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The Italian furnishings market in the United States of America: case-study Reflex Spa

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PREFACE

When I got the chance to make an internship experience at Reflex Spa, a furniture company specialized in high-end décor headquartered in Biancade, Roncade, I forthwith established to take advantage of this opportunity to develop my Master Thesis as well, in order to complete my academic studies.

The internship let me to place side by side two themes I am deeply concerned in. On one hand, contents about International Trade; coming from a Bachelor's Degree in Foreign Trade, I had the opportunity to manage everyday situations of a company's import/export relations working in the Export Department of Reflex Spa. I put into practice the economic and legal theoretical background University provided me with, and I could experience how the interaction with international markets is implemented and managed.

On the other hand, Italian furniture market is one of the sectors conventionally linked with "Made in Italy" tradition. It is portrayed by the copious presence of Small and Medium-sized Enterprises spread in all the national territory, but specialized clusters can be identified in five regions. This is one of the sectors expanding on a global scale in order to export Italian taste and experience to foreign countries.

Therefore, I choose to focus my analysis on the evolution of the Italian furnishings market in the United States of America in the last ten years, considering the Northern American market a stimulating one to examine in the light of both being one of the world most powerful economies and for the latest economic and political events it is interested by (from being the epicenter of the economic crisis of the first decade of 2000s, to the latest political developments which can change the nation's role in the global economic scenario). The trade interaction between these two countries is strong

and undeniable; while the United States deeply appreciates Italian designers' genius and the gift for high quality of Italian manufacture, Italy intensely relies on the potential of the US market for its large dimension and for the positive trend of economic exchanges between them. Then, this Master Thesis deals with the opportunities offered by the American market to the export of Italian furniture companies, considering the evolution of the international economic framework throughout the last decade.

A further clarification requires to be made: in this work, I choose to focus only on internationalization of Italian furniture through export because the internationalization of production is not a widespread practice in this sector.

In order to pursue the above-mentioned goals, this paper is structured as follows:

- Chapter 1. Introduction: The global commercial area

It provides an overall overview on international trade recalling some of the most important studies and models on it, and trying to highlight advantages and disadvantages of global trade liberalization; then, focus shifts to global trends of import/export flows from the last years of the 19th century to the current situation, showing an outline of the governance framework as well.

- Chapter 2. United States of America

It examines the geo-economic background of the United States of America under a commercial perspective, to focus then on the attractiveness and on the critical issues disclosed from the US market to an Italian export company; then, an outlook on the current state of the US furniture market is provided.

- Chapter 3. The Italian furnishings sector

It outlines the configuration and the peculiar aspects of the furnishings industry in Italy presenting the production structure and export inclinations of this sector over the last decade; then, it focuses on the bilateral trade relationship between Italy and the United States of America, in this field.

- Chapter 4. Case-study: Reflex Spa

It briefly introduces the examined company depicting a general profile of the firm, to focus then on the pattern of Reflex' sales in the United States of America from 2006 to 2016, trying to read it against the theoretical background outlined in the previous chapters, and to evaluate it.

The downturn in Italian production due to the crisis and the growing competition from countries with lower labor and production costs are obstacles key "Made in Italy" sectors can overcome relying on exports and preserving their competitive advantage given by the high quality and sophisticated design of their production. Then, this research aims at highlighting the chances the US market offers to the Italian furniture sector; the overall conclusions at the end of the dissertation try to provide the recapitulatory framework in which Italian furniture export will continue to grow in the following years.

In methodological terms, this paper is based on researches on official data and sectorial studies, together with the consultation of a selected bibliography about concerned topics, and on data obtained through the internship experience at the Reflex Spa company. Opting to write my Master Thesis in English represented a further stimulating challenge to me, but I made this choice in order to enrich the potentiality of my work.

PREFAZIONE IN LINGUA ITALIANA

Quando mi si è presentata l'opportunità di effettuare un tirocinio presso la società Reflex Spa, un'azienda di arredamento che si rivolge ad una fascia medio-alta del mercato, con sede a Biancade di Roncade, ho deciso di cogliere questa occasione per poter sviluppare anche il mio progetto di Tesi Magistrale, a completamento del mio percorso di studi.

