

**LUISS** 

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## **Monthly Brief on the Italian Political Economy**

**March 2024**

**Lorenzo Moretti and Donato Di Carlo**

**LUISS**



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Every month, our Monthly Brief on the Italian Political Economy provides a bullet-point recap of the month's main events, followed by reasoned deep dives and/or interesting graphs and commentaries on topics of significance for economic policymaking in Italy.

[Lorenzo Moretti](#) and [Donato Di Carlo](#)<sup>1</sup>

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## LAST MONTH IN BRIEF

- 05/03** The Italian National Institute of Statistics (ISTAT) [releases](#) the national accounts data for 4Q2023. GDP increased by 0.2% with respect to the previous quarter and by 0.6% in comparison with 4Q2022, exceeding expectations
- 08/03** The European Commission [approves](#) an Italian State aid scheme, partly funded by the [NRRE](#), to support companies producing equipment, key components, and critical raw materials necessary to foster the transition to a net-zero economy
- 11/03** Minister for Enterprises and Made in Italy Adolfo Urso [announces](#) a €3.2 billion foreign direct investment by the Singaporean semiconductor company Silicon Box to build a chiplet factory in Northern Italy (see [Deep Dive 1](#))
- 12/03** Undersecretary for Technological Innovation Alessio Butti [organises an event](#) to illustrate Italy's approach to Artificial Intelligence (AI). During the event, PM Meloni [announces](#) an AI Law including investments of around €1 billion in AI (see [Deep Dive 2](#))
- 14-15/03** The G7 Ministerial meeting on Industry, Technology and Digital is [held](#) in Verona and Trento, led by Minister Urso and Undersecretary Butti (see [Deep Dive 2](#))
- 17/03** PM Meloni, together with the President of the European Commission and other European PMs, [visits](#) Egypt to strengthen the EU-Egypt strategic partnership, signing some financial and cultural cooperation [agreements](#) and discussing the Italian investment plan for Africa ([Mattei Plan](#))
- 25/03** Lufthansa's partial acquisition of ITA Airways is facing a potential impasse as the European Commission sends a [Statement of Objections](#), citing concerns that it would lead to lower competition on certain routes in and out of Italy
- 27/03** Minister of Economy Giancarlo Giorgetti [holds](#) parliamentary hearings to explain the rationale behind the government's plan to sell part of its stake in the Italian postal service company (Poste Italiane)

## DEEP DIVE 1

### €3.2 billion investment by Silicon Box in Italy

On 11 March the Italian Minister for Enterprise and Made in Italy, Adolfo Urso, and the CEO of Singaporean semiconductors company Silicon Box announced the company's investment of €3.2 billion for a new factory in Northern Italy. The investment, which the government will co-finance, is expected to create around 1,600 jobs in the area (for recent investment plans in Southern Italy's Photovoltaic industry, see our [February Monthly Brief](#)). The government's proactive attraction of this investment fits Europe's ambition, central to the [EU Chips Act](#), to scale up its role in the semiconductors industry, doubling its contribution to global production from 10 to 20% by 2030.

The importance of this investment lies in the critical role that semiconductors play in today's economy. They are the chips that run most technological systems, from smartphones to cars. With the advent of AI, this will only increase. Historically, semiconductor technologies were first developed in the United States (hence the "Silicon" Valley), with Intel eventually becoming the global leader in both design and production. However, by the 1980s, deepening globalisation resulted in the [fragmentation of the value chain](#), with companies specialising in very specific steps. Companies like Qualcomm, and more recently Nvidia, concentrated on design R&D. East Asian economies, Taiwan in particular, emerged instead as the global leaders in the next steps: fabrication and packaging (so-called "front end" and "back end"). These polarised specialisations have come to dominate the industry, with the United States and Europe's share of advanced chips *manufacturing declining* over the past decades. The result is that, by the end of the 2010s, the world became highly reliant on East Asia for a technology that is [key for Europe's](#) digital and green transitions. In this context, the supply chain disruptions from the pandemic and the growing geopolitical tensions have led the EU, following the United States, to pass the [Chips Act](#), a legislation aimed at attracting to the continent the production of advanced semiconductors.

### Commentary

Italy's attraction of Silicon Box's investment well exemplifies both the emerging dynamics of the semiconductor industry and the functioning of the EU Chips Act.

