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SNIA VISCOSA

A5 The State of the Economy and
Competitiveness of Rieti
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The Economic Performance

Rieti's economy is relatively small. It accounts for 0.19% of Italy's and 1.7% of Lazio's Gross Domestic Product (GDP). Rieti's GDP per capita is the lowest in the Lazio Region. The level of economic development is more similar to the economies of European Union (EU)'s periphery and Southern Italy than to Italy's, Lazio's and Central Italy's on average. Regarding the contribution of the different macro-sectors to the economy, services account for three quarters (75.8%) of value added and employ 71% of the workforce. Agriculture contributes for 3.9% of GDP and 56% of employment. Industry accounts for 20% of value added and 23% of jobs. Between 2009 and 2012, Rieti lost 12.4% of GDP. In 2008-2013, Rieti went down from 77th to 81st out of 110 Italian Provinces for total GDP. The small size of the economy and the relative level of poverty make Rieti (alone) not attractive for investments seeking the local market (e.g. retailing and wholesale). Finally, the low exposure to the economic cycle has delayed the effects of the crisis by at least one year (compared to Italy's average) but has also affected Rieti's ability to reach to the crisis.

The Private Sector

Rieti has a problematic private sector with few peaks of excellence. The local private sector accounts for 2.8% of active enterprises and 2.4% registered enterprises in Lazio. Moreover, Rieti has the lowest geographic concentration in the Lazio Region. Between 1995 and 2013, Rieti had the lowest new business registration rate in Lazio. Almost one fourth of enterprises are concentrated in the agricultural sector, one fifth in commerce, 17.73% in constructions and only 6.9% in manufacturing. Furthermore, there are many high-tech and innovative firms established locally (e.g. Seko, Emec, EDA, Phoenix Electronica, Injecta, Rielco). The main issues of Rieti's private sector include: the relatively small size of local enterprises compared to the Italian and Lazio regional average; the heavy focus on traditional bank lending as a mean for accessing finance; and the lack of cooperation in business networks. The low start-up rate and the relatively small size of local enterprises reflect potential issues in the local business environment. However, the existence of many productive and innovative firms represents a potential source of spillovers, as well as of asset-seeking investments. These productive firms are the best candidates for establishing a specialized industrial cluster. Furthermore, they could be the best drivers of local export growth and integration into global and regional value chains.

Investments

Rieti has the lowest fixed capital accumulation rate in the Lazio Region. The largest share of fixed investments is accounted by services. The low growth rate of investments might be partly responsible for the modest growth rate of the economy, particularly if not offset by growth in population and productivity. Furthermore, the low level of investment does not allow Rieti to benefit from the positive effects normally associated with investment, such as: the direct inflow of capital, job growth, new technology, economic diversification, export growth, productivity growth, positive externalities and technological upgrading.

International Trade

Trade accounts for less than one seventh of value added. Rieti's share of Lazio's

trade with the rest of the world is the lowest among the Lazio Region's Provinces. While export grew for four years in a row, it still remains below pre-crisis levels. Only 54 local enterprises (mostly large) export their goods and services. The main local export products are: pharmaceuticals, chemicals and botanic products (that account for 52.7% of total exports); machineries and equipment (20.2%); and electrical equipment (10.9%). Furthermore, exports in sectors with *dynamic* international demand are more than half of the total. The main implications of the low openness to trade are: the lack of access to international demand as a driver for industrial growth; geographic market diversification; job growth; and productivity growth. Nevertheless, local firms still have a lot of potential for export growth. For instance, by increasing the export share of those countries whose international demand for products exported by local firms has been growing in the past years.

Innovation

Rieti's firms innovate (on average) less than Italy's, Central Italy's and Lazio's. Among firms, to innovate the most are the large enterprises, as well as those operating in the services sector. Rieti is among the Italian Provinces to register fewer patents and have less innovative start-up. Nevertheless, established locally are a start-up incubator and several research centers. Inadequate investments in innovation make it difficult to set the ground for sustainable growth. Regarding the lack of innovation, local firms lament issues related to market failures, such as: information asymmetry between private sector and institutions (regarding the services offered to support innovation) and the lack of access to finance for innovation.