Il tirocinio mi ha permesso di affiancare due tematiche per le quali nutro un marcato interesse. Da un lato, vi sono le questioni riguardanti il Commercio Internazionale; provenendo da una Laurea Triennale in Commercio Estero, con il lavoro nell'Ufficio Commerciale Estero di Reflex Spa ho avuto l'opportunità di vedere come le ordinarie operazioni di import/export sono quotidianamente gestite all'interno di un'azienda. Le nozioni economiche e giuridiche apprese all'Università hanno trovato un riscontro pratico, e ho potuto prendere parte alla gestione dell'interazione con i mercati internazionali.

Dall'altro lato, il settore del mobile italiano è uno dei segmenti tradizionalmente collegati all'eccellenza del "Made in Italy". È caratterizzato dalla presenza di numerose Piccole e Medie Imprese diffuse in tutto il territorio nazionale, ma possono essere identificati dei distretti specializzati in cinque regioni. Questo è uno dei settori che si stanno espandendo maggiormente a livello globale, diffondendo così il gusto e l'esperienza della manifattura italiana nel mondo.

Per questo, ho deciso di concentrare la mia analisi nell'evoluzione del mercato del mobile italiano negli Stati Uniti d'America nel corso degli ultimi dieci anni, considerando particolarmente stimolante lo studio del mercato americano in quanto consiste in una delle più forti economie a livello mondiale, e anche alla luce dei recenti avvenimenti economici e politici da cui è stato interessato (dall'essere l'epicentro della crisi

economica del 2008 agli ultimi sviluppi politici, che possono far cambiare il ruolo del Paese nello scenario economico globale). La relazione commerciale tra queste due nazioni è solida e incontrovertibile; mentre gli Stati Uniti nutrono un profondo apprezzamento per il talento dei designer italiani e per l'inclinazione verso gli alti livelli di qualità della manifattura italiana, l'Italia si affida notevolmente al potenziale offerto dal mercato statunitense sia per la sua ampia portata che alla luce dell'andamento positivo degli scambi commerciali che intercorrono tra i due Paesi. Questa Tesi Magistrale si occupa quindi di analizzare le opportunità offerte dal mercato nordamericano alle esportazioni delle aziende di arredamento italiane, valutando l'evoluzione dello scenario economico internazionale nel corso dell'ultimo decennio.

Mi sembra opportuno fare un'ulteriore precisazione: in questo elaborato è trattata l'internazionalizzazione del mobile italiano da un punto di vista esclusivamente commerciale poiché l'internazionalizzazione produttiva non è una pratica molto diffusa in questo settore.

Per perseguire gli obiettivi suesposti, questo lavoro di tesi è strutturato come segue:

- Capitolo 1. Introduzione: Lo spazio commerciale globale

Viene fornita una presentazione generale della nozione di commercio internazionale richiamando alcuni dei più importanti studi e modelli a riguardo, e provando ad evidenziare i vantaggi e gli svantaggi derivanti dalla liberalizzazione del commercio a livello globale; l'attenzione si sposta poi sulla struttura e sull'evoluzione dei flussi di import/export mondiali dagli ultimi anni del 19° secolo alla situazione attuale, presentando anche un profilo del quadro della governance.

- Capitolo 2. Stati Uniti d'America

Viene esaminato il contesto geo-economico degli Stati Uniti d'America da un punto di vista commerciale, per poi concentrarsi sulle attrattività e sulle criticità che il mercato statunitense presenta per un'azienda esportatrice italiana; poi,

viene fornito uno sguardo d'insieme della situazione attuale del mercato del mobile negli Stati Uniti.

- Capitolo 3. Il settore del mobile in Italia

Vengono delineate la configurazione e le peculiarità del settore del mobile e dell'arredamento in Italia presentandone la struttura produttiva e l'andamento delle esportazioni in questo ambito nell'ultimo decennio; si esamina poi l'interscambio commerciale bilaterale tra Italia e Stati Uniti d'America che riguarda questo settore.

