SVIMEZ

Associazione per lo sviluppo dell'industria nel Mezzogiorno

Executive summary

SVIMEZ REPORT 2024

THE ECONOMY AND SOCIETY IN SOUTHERN ITALY

Competitiveness and Cohesion: Time for Policies

Differentiated Growth and a Shift in Policies

• Differentiated Growth 2019-2023

Italy's Economic Recovery Outpaces the Eurozone

By mid-2024, Italy's GDP had increased by 5.1% compared to the 2019 average, significantly exceeding the Eurozone's growth rate of 3.9%. Preliminary analyses indicate **stronger recovery outcomes compared to past recessions**, a result in open discontinuity from previous recovery patterns observed after the Global Financial Crisis and the European Sovereign Debt Crisis.

Regional Dynamics: Southern Italy Leads Growth

Southern Italy recorded higher growth than other regions. According to updated national accounts data, cumulative GDP growth in the South between 2019 and 2023 reached 5.1%, surpassing the 4.4% growth observed in the Centre-North. This positive differential can be attributed to several factors:

- **Expansionary fiscal policy**: In contrast to previous economic cycles, fiscal measures were more evenly distributed across territories, supporting household incomes, employment levels, and business continuity.
- **Export vulnerabilities in the North**: The export-driven economies of the Northern regions were adversely affected by the slowdown in Germany, a key trade partner.
- **Stagnant central regions**: GDP growth in Central Italy remained subdued during the same period.

The Key Role of Construction Investments

The Construction sector played a pivotal role in driving recovery, particularly in Southern Italy. This growth was spurred by the "Superbonus" incentives implemented in 2021-2022 and the subsequent launch of investment projects funded through Italy's National Recovery and Resilience Plan (NRRP) in 2023. Between 2019 and 2023, public and private investments in Construction increased by 40.7% in the South - over five percentage points above the Centre-North average.

A Shift in Regional Growth Patterns. The regional variation in GDP growth rates during 2019-2023 marks a notable reversal of the traditional North-South economic dynamic. In both Northern and Southern regions, the best performing economies were those that took advantage of the expansionary effects of construction investment and the recovery of the services sector, mitigating the weakness of industrial performance.

• The Labour Market in the Post-Covid

Positive Discontinuities

Employment growth during the post-COVID recovery has been unprecedented, continuing despite inflationary pressures. **Mezzogiorno emerged as a main player in the employment recovery** - unlike previous cyclical upturns, where job growth was concentrated in the Centre-North.

By mid-2024, employment in Italy had exceeded 2019 levels by approximately 750,000 units (+3.2%), exceeding mere crisis recovery. During the same period, employment in Southern Italy grew by 330,000 units (+5.4%). The recovery of the last three years restored employment levels in the South to those of mid-2008, which had not been reached through to 2019.

Construction played a decisive role, with 212,000 additional jobs nationally by the end of 2023 compared to 2019, including 97,000 in Southern Italy. Since 2022, growth has also strengthened in high value-added services such as ICT, which, however, employ a relatively small share of the workforce compared to major European countries, especially in the South. Public administration employment also increased.

Employment Growth Across Regions

Employment growth has varied substantially among regions, with stronger gains where Construction and Service sectors played a larger role. Industrial employment showed marked regional differences. By the end of 2023, Umbria (+15.5%) and Sicily (+13.8%) exhibited the most encouraging dynamics compared to pre-pandemic levels, while Molise (-12.5%) and Lombardy (-2.9%) remained in negative territory. Agricultural employment declined between 2019 and 2023 in Southern Italy (-20,000 jobs), the North-East (-19,000), and the North-West (-16,000), with only a slight increase in Central regions (+6,000).

A significant qualitative shift has been the increase in permanent employment. Temporary factors contributed to this trend, including widespread transitions to permanent contracts, new hiring in public administration, and increased labor market competition due to rising recruitment challenges.

Lasting Challenges: Falling Real Wages

The collapse in purchasing power has disproportionately impacted the South. Despite employment recovery, inflation has significantly eroded real wages, particularly in Southern Italy. Between the IV quarter of 2019 and the first half of 2024, real wages fell by 5.7% in the South compared to 4.5% in the Centre-North and 1.4% in the Eurozone. A real slump in the South, caused by more sustained price dynamics and a lower contribution of collective bargaining to wage growth, which benefited the stronger sectors less present in the South.

Underemployment Remains High

The Italian labour market remains far from European standards, particularly in the South, marked by a large number of precarious and unprotected workers - especially young people and women - and high rates of inactivity. In Southern Italy, three million workers are underutilized or unemployed. The *Svimez labour slack index*, which measures underemployment, fell from 39.3% to 33% between 2019 and 2023, but remains more than twice the national average. The three southern regions with the highest rates of "non-work" are Sicily (38%), Campania, and Calabria (both 36.8%).

A Shift in Policies

Uncertainty in the New Era of Austerity

The extraordinary phase following the Pandemic was addressed in major economies with expansive fiscal policies. However, we are now entering a new phase: European fiscal policy has shifted, and Member States are beginning to reduce public deficits.

Italy is required to implement a drastic improvement in public finances, reducing the deficit-to-GDP ratio from 7.2% in 2023 to 3.6% in 2024. This represents one of the largest fiscal adjustments in history, to continue in subsequent years (2.9% by 2026). The scale of this correction is reminiscent of the efforts in the early 1990s, when Italy undertook extraordinary measures to meet the Maastricht parameters for entry into the Eurozone. Unlike then, when much of the adjustment was due to falling interest payments, today's correction must come from improving the primary balance.

Restrictive fiscal policies bring significant uncertainty to Italy's economic outlook. With limited fiscal space, it is crucial to identify priorities.

Priorities: Health and Education

Decisions will determine which areas of public spending are most affected, which social groups and regions will bear the greatest costs, and whether public investments in post-NRRP infrastructure will be safeguarded. Healthcare spending remains a particularly sensitive area. Although the government has pledged to prioritize healthcare spending, current projections show it declining as a share of GDP from 6.0% in 2025 to 5.9% in 2027.

