

Interview: Jörg Buck - Executive Director, German - Italian-German Chamber of Commerce, Italy



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Jörg Buck, the Executive Director of the Italian-German Chamber of Commerce discusses the close trade relationship which ties the two countries together, how the business environment in Italy is evolving today and the need to keep the momentum in the economic recovery.

To start off, having joined the chamber recently, what has your first impression been of the Italian business environment?

Very positive, especially here in the North. We have eleven representative offices throughout the country, and while traveling to them I was struck by how each village I passed has a 'hidden champion', a highly specialized manufacturer which excels in its field. The only other place where I had previously encountered this was Germany, where especially in the South we have a similar situation in that each village you go to, although it has a hundred souls or less, will have one of these hidden champions, and it is very impressive to see. It shows how an essential growth driver here has been high-technology, which has also brought the focus of Foreign Direct Investment to the North of Italy and especially to the region around Lombardy. So it has been a great landing for me, and I'm looking forward to strengthening the trade relationship between our countries. That will also be helped by the fact that we are two of the last remaining industrial countries in

Europe. Germany's industrial sector had a 22% share of the added value created while in Italy that is roughly 15%, higher than most other European countries. The fact that both our countries remain strong on industry creates a natural innovation partnership between us.

There is a long tradition of cooperation between Germany and Italy, and you say you see more opportunity for partnership moving forward, but how do you see the trade relationship today?

I see many positive signs. It should be said that once Germans commit to a friendship, it stays that way forever, and this can be seen to some extent in our relationship with Italy. Over the last ten years there has always been a negative trade balance with Italy, but during the crisis Italy was able to reduce this gap. We were able to keep our level of exports to Italy constant at around 55 billion euros, while Italy's exports to Germany have grown around 32% over that time to a little over 45 billion. This is impressive, as it shows that in time of crisis we were able to hold our exports to Italy steady while they managed to grow their exports to us. So where does the chamber sit in this? Our task is to help SMEs, which is our focus group, to internationalize themselves. We work with large banks to establish contact between financial institutions and SMEs in Italy who wish to enter the German market by forming joint ventures, partnerships, or setting up their own business in Germany. After that we help them to consolidate their position in the market and to find the right partner.

In both Germany and Italy, a huge portion of the companies are SMEs. Does that similarity make it easier for companies to do business in each other's markets?

Another similarity between the countries which should be mentioned is in the type of products which are exported, for example, machinery, car parts, pharmaceuticals. Both Italy and Germany seem to focus on the same sectors for their exports, to a surprising degree. Of course they also have agriculture, which they are well-known for, but that is just one of many sectors in which Italy excels.

As you said we do have a similar structure of companies as well. First of all, of course we have the big multinationals in Germany, and when you mention Germany people think of the big carmakers, pharmaceutical companies and so on. But these only make up 4%-5% of our companies, with 95% of companies in Germany being SMEs. In Italy there is an even higher share of SMEs, almost 99%. In both countries, employment and innovation comes from those SMEs. A difference is that German SMEs have been internationalizing themselves for decades, while in Italy there was a strategy to stay not only nationally, but regionally located. This is where we are trying to help.

We see a lot of this in the Pharmaceutical sector as well, with Italy still lacking a real top-20 multinational largely because of the late drive towards internationalization. Have you seen a shift in that attitude?

We see a positive trend. The narrowing trade gap between the two countries is one indicator of that. A second indicator is FDI. Despite the crisis, and this is a good sign that Italian companies have understood that they need to internationalize, we have been seeing a lot of FDI moving from Italy to Germany even considering the pressures in their home market. There has been a strong growth in the number of investments from Italy to Germany as well as in the value of those investments. This has a lot to do with historical ties. There is a strong historical tie with Germany, so it makes sense that we should be seeing the first of this new wave of Italian internationalization. Other natural markets for Italian business will be the US, and the countries on the Mediterranean. We are hoping to see them expand more in that direction over the next five years.

What are some of the main challenges German companies face when they are looking to invest in Italy?

Infrastructure. Even here in Lombardy, the IT infrastructure needs to be improved. With industry 4.0, this is an absolute necessity. Coming from Asia where each village has 3g, or even 4g, this was a shock. It won't be possible to keep growth in the economy if the infrastructure to support it is lacking.

Secondly, education. There is roughly 40% youth unemployment rate, and this is caused by a severe mismatch between the demands of the market and the skills which the educational system is producing. For example, we are missing qualified technicians here in Italy. This is one area where the Chamber is trying to help. We are offering vocational training based on the German system and German standards, in partnership with our companies, to create a system which is demand-oriented and where the company plays a central role. Here the time spent during education is split between working in the company and spending time in the classroom. This is really a paradigm shift for a country, but someone needs to start, and we have had quite some success with the program so far with graduates going to both to Italian and German companies, and we also have Italian partners who we certify to take part in the program as well. The demand for these graduates is there, so we have high hopes.

With the region returning to growth, and the Italian economy emerging from the crisis while having kept the trade relationship with Germany strong as you mentioned, has the outlook for German companies in Italy improved?

Yes, it looks like it. The country has done its homework, the groundwork has been laid, we see the current government as performing quite well with essential reforms at least initiated. The environment for SMEs has improved, for example with the tax release for SMEs, a new jobs act and other measures to strengthen incentives for investment among SMEs. So we are certainly seeing measures being taken to help spur the economy forward. However, there is the tendency for people, once things start to improve and we see light at the end of the tunnel, to relax. That is a concern for us, because this is not the time to relax, we need to keep the reforms moving so that we can build on this momentum.

When we spoke to Massimo Scaccabarozzi, he said that they are seeing companies in the pharmaceutical sector relocate to Italy for the manufacture of pharmaceuticals, which was very unexpected. Are you seeing this among German companies as well?

Back to Europe, definitely, and to Italy specifically as well. Especially coming from Asia. In this sense times of crisis do provide opportunities, and this is certainly an opportunity which Italy needs to grab with both hands. I hope they also take a look at countries such as Spain and Portugal which have worked very hard to improve their performance, optimizing production to reduce costs without sacrificing output. These are the reasons companies are once again considering Spain, Portugal, and Italy as manufacturing hubs, especially when combined with high-technology and high-quality production. This brings me back to the importance of digitalization and the need to ensure that there is a good IT infrastructure.

There is also an increase in mergers & acquisitions and joint ventures among hidden champions both within and between Italy and Germany, which is important for preparing for the future. Another similarity which helps is that both Italians and Germans love high-quality products.

Having just started your role as Executive Director for the German-Italian Chamber of Commerce, what are your ambitions for the organization over the next five years?

To establish ourselves as *the* organization managing innovation partnerships between our two countries and as an organization which strengthens and communicates the need to digitalize the relationship between Italy and Germany. I also want us to be an organization which helps tie the industrial sectors of our two countries together to form an Italian-German partnership acting as the engine of industry in Europe. In 2017 we will celebrate 60 years of the Rome contract, and although there are some challenges in Europe today one way to reaffirm the ties between countries is to go back to the economic reasons we started to build those ties in the first place. Finally, I would also like to build upon our educational system, to attract more students to help fuel the

economy and bring us closer together.

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