- Capitolo 4. Caso di studio: Reflex Spa

Viene brevemente presentata l'azienda oggetto dell'analisi fornendone un inquadramento generale, per poi concentrarsi sull'andamento delle vendite di Reflex Spa negli Stati Uniti d'America dal 2006 al 2016, provando a interpretarlo alla luce delle nozioni teoriche fornite nei precedenti capitoli e a valutarlo di conseguenza.

Il declino della produzione italiana causato dalla crisi e la crescente competizione proveniente da Paesi in cui il costo del lavoro e i costi di produzione sono minori costituiscono degli ostacoli che i principali settori del "Made in Italy" possono superare affidandosi alle esportazioni e mantenendo il loro vantaggio competitivo costituito dall'alta qualità e dal sofisticato livello di design della loro produzione. Quindi, il presente studio si prefigge lo scopo di evidenziare le opportunità che il mercato statunitense presenta per il settore del mobile italiano; le conclusioni generali esposte alla fine della trattazione vogliono provare a fornire il quadro riassuntivo in cui l'export italiano di mobili continuerà a svilupparsi anche nei prossimi anni.

Sotto il profilo metodologico, questo elaborato è basato in gran parte su un lavoro di ricerca svolto su dati ufficiali e studi di settore, affiancato dalla consultazione di una selezionata bibliografia riguardante gli argomenti trattati, e sui dati raccolti tramite il tirocinio presso l'azienda Reflex Spa. Scegliere di sviluppare la mia Tesi Magistrale in

lingua inglese ha costituito un'ulteriore stimolante sfida per me, ma ho preso questa decisione per poter arricchire le potenzialità che questo lavoro presenta.

CHAPTER 1

INTRODUCTION: THE GLOBAL COMMERCIAL AREA

This paper starts with a dissertation providing an overall overview on international trade: the most significant studies explaining the reasons behind exchanges of goods among different countries are hereunder recalled in order to try to highlight both advantages and disadvantages of global trade liberalization. Then, focus shifts to a description of the context in which international trade developed outlining current global trends of import/export flows; the governance framework and the role of international organizations operating in the economic field is discussed as well.

1.1 WHAT IS INTERNATIONAL TRADE?

Trade is “the activity of buying and selling or of exchanging goods or services between people or countries”¹. Trade has always been a fundamental element in human history since the first sedentary cultures; at first, it took place mainly by land, but then it started developing also by sea, and this allowed distances between the implicated parts to grow significantly. Causes of trade between countries have been studied in order to understand what drives the specialization of different regions; moreover, studies about international trade focus on effects of trade openness on involved countries, and on measures that enhance worldwide exchanges.

¹ Oxford Advanced Learner’s Dictionary, 9th edition, Oxford University Press, 2015

Reasons of the amount of international trade are the number of involved countries, the quantity of exchanged goods and the value of the interchange. As the per capita income of a nation increases, also the amount of traded goods raises (because the country will produce, export, and import more); this drives to the resulting growth of the value of the interchange among nations, because countries will buy and sell more².

D. Ricardo, one of the first economists to deal with the causes of international trade, depicts the theory of “comparative advantage” as the reason of exchanges of goods among different regions: the drivers of international trade are differences in technology or in natural resources of each country. He suggests that a nation should concentrate its resources only in industries where it has a comparative advantage, in order to produce only certain specific goods and to import others from different countries, where they can be made with more affordable means. So, trade openness leads each country to focus on its most efficient productions to export them, and lets each actor to benefit from international trade³.

Another classical model on international trade is the one developed by E. F. Heckscher and B. Ohlin. They assert that the main drivers of international trade are not differences in technologies of each country, but differences in factors endowment (primarily, land, labor, and capital). According to the Factor Proportions Theory, trade openness allows countries to export products that make intensive employment of locally abundant factors, and to import goods that use their locally scarce factors⁴. W. F. Stolper and P. A. Samuelson start from this theory and describe the relationship between relative prices of outputs and relative prices of factors used to produce them. They conclude that if the world price of capital-intensive goods rises, it will increase the relative rental rate (the

² G. RICCHIUTI, *Costi e benefici del commercio internazionale*, in “Enciclopedia Treccani”, 2009

³ P. R. KRUGMAN, M. OBSTFELD, M. J. MELITZ, *Economia internazionale 1 – Teoria e politica del commercio internazionale*, 5° edizione, Pearson Editore, 2012, ch. 3

⁴ P. R. KRUGMAN, M. OBSTFELD, M. J. MELITZ, *Economia internazionale 1 – Teoria e politica del commercio internazionale*, 5° edizione, Pearson Editore, 2012, ch. 5

return on capital) and decrease the relative wage rate (the return on labor), and vice versa⁵.