Italy's healthcare system suffers from structural underfunding. Between 2002 and 2019, real per capita spending grew by only 5% compared to 15% in Germany, 13% in France, and 10% in Spain. In 2023, Italy's per capita healthcare spending returned to the 2019 level of €1,760, far below Germany (€3,758), France (€3,186), and even Spain (€1,918).

Education also remains underfunded, and investments in social infrastructure, including schools and healthcare services, must be a priority. True growth cannot occur without parallel improvements in access to citizenship rights.

Differentiated Autonomy: A Project to be stopped

In recent years, Svimez has made its voice heard on the risks of fragmentation of public policies and widening of citizenship gaps that would result from the implementation of differentiated autonomy. The Constitutional Court's recent observations confirm many of the criticisms advanced and strike at the crucial points of Law 86/2024, including the delegation of entire policy areas, the downgrading of *Livelli essenziali di Prestazioni* (*LEP*) to mere administrative fulfilments and diminished parliamentary oversight.

Svimez recognises in the Court's observations the opposition to a divisive idea of the country, heedless of the gaps in citizenship and based on the conflict between State and Regions and between citizens of different territories. The Court's warning cannot go unheeded, the negotiations with the Regions requesting greater autonomy should be suspended. Svimez supports a vision of symmetric federalism based on vertical and horizontal subsidiarity and national solidarity. This approach requires addressing inequities in historical spending and ensuring LEP based on needs and standard costs, supported by a robust Equalization Fund to address regional disparities in infrastructure.

• Policies for Southern Italy

Weakened Financial Commitments for 2025-2027

The 2025 Budget Law introduces significant cuts in resources allocated to Mezzogiorno, amounting to €5.3 billion over the 2025-2027 period.

This includes the **elimination of the "Decontribuzione Sud"** measure, which provided partial social security contribution relief to private enterprises in the South. Introduced in 2021, the measure supported over two million workers in 2023, with an annual cost exceeding €3.6 billion. The elimination of this measure is expected to have substantial negative impacts on growth and employment in the South. **Svimez estimates that the abolition will reduce Southern Italy's GDP growth by 0.2 percentage points and put approximately 25,000 jobs at risk**.

To compensate, the government has introduced a new fund for Southern interventions, with an allocation of €2.4 billion for 2025 and an additional €4.4 billion for the following two years. However, this funding is only about half of what has been cut, and its objectives and implementation mechanisms remain unclear.

The Single SEZ (Special Economic Zone): Potential and Challenges

By extending fiscal and bureaucratic incentives to the entire South, the introduction of a single Special Economic Zone (ZES) for Southern Italy is **a step toward a more integrated strategy for regional development**.

Potentially, its most disruptive element is the attempt, after many years of horizontal policies, to set up an organic strategy for the industrial strengthening of Southern Italy through the return to a principle of selectivity, functional to the strengthening and promotion of selected supply chains identified in the Strategic Plan. The potential of the single SEZ is not so much in the specific tools provided, as in the possibility of orienting and coordinating the other territorial development programming (NRRP and Cohesion funds), on the basis of strategies defined at the macro-area level.

However, this effort requires **acceleration in implementation procedures - the Strategic Plan has not yet been formally approved – and long-term funding for business incentives**.

The current tax credit for SEZ regions is financed only through 2025.

Even more important is the continuity of political commitment. The uncertainty over the prospects of the government's delegations for the Mezzogiorno and the risk of a unbundling of the delegations on European Affairs, the South, and the NRRP risk jeopardising the completion of the reforms undertaken.

Svimez Forecasts for 2024-2026

National Growth Outlook

Svimez forecasts GDP growth of 0.7% in 2024, in line with 2023. This marks a return to below-average growth compared to the EU-27 (projected to grow by 0.9%). By 2025, Italy's GDP growth will lag further, at 0.9% compared to the EU's 1.5%, and remain subdued in 2026 at 1.0% versus 1.8%.

Regional Growth Outlook

In 2024, Southern Italy is expected to grow faster than the Centre-North for the second consecutive year (+0.9% versus +0.7%). However, the gap will narrow compared to 2023, when the South's GDP grew almost one percentage point faster. This dynamic is driven by stronger growth in Construction investments in the South (+4.9% versus +2.7% in the rest of the country), supported by public NRRP spending. However, household consumption is projected to decline (-0.1% in the South versus +0.3% in the Centre-North) due to slower income growth and continued price pressures.

By 2025, structural disadvantages are expected to reassert themselves, with Southern growth falling behind the Centre-North (+0.7% versus +1.0%), a trend likely to persist into 2026 (+0.8% versus +1.1%).

The Decisive Role of the NRRP

Svimez emphasizes the pivotal role of NRRP investments in driving growth in Southern Italy. **Between 2024 and 2026, these investments are projected to contribute an additional 1.8 percentage points to Southern GDP**, compared to 1.6 points in the Centre-North. In the South, approximately three-quarters of GDP growth during this period will depend on the effective implementation of NRRP investments, compared to about 50% in the rest of the country.

Imbalances Between Generations and Rights

• The Emergency of a Shrinking Youth Population

Southern Italy faces a dual crisis of demographic decline and youth emigration

Birth rate decreases, demographic decline, and growing generational imbalances are national challenges that have escalated into emergencies in the South. **Over the past 20 years, the Southern population has decreased by 730,000 people**: while approximately 1.5 million Italian citizens have left, there has been an influx of just over 720,000 foreign residents. As of 2023, the South's share of the national population has fallen to 33.5%, down from 36% in 2001. The region has experienced significant losses among its youth: the under-40 population has declined by 3.1 million (-28%, compared to -12.5% in the Centre-North).

From 2002 to 2023, 2.84 million Italians left Southern Italy, 51.7% of whom were young people aged 15-34, and over one-fifth were university graduates. After accounting for returns, the **South has lost over 1.2 million residents, including 900,000 young people and nearly 300,000 graduates**.