First, the story shows how the EU Chips Act works. The Act allows member states to grant national [state aid](#) to highly innovative projects (so-called "first-of-a-kind facilities"). Although Silicon Box's investment targets the historically less innovative part of the value chain—the back end—its investment in Italy should qualify for subsidies under the Act because the company is involved in one of the latest trends in the semiconductor industry: the so-called [chiplets](#). Innovation in chips used to focus on the first two steps of the value chain: design (e.g., Intel, Arm, Nvidia) and fabrication (e.g., TSMC). However, the physical properties of the materials involved have recently been reducing the marginal gains from miniaturisation, making production [increasingly expensive](#). Producers are thus developing "advanced back end" innovations, such as the chiplets produced by Silicon Box. Chiplets are a [new way of connecting transistors](#) (i.e., the "switches" which control electrical signals): in contrast with the traditional "monolithic" approach to building chips, they are like "modules" which, combined, can make a chip. The positive aspect of this story is that it confirms that innovation can take place along [all stages](#)

of an industry value chain. Italy can therefore aim to attract investments relating to those components and processes most aligned with its [domestic industry capabilities](#) and [human capital stock](#). It may not be best placed to compete in those parts of the value chain where its domestic ecosystem has not historically [specialised](#) and where there already are established leader countries and companies (e.g., USA for design R&D and East Asia for fabrication of advanced chips). Instead, advanced back end may offer an emerging opportunity to exploit or build a comparative advantage in what is increasingly becoming a critical part of the value chain. As of today, chiplets are produced only in Asia but Italy will become the first European production outpost for this technology, adding an important new specialisation and R&D capabilities to the Italian [semiconductor ecosystem](#).

On the flip side, the mechanism of the European Chips Act involved in the Silicon Box investment also exposes the EU policy's main weakness: it is in essence a relaxation of state aid rules, subject to [precise criteria](#). As such, it does not constitute a true European, supranational, industrial policy. Rather, it opens the door for member states to use domestic fiscal policy to attract foreign direct investments, with the tangible risk of a subsidy race where richer countries will outbid their peers. The pandemic-inspired state aid [temporary crisis and transition framework](#) has already exposed this [dynamic](#), but the concern is particularly relevant to the semiconductor industry, where capital expenditures are of a scale comparable to some countries' annual fiscal budgets. For instance, Intel's announced investment in Germany ([€30bn](#)) is around the size of Italy's latest budget law (€24 billion; see our [November brief](#)). It is clear that in this industrial policy game, only a few players will be able to compete.

## DEEP DIVE 2

### The Industry, Technology and Digital G7 Ministerial Meeting and Italy's approach towards AI

In March 2024, Italy's politics devoted great attention to the topic of Artificial Intelligence (AI), with two major dedicated events: “L'Intelligenza Artificiale per l'Italia” and the Industry, Technology and Digital G7 Ministerial Meeting.

The first [event](#) took place in Rome on 12 March and was organised by the Undersecretary of State for Technological Innovation, Alessio Butti. Through a series of speeches and panels, it conveyed the undersecretary's view on Italy's role in the sector and announced a couple of important upcoming initiatives, such as the revision of Italy's AI strategy and the launch of a new dedicated investment fund.

The second [event](#) was the G7 Ministerial Meeting on Industry, Technology and Digital, held in Verona on 14 March under the leadership of Minister Urso. The following day, the Ministers moved to Trento for a session led by Undersecretary Butti. AI was not the only topic but was a core part of both days' discussions. The result of the Ministerial meeting was the adoption of a [Joint Declaration](#), characterised by two main elements. The first is the agreement to develop a Toolkit for AI in the public sector, mapping risks and opportunities. The second element is a renewed commitment to the [Hiroshima AI Process](#), the framework on AI adopted during the 2023 G7 under Japan's Presidency, which aims to promote a dialogue on the risks and opportunities of the technology as well as global governance for a safe, secure and trustworthy advanced AI systems.

### Commentary

These two AI-focused events showcased the Italian government's growing but cautious interest in this digital transformation.

