regions to initiate foreign policy in the Mediterranean, but it will be necessary to act so as to formulate policies capable of opening up systems which might link rather than divide the peoples of this area, promoting institutions, centers, institutes, inter-mediterranean sites that look to continental Europe for promoting. The focus of public policy should be oriented toward defining the South's linkage points - between Europe and the Mediterranean Basin, between rich and poor, between efficiency and efficacy, between convergence and cohesion, between bureaucracy and leadership. Public Policy which can collect such focus points will contribute to a higher level of qualitative and quantitative development. In the long term, the South will assume the role of "bridge" and of "hub" between North and South, East and West, augmenting the resources of which it is so much in possession: quality human capital as the engine and stimulus of new development.

"Quality human capital" might find its natural place as an integrator of development, of civilization and of innovative services. A vast area such as this Mediterranean one can develop if it can combine the two emblematic symbols of this region: quality human resources with the desire for knowledge and innovation. Knowledge is needed in order to locate the fundamental background of every single process capable of putting itself into step with recent history without getting trapped

by it. Around this development profile turns a commitment which must be granted to human resources understood as the performance of individuals, of teams, of squads, and as a mode of behavior for the new managing bodies. Underutilization of human capital is extremely visible. More than one quarter of all labour time is performed outside any legal framework, the majority of that “black labour” is performed by skilled workers whose productivity potential is rather high.

Along with human capital, all the other factors of production will assume a connected and necessary flexibility in order to render them capable of reforming in accordance with the times, contents and modalities imposed by the new production and by the new markets.

6 CONCLUSIONS: PATHS TO FOLLOW

We analyzed the general economic situation of Mezzogiorno, pointing out established feature and new trends.

Of primary importance result the need of increasing infrastructure: significant priority should be given to the realization of infrastructural networks implemented in favour of the Southern regions in order to reduce the already heavy peripheral nature from which they suffer. Particularly deficient in the South is access by road (with an endowment amounting to 47% of the Community average) and railway (42%). Water and energy networks remain particularly deficient sectors that have a substantial effect on life and economic competitiveness. Faced with these needs, the planning activated at various levels does not yet succeed in expressing acceptable implementation levels either in terms of expenditure or on the realization level. “Motorways of the seas” has to be kept well in mind. They will improve a national and Euro-Mediterranean development design that will aim at a strengthening of the horizontal and transverse connections of the regional and interregional territories in Southern Italy. The plan in this sense should be broader, also considering the opportunity to realize a communication network involving the entire Mediterranean area, where Southern Italy would be the natural centre.

The agricultural sector, which is too important for Southern Italy to be neglected but also strongly threatened by world emerging competitors, should take a direction towards modernization, improving niche and high quality traditional productions according to the latest increasing demands of healthy and natural products. In order to stimulate the industrial growth, the role of ICT sector represents a huge opportunity and will let Mezzogiorno compete in one of the most important markets of world economy. The industrialisation process of Southern Italy should be an industrialisation capable of favouring the Southern productions in compartments of greater productivity and innovation rate, thanks also to closer links with the Universities and the research

centres; favouring a dimensional growth of enterprises and their more modern financial management; assist the presence of Southern products on the national and international outlet markets.

Regarding the established activities, they should move towards more modern productive systems improving the quality-related image of products exploiting the “Made in Italy” appeal for foods as for design. It needs to support and simulate specialization and a commerce of scale in Southern enterprises, extending the network between businesses and employing all of the possible forms of integration from a distance. The organized forms of enterprise (industrial districts, regional pacts, area contracts) should not be placed in the position of closing themselves inwards and looking only to themselves but they should be aimed at building a strong network of formal and informal relations within the clusters: it is precisely on these relations that agglomerations’ positive externalities and productivity gains depend.

Tourism is really a driving force for Mezzogiorno economy and it has to increase its strength mainly by coming off the seasonal character, promoting (thanks to favourable climate and natural conditions) all year ‘round tourism such as cultural, thermal baths and convention tourism.

Finally national and local Institutions have to play a major role.

As regards the formulation of the development policy for Southern Italy, it must be decisively characterized as a “supply support” policy. Its primary objective has to be that of increasing, completing and re-qualifying the Southern productive tissue – in manufacture, the services for enterprises, and tourism – through an action of localization factor promotion for both home and foreign productive investments.

There is the need for the country, above all for its weak areas, of a more incisive industrial policy; a policy capable of facilitating, a gradual change of the productive mix that brings in compartments of a high innovation rate and a higher relative productivity. The Law No.488/1992 – the regional incentivisation instrument that best qualifies the recent experience of public intervention - furnished an important macro-economic impulse for the growth of investments in the South. In such a situation, defining the terms of a more incisive industrial policy calls for an incentivisation system more oriented for changing some important structural elements of the industrial system that receives the criteria of selectivity finalized towards innovation objectives, sectoral repositioning and development of the productive apparatus.