Demographic Projections to 2050

Italy is projected to lose 4.5 million inhabitants, with 82% of the decline (3.6 million) concentrated in Southern regions. The population will not only shrink but also age significantly. The decline in youth will particularly affect the South, which is expected to lose 813,000 under-15s, nearly one-third of the current population in this age group (-32.1%), while the population aged over 65 will increase by 1.3 million (+29%).

These trends will exacerbate generational imbalances. The Economic Sustainability Index (IDSE), which measures the burden of non-working populations on the employed, is particularly telling. In 2023, the IDSE in Southern Italy was already at 115; by 2050, it is projected to rise to 180, meaning there will be nearly one employed person for every two non-working residents.

Policies to Combat Demographic Freezing

Addressing demographic challenges requires long-term policies focused on strengthening family welfare, work-life balance measures, childcare services, and effective income and parenting support. Fragmentation of existing measures must be overcome. Emigration, not immigration, is the primary concern.

It is essential to reverse the perception of immigration as a threat and include citizenship and economic and social integration policies in demographic recovery strategies. A comprehensive plan should prioritize the integration of minors and attract new families to Italy. The presence of such families can mitigate adverse demographic trends and break the vicious cycle of depopulation, declining services, and rising economic and social inequalities.

A Country, Two Schools

Aging Population and Schools at Risk of Closure

The steady decline in student enrolment across Italian schools over the last five years reflects the country's demographic trends, with fewer young people each year. However, **in Southern Italy, the decline in student numbers has been more than twice as fast as the national average**. Between the 2017/18 and 2022/23 school years, the national student population decreased from over 7.6 million to about 7.1 million (-6%). In the Centre-North, enrolment fell from 4.65 million to 4.46 million (-4%), while in the South, it dropped from almost 3 million to 2.67 million, a loss of 330,000 students (-9%)

Over the next decade, this decline will continue to affect the South and also extend to central regions. By 2035, the Italian population aged 5-14 is expected to decrease by 22%, from the current 5.2 million to just over 4 million. Student numbers are projected to drop by 21.3% in the South, 26% in central regions, and 18% in the North. Without immediate interventions and ambitious policy choices, the impact on the school system will be severe, threatening the survival of schools in marginal areas across the country. In primary schools, the risk of closure is concrete in 3,000 municipalities with fewer than 125 children - enough for only a single "small school". This represents 38% of municipalities nationwide, a figure rising to 46% in the South, particularly in remote areas.

School Infrastructure, Skills, and Dropout Rates

School infrastructure varies greatly by region. Fewer than one in three children in Southern Italy attend a school with a cafeteria, and fewer than half attend a school with a gym. Nationally, 54% of primary school students attend a school with a cafeteria, but this figure drops to 30% in the South (240,000 out of approximately 800,000 students) and rises to 67% in the Centre-North (980,000 out of 1.4 million students). Similarly, while 54% of Italian students attend schools with gyms, only 46% do so in the South, compared to 60% in the Centre-North.

These disparities in infrastructure affect access to full-day programs in primary schools in the South and significantly impact learning outcomes throughout the education cycle. These deficiencies largely explain the North-South gaps in student performance and skill levels.

School dropout rates are particularly high in Southern Italy. Of the 583,644 students who enrolled in the first year of lower secondary school in September 2012, 96,177 (16.5%) dropped out without obtaining a qualification within seven years. Dropout rates are especially high in the South (17.4%) and the Islands (20.6%), compared to the Centre-North, where rates are below the national average (14.6% in the Centre and 15.6% in the North-East and North-West).

Investing in Education Beyond the NRRP

Education is an essential public good, and its quality and accessibility across territories are key for inclusive development. Prioritizing investment in education means restoring schools' role as the first line of defence against inequality, ensuring that all students have equal access to this fundamental citizenship right, regardless of their family and social background.

Italy ranks last among major European economies in education spending. Addressing this underfunding must become a top public spending priority to achieve equity and growth. Bridging gaps in educational infrastructure and combating dropout rates will require increasing national education spending to meet European standards, extending well beyond the opportunities offered by the NRRP.

• A Country, Two Health Systems

North-South Disparities in Access to Healthcare

In Southern Italy, healthcare services - both preventive and curative - are less available, waiting times for many services are longer, and spending levels are lower compared to the rest of the country. The most recent monitoring of Essential Levels of Assistance (LEA) for 2022 shows that, except for Puglia and Basilicata, Southern regions fail to meet the minimum score of 60 out of 100 in at least one of the three areas of care (prevention, outpatient care, and hospital services). In Southern regions, structural underfunding is compounded by greater difficulties in meeting LEA standards.

The allocation of healthcare funding across regions does not account for socioeconomic factors - such as poverty, education, and social deprivation - that affect the demand for care. As a result, the current allocation formula penalizes Southern residents. Adjusting the distribution of national healthcare funding to include these factors would make it more consistent with the horizontal equity objectives of the National Health Service (SSN).

Disparities in preventive care are particularly evident. Between 2022 and 2023, seven out of ten Italian women aged 50–69 underwent biennial mammography screenings, with five participating in an organized program. However, this national average conceals significant regional differences. Friuli Venezia Giulia ranks highest, with nine out of ten women screened, nearly seven within an organized program. Calabria ranks lowest, with only two out of ten women screened and just one through an organized program.

Healthcare Migration

Interregional healthcare mobility highlights the disparities between regional health systems in terms of service availability and quality. The South has long seen chronic outflows of patients seeking care in the Centre-North. This trend is driven by the presence of specialized centers for specific conditions and, more generally, by the perception of higher-quality care in the Centre and North.

In 2022, passive healthcare mobility involved 629,000 patients, 44% of whom were residents of Southern regions. By contrast, Southern healthcare systems attracted only 98,000 patients, accounting for just 15% of total active mobility. Among oncology patients, 12,401 residents of Southern Italy (approximately 20% of the total) received treatment in Centre-North regions, ranging from 15% in Campania to 41% in Calabria.

Despite these challenges, **there are positive examples in the South, such as the innovative model of the Campania Oncology Network**. Investing in such initiatives could strengthen the availability of equitable care pathways across territories and reduce disparities in access to healthcare.