Green Economy and Sustainable Growth

Local firms are those to invest the most in Green Economy in the Lazio Region. Between 2008 and 2013, almost one fourth of Rieti's firms have invested/planned to invest in Green Economy. The firms with ISO environmental certifications in Rieti more than doubled in the last five years. However, Rieti is still 85th (out of 110) among Italian Provinces for the share of active firms with ISO certifications. Finally, active locally are several firms producing systems for the production of renewable energy and solar panels (e.g. Rielco and Solsonica). Rieti is the 8th Italian Municipality (out of 8,048) for total surface of solar thermal panels installed. The presence of several natural assets makes Rieti attractive for natural resource-seeking investments. This is particularly true for renewable energy. Furthermore, Rieti's geographic location has many potential benefits, such as: expanding the local market size making Rieti attractive also for market-seeking investment; establishing networks with businesses in neighboring areas; and leveraging economies of scale and scope.

Labor Market and Education

The local workforce is quantitatively small and lacks growth. The number of people active in the labor market is about 64 thousands (accounting for 2.6% of Lazio and 0.2% of Italy). Between 2009 and 2013, the economic activity rate shrank by 1.4%, contrarily to the growth in Lazio and in Italy. In relation to the total workforce, the number of employed almost halved in the last five years. The cost of labor in Rieti is higher than in Italy and Lazio. Moreover, the economic

activity rate of females is the lowest in Lazio (after Latina). Rieti's firms expecting to hire new workers have diminished since 2010 among all sectors of the economy and sizes of enterprises. Rieti is the 2nd Province in Lazio and the 32nd in Italy for the percentage of people with a tertiary degree who do not work. Finally, despite the high share of tertiary degree holders, Rieti's share of people with a tertiary degree in scientific disciplines is lower than Italy's, Lazio's and Central Italy's average. The low presence of people with scientific degrees makes Rieti less attractive for investments in advanced sectors and less competitive vis-a'-vis emerging markets.

Demographic Factors

Rieti's population is small and ageing. With almost 160 thousand inhabitants (of whom 48 thousands live in the Rieti Municipality), Rieti accounts for 2.7% of Lazio's and 0.26% of Italy's population. The ageing index is equal to 192% versus 148.6% of Italy 146.2% of Lazio and 164.1% of Central Italy. Rieti has the lowest population density and level of urbanization in Lazio. In the last ten years, population growth was achieved through the inflow of immigrants rather than birth growth. At the same time, the number of people from Rieti migrated in other parts of Italy or abroad notably increased since the years 2000s. The negative birth rate and the ageing population have as negative effect the shrinking of the local workforce. In high-tech segments the lack of inflow of high-skilled human capital prevents offsetting the weak level of local innovation. Finally, the low degree of urbanization does not allow Rieti to enjoy the benefits of clusterization, as well as the contamination of ideas, and creates obstacles to economies of scale and scope.

Infrastructures

The condition of local infrastructures with economic relevance is critical. Particularly worrying is the delay in broadband connection. The gap in broadband infrastructure affects most of Rieti's territory, including the industrial areas. Furthermore, regarding logistics, more than 40% of local transport vehicles is "old". The absence of railway infrastructures, as well as of ports and airports for the transport of goods has as direct consequence the dependence of Rieti on road transportation, increasing private sector costs of transportation and logistics. The gap in physical infrastructure affects the competitiveness of local exporting firm, weakening private sector's ability to integrate into global value chains. Finally, the delay in broadband infrastructures creates an obstacle to the growth of technologically advanced sectors as well as to the IT integration of local firms.

Quality of Life

Rieti ranks 79th out of 107 Italian Provinces in the 2014 quality of life index of Il Sole 24 Ore. Four positions downs compared to last year. Rieti's major strength is security (2013), (mainly) thanks to: the low increase in the number of reported crimes and the low number of frauds and cyber crimes. The main weaknesses are in the areas of: services and the environment; free time; and business and jobs. Regarding services and the environment, the worst performance is in healthcare and infrastructures. For free time the main weaknesses are the low number of bookstores and volunteers. In business and jobs the total absence of innovative start-up and poor contribution of international trade to the economy. Rieti's negative performance in quality of life shows that local competitiveness issues go

well beyond the economy. The low quality of life makes the area not only less attractive for qualified human capital from outside, but also less attractive for local people to stay.