

Italy boosted by being wedded to German might

FT series The reluctant superpower

Brembo brakes in Porsche cars are typical of the mutually admiring relationship, writes Rachel Sanderson

Alberto Bombassei, one of Italy's most well-regarded entrepreneurs, has no doubts about the impact of Germany on his own country's economy.

"Germany has been a point reference for Italy for a long time, for companies that are large, medium-sized and small," he says. "You need only look at the Salone del Mobile," the international design fair taking place in Milan this week.

This is the most important furniture sale in the world, Mr Bombassei says, but the main focus is selling to Germany. "Germans appreciate the products that Italy manufactures, high in quality and innovative. And that applies to German companies as it does to German consumers."

Mr Bombassei speaks from 50 years of personal experience. Brembo, the company of which he is both chief executive and chairman, is the world's leader by revenues in the manufacture of premium car brakes, operating in 70 countries. But the business was built around demand from the German car industry.

Mr Bombassei, whose father Emilio founded the group in 1961, expanded into Germany because the Italian market was too narrow. His biggest clients remain Porsche, Daimler Audi, VW and BMW and Germany is Brembo's biggest market, worth more than a fifth of its total revenues. Its sales there rose 42 per cent in 2010 compared with a year earlier to €236.5m. Giulio Tremonti, Italy's economy minister, likes to say that 40 per cent of an Audi is made of Italian parts, and it is true that Brembo's success is reflective of wider Italian industry which has piggybacked on Germany's industrial might.

Germany is Italy's largest trading partner, purchasing 12.7 per cent of Italian exports. In real terms, that figure is estimated to be much higher, given that

trade with countries such as Poland is often destined for German factories and businesses located there. Car parts and accessories made up the biggest category of exports to Germany last year, worth €2.15bn.

Bank of Italy governor Mario Draghi, a candidate to take over the European Central Bank, caused a stir last September when he suggested Italy should endeavour to imitate the productivity and competitiveness of Germany in order to stimulate growth. But there are already signs that is an old idea in parts of Italy.

Marco Fortis, an Italian economist, says the fate of tens of thousands of entrepreneurs scattered across north and central Italy has for decades been linked to the development of German industry. The small and medium-sized companies that are the backbone of the Italian economy specialise in the manufacture of premium finished products that are bought by German multinationals for assembling high-end goods, be it cars or washing machines.

The fruits of this relationship are reflected in the similar levels of wealth creation in Germany and north and central Italy.

Despite Italy's sluggish growth of about 1 per cent a year for the past decade, per capita gross domestic product in north and central Italy is more or less equal to that of Germany as a whole. But in Italy's south GDP per capita is below Portugal, and among the lowest in Europe.

While entrepreneurs in the north and the centre of Italy imitate Germany, industry in the south is far distant, both geographically and culturally. Although there are examples of entrepreneurship in the south, such as wine growers in Sicily, most industry is traditionally controlled and

financed by the state.

For many Italian businessmen the most profitable relationships are also symbiotic with Italian entrepreneurs wedding their creativity to Germany's industrial focus. Mr Bombassei describes Brembo's work with Porsche as "a personal relationship of great satisfaction". "We collaborate, we work together on innovation and research."

Developing a relationship with Germany's premium car industry has allowed Mr Bombassei to defend margins on his products, unlike mass market manufacturers in Italy which have been

nearly wiped out by Chinese and Indian competition.

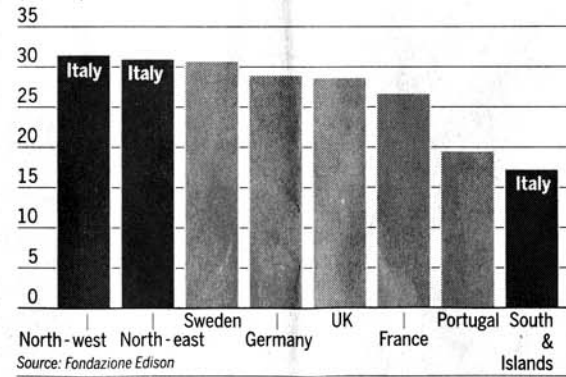
Moreover, as Germany's car industry has globalised, so has Brembo.

Mr Bombassei has recently opened a second factory in China, in part, he says, to satisfy demand among Chinese carmakers for high-end brake systems. But it is as much because German car manufacturers are setting up business in China, and Brembo wants to be alongside to supply them. It has opened a factory in India, and two in Brazil, for much the same reason. Thus, a significant percentage of Brembo's sales in growth markets are also effectively related to German industry.

Mr Bombassei is also vice-chairman of Italy's influential employers' union, Confindustria. Speaking with his "Confindustria cap on" and considering the problems of Italian business – low economic growth in Italy, a narrow market, provincialism – he says new businesses should foster a relationship with Germany, even when their focus is on China, India or Brazil.

Italy's north-south divide

GDP per capita of Italian regions and selected EU countries, 2008 (€ '000)



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