The Right to Work and Inclusion

Precarious Employment

The employment recovery during the post-pandemic period has occurred in a labor market characterized by increasing flexibility, with precarious work becoming a widespread phenomenon in Southern Italy compared to other European economies. Over 21.5% of workers in Southern regions are employed on temporary contracts, compared to a European average of 13.5%. Temporary employment is particularly prevalent among women and young people.

In the South, temporary employment tends to last longer: nearly a quarter of temporary workers (23.9%) have held such contracts for at least five years, compared to 14.9% in the Centre-North. This is largely due to the productive structure of Southern Italy, which relies more heavily on flexible labor arrangements due to its specialization in traditional services and the smaller average size of businesses. Additionally, 72.9% of part-time workers in the South are involuntarily part-time, compared to 46.2% in the Centre-North and less than 20% in the European Union.

Low Wages and In-work Poverty

Despite the expansion of full-time and permanent positions, the structural issue of low and declining real wages persists. This wage problem weighs on growth prospects, undermining the purchasing power of labor income. **Italy is the only major European economy where real wages are below 2013 levels (-8% in the South)**.

In 2023, Eurostat's "In-work Poverty" (IWP) indicator showed that 2.3 million Italian workers were living in poverty, representing 9.9% of the workforce, 1.6 percentage points above the European average. According to Svimez estimates, the IWP rate in Southern Italy was 22%, compared to 6% in the Centre-North. **The South accounts for 60% of Italy's working poor (approximately 1.4 million workers)**.

The positive employment trends have not prevented an increase in households with employed heads living in absolute poverty in Southern Italy: 9.5% in 2023, up from 8.5% in 2021. Among households with a head employed as a laborer or similar, the rate rose by three percentage points, from 13.8% in 2021 to 16.8%.

Absolute Poverty

Both individuals and families in absolute poverty increased between 2021 and 2023. In

2023, the incidence of absolute poverty was highest in the South, affecting 10.2% of families (up from 10.1% in 2021) and 12.0% of individuals (up from 11.8%). In the Centre-North, the rates were 7.6% for families and 8.6% for individuals (up from 6.6% and 7.6% in 2021, respectively).

Italian households in absolute poverty numbered 2.217 million in 2023, encompassing nearly 5.7 million individuals. Of these, approximately 860,000 families and 2.4 million individuals were in the South, while 1.36 million families and 3.3 million individuals were in the Centre-North.

From the Citizenship Income to the Inclusion Allowance

Between 2020 and 2022, the Citizenship Income (*Reddito di cittadinanza*) helped lift 400,000 to 500,000 families out of absolute poverty, including over 300,000 in Southern Italy. Without this measure, poverty rates in the South would have risen by approximately four percentage points, reaching around 14%.

The reform of the Citizenship Income and the introduction of the Inclusion Allowance (*Assegno di inclusione*) have created challenges. Access to the minimum income measure is now regulated based on family composition rather than actual employability. As a result, the number of beneficiaries has decreased by approximately 47% nationwide, from about 1.3 million to fewer than 700,000 families. In Southern Italy, beneficiaries have fallen from over 850,000 to fewer than 480,000 households.

Objective: Reindustrialization

Opportunities for Southern Italy

Supporting Traditional Sectors in Transitions and Strengthening Strategic Supply Chains

In the context of a new globalization shaped by heightened economic and trade conflicts, the reconfiguration of global supply chains presents new development opportunities for Southern Italy. These opportunities can only be seized if policies effectively leverage its underutilized talents - often lost to other regions - and initiate a reconfiguration of the productive fabric, particularly in areas of specialization already present in strategic sectors key to achieving European autonomy targets.

The dual transitions - energy and digital - and global industrial realignments imply the emergence of new strategic supply chains. Structural changes are also impacting traditional sectors of specialization, which form the backbone of both the national and Southern Italian economies. It is essential to develop a new industrial policy and facilitate this transition, beginning with the existing productive fabric.

The growing importance of clean technologies and renewable energy offers the South a unique chance to design a development model that combines industrial growth with environmental sustainability - an approach distinctly different from the 20th-century paradigm - while simultaneously revitalizing the country's industrial competitiveness.

Southern Specializations and Evolutionary Trajectories

Building on Southern Italy's Mature Specializations to Capture New Industrial Developmen Pathways

An analysis of Southern Italy's productive configuration reveals its actual and potential role in Europe's structural transformation, which is essential for addressing climate change and new global economic dynamics.

"Mature" economic activities - those characterized by established expertise, high value-added, and international reach - play a significant role in modernizing and diversifying local productive and infrastructural systems. These activities serve as catalysts for new investments in cutting-edge industries. Locally, industries, technologies, professions, and scientific domains with similarities in knowledge, skills, and institutional factors to existing sectors are more likely to develop.

The potential to disrupt established trajectories and create new pathways depends primarily on local economies' ability to connect and integrate with dynamic, advanced systems that provide access to enabling factors (knowledge, skills, and market opportunities) required for future development. For structurally weaker areas - characterized by sparse, fragmented, and low value added economic fabrics - the risk of being trapped in existing specializations is considerably higher.

Applying this theoretical framework to Southern Italy's economies allows for the identification of consolidated areas of specialization and those with transformative potential, offering enduring stimuli for growth and employment. The sectoral analysis in the report focuses on industries with strong industrial potential, aiming to identify high-transformative-potential production areas while highlighting related constraints and opportunities.

Southern Italy's Mature Specializations

Between 2017 and 2021, Southern Italy demonstrated specialization in key sectors such as Agribusiness, Shipbuilding, Aerospace, Construction, and Automotive. Regional analysis unequivocally highlights that these areas of specialization are predominantly driven by the major industrial economies of Southern Italy—Campania and Puglia—which host the vast majority of identified specializations. Additional indicators, including internationalization, skills, and technology, provide further clarity on the strategic value and evolutionary trajectories of these specialized sectors.