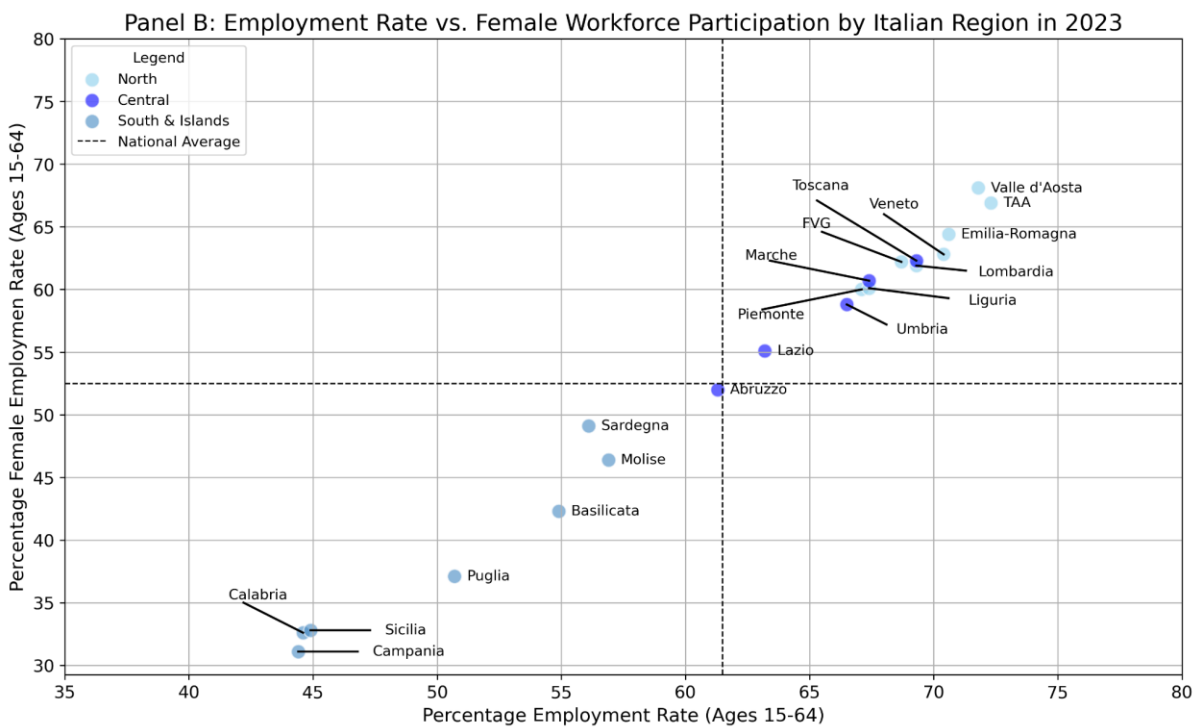
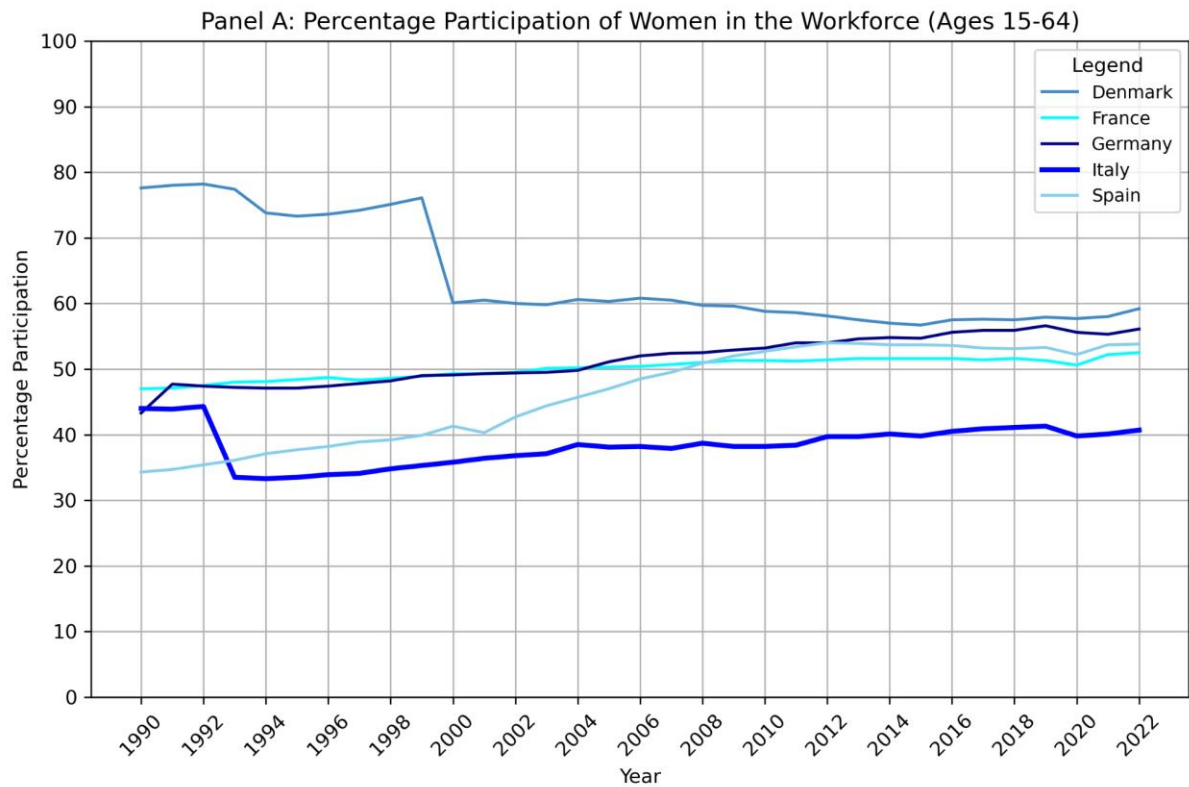
The outcome of the G7 suggests that, at an international level, the direction of travel had already been set and Italy's presidency added an interesting but marginal contribution. Indeed, the 2023 G7 already accomplished important [progress](#) through the launch of the Hiroshima AI Process. The Italian Presidency chose to embrace continuity by stressing its commitment to this process. Italy's novel contribution amounted to proposing the drafting of the toolkit for AI in the public sector. This toolkit would be a report mapping the risks and opportunities of the introduction of AI in the public sector to help governments understand the best ways to safely implement the AI transition. The idea of gathering all possible information reflects a risk-based approach which puts regulation before application. In theory, this stance could be desirable, but in such a fast-moving field it is not clear whether the conditions allow for this type of two-step process.