In this direction, some first but important steps (have been taken with the introduction from 2001 onwards of the special “ranking lists”) with the introduction of Integrated Aids Packages (Pacchetti integrati di agevolazioni – P.I.A.), intended to raise the innovation rate of the facilitated investments and the quality of the human capital with the introduction of a new instrument, the

localization contract, intended to resume and improve the experience of the programme contracts on the side of the attraction of foreign investments to Southern Italy. It is this line that has to be confirmed and strengthened. The objectives towards which this policy must tend are those of a consolidation of the development of the small and medium-sized enterprises and, at the same time, a strengthening of the process of attracting investments of the major national and foreign enterprises; a growth of the average size of Southern enterprises and the degree of aperture of the system towards abroad; development of compartments of a higher innovation rate and dynamic sectors at the level of world demand. And the growth of the Southern industrial apparatus and the improvement of its specialization constitute the challenge thrown down to Italian industrial policy.

Pursuit of these objectives calls for the adoption of the following priority criteria:

- strengthening of the orientation of industrial policy aimed at the pursuit of specific research, innovation, sectoral repositioning and internationalization;
- rendering the necessary resources adequate to the financing of the instruments of regional incentivisation and, more particularly, those of greater innovative content;
- coordination of the various incentivisation measures disposed by national and regional regulations.

A central and priority role in this strategy has to be played by both the incentivisation policies for productive activities and the policies relating to context factors, aimed at enhancing the external economies and productivity through interventions for improving the supply, the management and maintenance of infrastructures and services, the efficiency of the public structures, the level of security, the accessibility of natural and cultural resources, and the development of the human capital.

Faster and deeper regulatory reform are required, regarding for example:

- Southern Italy failure to attract FDI is a drag on its performance;
- A major challenge is the need to improve competition in the sheltered sectors of the economy, where inflation pressures raise costs, which in turn affects traded sectors, weakening international competitiveness;
- The boost to productivity from innovation and new technologies seen in other countries is less visible in Italy and, above all, in the Mezzogiorno;
- Southern Italy small business fail to grow as in other countries, due to the influence of unfriendly rules and institutions.

Four policy priorities emerge from this picture:

- ✓ *Increasing competition* - requires stronger competition in both labour and goods markets. This means: lower entry and exit costs from jobs; much greater role of firms bargaining in wage setting.
- ✓ *Strengthening communication* - much of the Mezzogiorno is still very distant from major European and international centres. A fast-growing demand for sea and air transport from Southern Regions requires relevant investments in both harbours and airports.
- ✓ *Fostering agglomerations* - the third priority calls for policies aimed at increasing “relational capital”. These include: a stronger hold on law enforcement and a modernisation of the judiciary system so as to favour the development of contractual relations inside the agglomerations; a radical modernisation of local administrations, with the introduction of accountable procedures for the selection of local projects; adequate urban plans; incentives for networking, making full use of new information technologies, training of local manpower.
- ✓ *Making natural and cultural resources accessible* - to achieve this final priority public investments must be realised to restore archaeological sites, fortresses and monuments, to establish attractive museums, to prevent coastal erosion, to protect natural areas, but also to improve transport communication to these sites, to set aside areas and provide light infrastructure so as to allow the development of appropriate hospitality services for all types of tourism.

Yet, contrasting criminality and corruption is necessary to create a favourable environment to the development of both social and economic vitality. The essential condition for growth in an area like the South is the reduction of the risk and uncertainty level: in the legal framework, the administrative services, the security that surrounds the setting up of a company. These are context conditions, but at the same time all questions that attain to the diffusion of the “culture of legality”, in reality often difficult. Promoting the international image of Italy and its regions will provoke the interest of foreign investors, too often still limited by old stereotypes.

The growth of the Italian Mezzogiorno in the latest years risks to become a “bubble” if the institutional actors don’t intervene in economic planning to concretize the manifold opportunities connected to the positive moment of occupation and enterprise. An example is the possibility to create opportunity of investment for the southern enterprises, tools of cohesion and intervention for consortia and associations, pacts of territorial development and channels of connection with foreign countries (example area Mediterranean).

The future of Southern Italy depends very much on the quality of development. We stand before a double-edged scenario: on one side, higher unemployment than in the rest of the country, especially among women and young people, illegal-work practices and seriously backward material and non-material infrastructures. On the other hand, top-quality production lines, strong and expanding districts, centres of advanced research, high-quality output. It is of crucial importance for the Mezzogiorno to exploit the potential of the local economy and its resources.

The change that imposes itself is great. It is necessary to invest in research and development to create solid bases of economic prosperity, also to the thresholds of the probable going out from the 2000-2006 European funds for the "Objective 1" regions.

Conspicuous financial resources and human resources of quality will be needed for its realization; its success depends on the capacity of making the best use of endowments that already exist and, at the same time, calling back to Southern Italy the many energies that have moved away from this area.

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