Agribusiness: This traditional sector has limited innovative capacity but holds a strong competitive position in international markets. Agribusiness exports are increasingly central to the South's and the nation's trade performance. However, the sector faces mounting pressures from climate change and an urgent need for modernization through the adoption of new production processes enabled by digital transformation.

Shipbuilding: The maritime industry is a critical asset for the future of logistics and commercial traffic. Supply chain bottlenecks, the "regionalization" of trade, and growing intra-European traffic position Southern Italy's geographic advantage in the Mediterranean as a concrete solution to increasing trade volumes and alleviating pressure on northern transportation networks. This sector plays a key role in achieving a necessary modal shift in Italy's transport system for environmental sustainability, creating significant market opportunities for the industry.

Aerospace: The aerospace sector places Southern Italy at the technological frontier. This industry and its surrounding ecosystem absorb advanced skills, create high-quality jobs, and offer comparatively higher wages than other sectors. It directly counters the "brain drain" and working poverty, while fostering positive synergies between universities and research centers. This creates a virtuous cycle where businesses and research institutions align their demands and expertise, driving mutual growth

Construction: This sector has a strong regional focus and high activation potential, retaining much of its economic impact locally. Recent policy-driven expansions, such as pandemic-era incentives, have significantly stimulated both construction activity and its associated supply chains, making it a key driver of the post-pandemic recovery in Southern Italy.

Automotive: The automotive industry represents the sector where Europe's structural transformation challenge will play out most prominently. The South's automotive presence, evidenced by strong international performance, exposes the region to both significant risks and opportunities. The survival of specialized firms depends on their ability to adapt to the transformative shift toward electric vehicles.

• The Automotive Sector: Challenges of the Transition

Southern Italy's Role in the Automotive Supply Chain

The Italian automotive industry, particularly vehicle manufacturing, is predominantly located in Southern Italy. In 2023, 82% of national production (751,000 vehicles) was concentrated in the Pomigliano, Melfi, and Atessa plants, which collectively produced 615,000 vehicles.

This prominence reflects the historical "Southern shift" of Fiat's production facilities starting in the 1970s. The South is characterized by large-scale production plants, especially in regions like Molise and Basilicata, where workers at Termoli and Melfi account for 82% and 79% of the sector's workforce, respectively. Additionally, regions like Campania, Abruzzo, Puglia, and Basilicata host significant automotive component supply chains. In 2021, over 20,000 people in the South were employed in automotive components manufacturing, although this network is less developed than in the Centre-North.

The extended automotive supply chain in Southern Italy generates nearly €13 billion in value added, with over four-fifths concentrated in Campania (29%), Puglia (20%), Sicily (22%), and Abruzzo (13%). The sector employs approximately 300,000 people, with the largest shares in Campania (30%) and Puglia (21%), followed by Sicily (21%) and Abruzzo (11%).

A Structural Crisis Impacting the South

Given the automotive sector's importance to the industrial and employment fabric, **the recent challenges facing the national and European automotive industries raise significant concerns, particularly for the South**. In the first nine months of 2024, Italian vehicle production stood at 387,000 units, a sharp 32% decline compared to the same period the previous year. Projections suggest that 2024 will close with fewer than 500,000 vehicles produced, reverting to levels last seen in 1959 (compared to 2.2 million in 1989).

During this period, **Southern plants accounted for nearly 90% of vehicles produced in Italy but saw a loss of over 100,000 units compared to 2023 (-25%)**. The Melfi plant alone recorded a decline of nearly 90,000 units (-62%). Other plants, which experienced growth earlier in the year, also entered negative territory, with reductions in both passenger vehicles (Pomigliano, -6%) and commercial vehicles (Atessa, -10%). Compared to 2019, the volume reductions were particularly severe at Atessa (-32%) and Melfi (-73%).

Exacerbating the situation, plans for a €2 billion gigafactory for battery production in Termoli, expected to employ 2,000 workers, were suspended by ACC. NRRP funds allocated for this project through a development contract were redirected elsewhere.

The significant production downsizing by Stellantis has already had—and will continue to have—severe repercussions on employment levels. Since 2014, approximately 11,000 jobs have been lost across Stellantis plants, with nearly 4,000 exits anticipated in 2024 alone due to incentivized retirements and a hiring freeze.

A Strategic European Plan for the Transition to Electric Vehicles

The global demand dynamics for the automotive sector are closely tied to the shift toward electric vehicles, driven largely by Chinese manufacturers. The slowdown in battery gigafactory investments affects not only Termoli but also the broader European industry, as evidenced by the halted ACC project in Germany and Northvolt's significant challenges. These developments highlight Europe's vulnerability across the automotive supply chain.

The transition to electric vehicles also entails transformative production processes and a substantial reduction in required intermediate goods, with significant negative impacts on employment—particularly as the shift progresses toward pure electric models. Without adequate policy intervention, the repercussions on Italy's industrial system will be highly adverse, especially in the South, where Stellantis plants dominate, and final production accounts for 54% of sector employment (over 23,000 workers).

Public policies implemented thus far have had temporary effects, failing to address structural challenges. Without targeted industrial policies to develop the electric vehicle supply chain, demand-side incentives serve only as a short-term fix.

In the near term, the relocation of strategic models—starting with mass-market vehicles—will play a crucial role in sustaining Southern Italy's automotive sector. Amidst a general slowdown in the European electric vehicle market, the reintegration of mild hybrid production currently outsourced abroad could provide the time needed to develop local battery production, related supply chains, and adequate charging infrastructure.

In the longer term, the state's negotiating power can increase only with the entry of new players into the national market. Attracting foreign manufacturers and establishing electric vehicle production—not just assembly—represents an opportunity for Southern Italy, offering the potential for transformative growth rather than defensive measures.

From a broader European perspective, Italy's proposal for a European fund to support the automotive supply chain and incentivize the purchase of electric vehicles made in Europe, based on the principle of local content, is a step in the right direction. However, it is insufficient. **Reviving Europe's automotive industry and safeguarding jobs and supply chains requires a paradigm shift**, starting with a strategic European plan capable of ensuring the necessary economies of scale and coordinated interventions across member states.