The domestic event led by Undersecretary Butti provided more insights into the Italian government's view and approach towards AI. For now, it appears the government is predominantly concerned with regulatory aspects and the risks of AI. The Undersecretary's keynote speech [focused](#) mostly on the ongoing drafting of the government's AI strategy—Italy's third version in 4 years—as well as governance

and other regulatory considerations, such as the necessary steps to implement the EU's [AI Act](#). Similarly, PM Meloni's video message largely [focused](#) on the importance of promoting human-centred AI. Although the EU AI Act is already designed to limit the risks that AI applications pose to individual human rights, the Italian government seems particularly keen to emphasise this approach (e.g., see Italy's [AI Commission on Information](#)). Both the PM and the Undersecretary also announced some concrete measures. PM Meloni [communicated](#) that the government is preparing a law to set rules on AI, both to implement the EU's AI Act and to add complementary national regulations. She also announced that Italy's national promotional bank [Cassa Depositi e Prestiti](#) will invest up to €1 billion through its venture capital arm ([CDP's Venture Capital](#)) to enhance Italy's productive capabilities in the sector. The details of these initiatives are, however, scarce for now. Both the law announced by PM Meloni and the update of the Italian Strategy for Artificial Intelligence should be approved in April. The contents of these two acts will hopefully delineate more clearly what Italy is planning to do in practice to maintain competitiveness in this critical sector.

## GRAPH OF THE MONTH

### Condition of Italian Women in the Labour Market



Sources: Panel A: [OECD](#), Panel B: [ISTAT](#)



March is the time of the year when, on International Women's Day, the social, economic, cultural, and political achievements of women are celebrated globally. Our chart of the month offers an opportunity to reflect on the condition of women in Italy's labour market.

Panel A shows that Italian women have historically been, and still are, underrepresented in the labour market compared to their European peers. At 40% of the total workforce, Italy's rate of female employment is among the lowest in Europe. Interestingly, in Italy the situation has also been slow to improve when compared to some other direct comparators (e.g., Germany, which used to share with Italy a [conservative type of welfare state](#) based on traditional family values and a "male breadwinner" model).

At the same time, Panel B shows that there are stark [intra-country differences](#) between the North and the South. Northern Italy's employment figures are much closer to European Union averages, with significantly higher participation rates. Women are instead much less likely to be employed in the South. This probably reflects not only a weaker labour market and different cultural norms about women's role, but also the wider incidence of the shadow economy. Yet, there is also a silver lining: the country's gender wage gap is notably [lower](#) than the European Union average, standing out positively in comparison to major economies such as Germany and France. To be sure, the full meaning of this figure may be hard to interpret due to the different propensities of men and women in Italy to enter formal work in the first place.