• Energy and Competitiveness: The Role of Southern Italy in Strategic Sectors

Energy Transition, Southern Italy's Revitalization, and National Industrial Competitiveness

The Russian invasion of Ukraine not only jeopardized Europe's energy supplies but also triggered an exponential rise in energy and raw material prices. Despite a 90% decline in European gas prices by 2023 compared to their 2022 peak, industrial gas prices remain above pre-crisis levels and significantly higher than those in the United States and China. Similarly, electricity costs for energy-intensive industries in the EU were nearly double those in the U.S. and China in 2023, despite a 50% reduction compared to 2022 levels.

These increases have exacerbated pre-existing energy cost disparities with other major economies, creating a structural competitive disadvantage. Unsurprisingly, the competitiveness of Europe's energy system is now central to the EU's political agenda, as evidenced by the Letta and Draghi reports on competitiveness.

In this context, **accelerating the energy transition and increasing reliance on renewables are strategic steps toward restoring competitiveness, especially in weaker regions such as Southern Italy**. The potential of renewables is clear, given the consistent cost reductions over recent decades. By 2023, 81% of global installed capacity offered a more cost-effective energy alternative than fossil fuels.

However, a harmonious development path can only be achieved if the installation of renewable energy capacity is well-regulated and socially accepted. Southern Italy must not become merely a hub for renewable energy production and distribution—exporting energy to industries in Northern Italy or Central Europe, or serving as a transit point for energy produced in North African countries. Such an outcome would strain the social compact, with early signs of stress already evident in some regions.

Mezzogiorno and its Potential

Southern Italy has the potential to become a production hub in key green technology segments. Expanding production capacity in these areas - such as solar, batteries, wind, and electrolyzers - can stimulate the development of high-quality industrial and employment ecosystems.

The solar gigafactory ENEL-3Sun in Catania is emblematic of this potential. Over the next decade, the factory's economic impact is projected to create nearly 3,000 new full-time jobs annually and generate €240 million in value-added per year. These estimates highlight the transformative impact of the 3Sun initiative, representing a significant departure from Southern Italy's traditional economic specializations and offering a concrete structural shift.

The strategic importance of the Catania gigafactory goes beyond its economic and employment impacts. It plays a central role in developing Europe's photovoltaic supply chain and underscores Southern Italy's contribution to strategic sectors. For this reason, national industrial policy should prioritize building a new specialization in solar manufacturing. This requires supporting expanded production capacity to achieve necessary economies of scale, fostering vertical integration within the supply chain, and relocating production segments currently reliant on foreign sources - within a broader European framework.

The Catania gigafactory demonstrates that implementing technologically targeted industrial policies aimed at reducing strategic dependencies yields a triple dividend: enhancing Europe's manufacturing capacity in strategic sectors, driving structural transformation in weaker European regions like Southern Italy, and revitalizing the competitiveness of the industrial fabric.

• A New Industrial Policy and Its Tools

While there are already positive initiatives in Southern Italy, the time has come to implement a more ambitious industrial policy tailored to capture the development opportunities emerging in the new global context. This involves not only ensuring adequate resources for Southern Italy but also **adopting a strategy focused on identifying and supporting key productive priorities and strategic specializations**.

Moving beyond the horizontal approach that has characterized industrial policies in recent decades requires a reevaluation of the tools at hand. The incentives provided under the Transition 4.0 Plan—currently the most significant intervention in financial terms—have followed the spontaneous distribution of businesses without a clear change strategy, leading to asymmetric effects between North and South. Similarly, the substantial tax credits directed to Southern Italy for investments, totaling over €9.7 billion between 2016 and 2023, have supported investments during adverse cycles but have not contributed to the structural transformation of the South's productive system.

Strengthening Selective Interventions

Achieving structural transformation requires strengthening discretionary and selective interventions. Selectivity should aim to integrate Southern Italy into key national and European strategic supply chains, paving the way for a modern and innovative Southern industrial base capable of operating in high-value-added segments.

In this regard, the **Sustainable Growth Fund and Innovation Agreements** have played a significant role in fostering strategic sectors in the South, such as advanced Mechanics and Chemistry & Pharmaceuticals. Important contributions also come from IPCEIs (Important Projects of Common European Interest)—which the South has begun to access, particularly in batteries and hydrogen—and from CDP Venture Capital in supporting promising Southern enterprises through both fund-of-funds and direct funds. Development Contracts have also been crucial in facilitating strategic and innovative investment projects, primarily proposed by medium and large companies and, to a notable extent, by foreign enterprises.

Looking ahead to the White Paper on Industrial Policy scheduled for January 2025, these interventions should be bolstered by ensuring adequate resources for Southern Italy and a medium- to long-term operational horizon. However, the 2025 Draft Budget Law moves in the opposite direction, significantly cutting incentives for the productive system while refinancing only the incentives for the Single ZES (Special Economic Zone) and the Nuova Sabatini. Innovation Agreements and Development Contracts remain unfunded, despite the need for new financial resources to support them.

• The Role of Skills

Intellectual Migrations

Between 2002 and 2022, approximately 500,000 university graduates of all ages left Southern Italy for the Centre-North, resulting in a net loss exceeding 320,000 graduates in the region (including 250,000 young graduates). During the same period, the share of Southern emigrants with high-level qualifications (university degrees or higher) quadrupled, rising from approximately 10% to 35%.

Data on female graduates migrating abroad highlight the mismatch between their qualifications and domestic labor market demand. Between 2002 and 2022, 81,881 female graduates left Italy, including 57,598 from the Centre-North and 24,283 from the South. Adjusted for inflows of Italian female graduates returning from abroad, the net loss of female talent stands at -49,963.

The intellectual migration from South to North is also fuelled by student mobility. Despite positive signals in the 2023/24 academic year, over the past 15 years, Southern universities have struggled to enrol local students. Two out of ten Southern students (approximately 20,000 annually) enrol in undergraduate programs in the Centre-North, while nearly four out of ten (18,000 annually) pursue graduate studies at northern universities. In some Southern regions, the outflow of graduate students is exceptionally high: 83% in Basilicata, 74% in Molise, and over 50% in Abruzzo, Calabria, and Puglia.

Between 2010 and 2023, the significant increase in the number of Southern graduates was achieved exclusively through degrees awarded by Centre-North universities (+40,000), while the number of graduates from Southern universities declined. This trend underscores the reduced ability of Southern universities to retain students and the ongoing brain drain that benefits the Centre-North.

The chronic underfunding of Italian universities remains a critical issue. Since the early 2000s, ordinary funding allocated to universities has decreased in real terms. In 2024, a 5% reduction in the Fondo di Finanziamento Ordinario (FFO) ended the growth phase began in 2019. This trend will disproportionately affect peripheral universities, particularly those in Southern Italy, already struggling with demographic decline and systemic disadvantages in FFO allocation mechanisms.

Southern Italy possesses a wealth of knowledge and skills that are often underutilized or lost to other regions. These represent a potential draw for investments, which could translate into tangible locational advantages for new initiatives in high-demand, well-compensated employment sectors. Achieving this potential requires a forward-looking, shared vision of industrial policy.

Higher Technical Education

As demand for technical skills continues to grow—primarily concentrated in Northern Italy—the expansion of Higher Technical Institutes (Istituti Tecnici Superiori, ITS) could help stem the significant outflow of human capital from Southern regions.

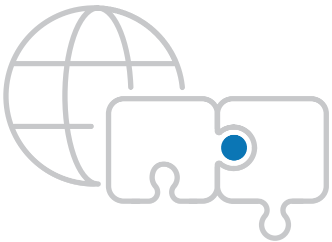
In 2022, ITS graduates numbered approximately 7,000, while businesses expressed demand for 47,000 professionals with relevant technical profiles. This glaring mismatch between supply and demand highlights a structural gap that sets Italy apart from technologically advanced countries.

In 2021, only 1.1% of Italian tertiary-level students were enrolled in professionalized higher education pathways, compared to an average of 7.8% in countries with short-cycle higher education systems and more than 20% in France and Spain.

Employment rates for ITS graduates stand at 88% in the Centre-North and 82% in the South, while dropout rates are 20% in the Centre-North and nearly 40% in the South. These disparities reflect differences in local productive systems and governance models for ITS institutions.

Expanding ITS programs could increase business activity in Southern Italy, stimulating demand for qualified labor, including university graduates. A stronger business presence in the South would not only reduce the outflow of Southern graduates to the North but also improve regional enrolment rates by raising employment prospects.

Competitiveness and Cohesion: Time for Policies



The European Project

What Europe After NGEU?

We are experiencing a period of significant transformation in global economic and geopolitical balances. This pivotal moment calls for a comprehensive revaluation of European policies. Europe must urgently reimagine itself to plan its post-NGEU future. **It is essential to integrate the debate on the future of Cohesion policy** - the only common policy explicitly aimed at regional convergence - **with proposals related to the EU's Competitiveness and Single Market strategy**.

The new European Commission, in addition to advancing the twin transition and the European Green Deal, must address the critical issues of competitiveness and the sustainability of the European economic and social model. This requires extraordinary policies and choices regarding the common budget, strategic investments, energy transition, trade policies, and Single Market regulation.

In the new global scenario, **the German export-oriented model**, which has been central to the EU's economic strategy, is showing **significant signs of weakness**, particularly in Germany itself. **Domestic demand will increasingly be a crucial driver of investments, wages, productivity, and innovation**.

However, the current shift in European fiscal policies is moving in the opposite direction. The fiscal consolidation stemming from the new Stability Pact risks not only dampening aggregate demand but also weakening the entire continental industrial system. The nascent phase of a renewed European industrial policy risks clashing with excessively restrictive fiscal policies. The idea of shielding investments - the so-called "good debt" - from fiscal discipline rules is inadequate, as it overlooks the importance of current expenditures in supporting domestic demand and funding essential public services.

Industrial Policy, Welfare, and Inclusion

Innovations tend to create winners and losers, both socially and geographically. The degree of cohesion will depend on the scope and characteristics of public policies accompanying these processes. **The challenge is to balance competitiveness and cohesion during transitions.**

In a historical period marked by rapid structural change and a resulting redefinition of the global productive and technological landscape, a strong and coordinated European industrial policy is imperative - especially in light of significant initiatives by China and the United States. As highlighted in the Draghi and Letta reports, **the challenge for European institutions and individual member states lies in coordinating all measures and investments to achieve common objectives in critical sectors** - energy, future industries, and defence - while preserving the unique European model of welfare and inclusion.

Competitiveness and Cohesion

The EU's gradual competitive decline after the Global Financial Crisis has matched the increasing disparities between the most advanced and less developed regions. Mediterranean regions, including Southern Italy, have fallen further behind European economic and social standards.

This dynamic has been exacerbated by European policies that have left Cohesion policy as the sole tool to counter regional divergence fuelled by the EU's overall macroeconomic governance. The absence of a genuine common investment-oriented fiscal policy has hindered the uniform integration of regions into the European economy. Austerity measures resulted in severe and prolonged recessive impacts, especially in the weaker regions of Southern Europe, due to cuts in development expenditures.

Learning from past lessons, the EU must address the potential inequalities stemming from its policies. Certain fundamental considerations should guide this effort:

- Policies are essential to correcting imbalances created by market forces.
- The European Single Market has not promoted regional convergence.
- Efficiency does not automatically lead to equity. On the contrary, promoting equity among territories enhances efficiency, including overall competitiveness.

Ultimately, addressing Cohesion and reducing disparities must take center stage in the EU's new challenges. These issues must be addressed with a view to strengthening Competitiveness policies by improving their effectiveness and making specific areas of intervention, objectives, and outcomes more explicit and visible to citizens.

• The National Recovery and Resilience Plan

The Mission of the NGEU

The new Commission's first task will be to ensure the full and effective implementation of the Next Generation EU and its related Recovery and Resilience Plans (RRPs). This is **a critical step in laying the groundwork for a broader discussion on common European investments and financing the budget through new debt issuances**.

The NRRP and Municipalities

The NRRP has brought a renewed focus on municipalities, but this has come with added administrative burdens and spending efforts that have strained institutions already weakened over the years, particularly in the South, by reductions in human and financial resources and an aging workforce due to repeated hiring freezes.

Municipalities have been allocated €26.8 billion in NRRP funds for infrastructure projects, with €11.3 billion designated for Southern ones. These funds primarily aim to strengthen social infrastructure, followed by transportation, environmental, and water infrastructure. The greater implementation effort required of Southern municipalities is evident from the per capita resources to be mobilized: approximately €600 per inhabitant in the South, compared to €430 in the Centre-North.

So far, Southern municipalities have managed to mobilize resources in line with NRRP objectives. Nationally, as of July 31, 2024, projects worth €7.3 billion (24% of the total) had not yet begun. Of this, €5.6 billion were associated with projects scheduled to start after that date, leaving €1.7 billion tied to delayed projects. Interestingly, the share of delayed projects is higher in Centre-North municipalities (28%) than in the South (19.6%), regardless of whether the delays were minor (less than seven months) or significant (more than seven months). However, this disparity can partly be attributed to delays in tender processes in the South, which have pushed forward project start dates. The severity of delays will depend on the ability of delayed administrations to activate project execution by the end of 2024. Most projects, particularly in the South, are slated to begin in the second half of 2024, for which monitoring data is not yet available.

The NRRP and Early Childhood Services

NRRP investments aim to expand early childhood education services, increasing national coverage to 41.3%, close to the 45% EU target for 2030. Despite this progress, **territorial disparities will remain significant**. Eleven regions are expected to surpass the 45% target (Friuli-Venezia Giulia, Liguria, Lazio, Tuscany, Sardinia, Marche, Valle d'Aosta, Emilia-Romagna, Abruzzo, Umbria, and Molise). Seven regions will achieve coverage between 38% and 45% (Puglia, Calabria, Piedmont, Veneto, Lombardy, Basilicata, and Trentino Alto Adige). However, two regions—Campania and Sicily—will not even reach 33% coverage, despite investments.

The NRRP and Local Healthcare

In the realm of home care and the two infrastructure investments in Community Health Centers and Hospitals, the NRRP has adopted a regional resource allocation method that represents a significant step toward equitable criteria. This method accounts for differing starting conditions and the varied needs of citizens and territories.

Progress in these measures aligns with national objectives for home care, but delays in the South remain concerning. Most regions have met their 2023 interim targets for reaching patients over 65, often with significant margins. However, four Southern regions - Calabria, Sardinia, Campania, and Sicily - failed to meet their targets. Sicily, in particular, is far behind, with only 200 additional patients reached instead of the 39,121 projected for 2023. This delay risks jeopardizing the national target of providing home care to 10% of the over-65 population by 2026.

Investing to Reduce Disparities and Ensure Service Continuity

The two critical challenges in the post-NRRP period are sustaining investments and reducing disparities, while ensuring the continuity of services to amplify the long-term effects of NGEU.

For home care, additional resources will be needed to maintain the target of 10% coverage for the over-65 population and to ensure continued care for the additional 883,000 elderly individuals expected to benefit from NRRP resources. A similar challenge applies to the full and effective operation of territorial healthcare infrastructure, which will require sufficient healthcare personnel to ensure functionality. However, the absence of additionality and explicit reserves creates uncertainty regarding the authorization of expenditure provided by the Budget Law under the National Health System's funding.

For nurseries, two post-NRRP challenges must be addressed. First, the financing of operational costs: current expenditures should be directed toward municipalities that have invested the most. Second, territorial disparities in service provision will persist even after the NRRP. The medium-term structural budget plan extends investment implementation to 2027 and introduces a minimum regional threshold of 15% coverage (public and private) for nursery places per 100 children. While the 15% threshold is already effectively achieved based on NRRP resources and Decree 79 of 2024, the coexistence of differentiated minimum service thresholds at the national (33%) and regional (15%) levels is inconsistent with a strategy to reduce territorial disparities in one of the primary rights of citizenship, which should be uniformly ensured nationwide.

• Cohesion Policy: A New Approach

Cohesion for Public Services

To ensure the continuity of investments and services, it is essential that EU and national Cohesion funds for 2021–2027 operate in complementarity with NRRP actions. This requires introducing into the economic policy debate the possibility of using Cohesion funds to finance services of significant social utility. This approach was already adopted during the pandemic through the Development and Cohesion Fund (Fondo per lo Sviluppo e la Coesione, FSC) and, in the health sector, both by the NRRP for home care and by the most recent Partnership Agreement, which allows the use of ERDF and ESF+ resources to cover healthcare personnel costs under the national "Health Equity" program.

The Svimez Proposal

Reconsidering the role and mechanisms of Cohesion policies must be a pressing priority for the new European Commission. The Svimez report highlights the structural limitations of the current model, which is based on generic thematic objectives that fail to adapt to the diverse priorities and needs of different territories. This model relies on expenditure reporting rather than achieving specific growth or disparity-reduction objectives.

Conversely, applying an adapted NRRP methodology to Cohesion policies - where resource allocation is contingent upon achieving specific objectives rather than merely documenting expenditures - could represent a viable reform proposal. This approach could substantially enhance the effectiveness of these policies.

The Partnership Agreement should include precise quantitative targets set at least at the regional level, accompanied by milestones with territorial dimensions, particularly concerning reforms in local public service regulations, the delivery of essential services (especially in education and healthcare), and compliance with European directives. Annual disbursements of resources would be tied to the achievement of investment and development objectives, regional and local service reforms meeting specific quality standards, and the resolution of infringement procedures against various regions.

Under this method, funding eligibility would require more than alignment with a general policy objective. Instead, it would necessitate the intervention's contribution to achieving a precise quantitative target.