P. R. Krugman, E. Helpman and H. Grossman developed the so-called New Trade Theory. They focus on global exchanges among similar countries (with analogous factor endowment and productivity levels), and they assert that the main drivers of them are increasing returns to scale and network effects. Therefore, each country will specialize in a narrow range of goods in order to widen the scale of production and to decrease average costs. Economies of scale stimulate countries to specialize and to exchange goods even in lack of differences in resources and technologies. Trade openness leads to lower costs in international market, and to a broader choice of products⁶.

All those theories share the positive concept of openness to global exchanges. The demolition of obstructions to international trade lets end users to access to the global market, where a higher amount of goods can be exchanged. Moreover, the massive competition encourages innovation and research for new products and productive processes, leading to countries' development. As a matter of fact, empirical evidences often prove that open economies are marked out by higher growth rates and level of wellness.

Simultaneously with the above-mentioned theories, other studies based on technology gap among countries developed. They point towards differences in technology as the leading cause of international trade, focusing on absolute advantages (opposing to the Ricardian Model, based on comparative advantages). They can be linked with Development Theories, specifically with the Dependency Theory. It supposes that the world can be divided in North and South; resources flow from poor and underdeveloped countries of the South to wealthy nations of the North. So, the network of international trade portrays a relationship of supremacy of developed states, that export high added

⁵ P. R. KRUGMAN, M. OBSTFELD, M. J. MELITZ, *Economia internazionale 1 – Teoria e politica del commercio internazionale*, 5° edizione, Pearson Editore, 2012, ch. 5

⁶ P. R. KRUGMAN, M. OBSTFELD, M. J. MELITZ, *Economia internazionale 1 – Teoria e politica del commercio internazionale*, 5° edizione, Pearson Editore, 2012, ch. 7

value goods, towards a condition of inferiority of periphery, that chiefly exports natural resources and raw materials. Therefore, the terms of trade are unfavorable to underdeveloped countries.

Nowadays another alternative approach to international exchanges developed: fair trade. It bases on the hypothesis of an unbiased relationship among actors of global trade and aims at easing market access for disadvantaged countries in order to counterbalance the relationship among nations. Participants from wealthy countries are willing to pay a fair price for a sufficient remuneration of manufacturers, and this leads to a more reasonable allocation of profits⁷.

But the scientific consensus is not unanimous about advantages driven by international trade. In addition to the before mentioned Development Theories, recent positions against free trade focus on its consequences on non-economic aspects. A school of thought highlights the impact of international trade on environment, asserting that the increasing trade liberalization leads to a deregulation of environmental standards in developing countries, for increasing their competitiveness. Another point of view depicts the repercussion of the increasing integration among countries as a loss of heterogeneity for different cultures, since trade openness lead also to a massive process of immigration and of globalization of customs⁸.

Moreover, since the extent of the theories concerning international trade are built on the antithesis between liberalism and protectionism, generally countries shape their policies choosing one point of view or the other. Pursuing an attempt of growth, developing countries often impose tariff trade barriers on manufactured goods coming from the North of the world, trying to enhance their own domestic production and to reduce their dependency from foreign nations⁹. On the other hand, the most shared

⁷ *Commercio internazionale*, in “Dizionario di Economia e Finanza”, Treccani, 2012

⁸ G. RICCHIUTI, *Costi e benefici del commercio internazionale*, in “Enciclopedia Treccani”, 2009

⁹ Such trade and economic policies are referred to as Import Substitution Industrialization (ISI) strategies: they aim at replacing imports of industrialized products by local production of the country. Consequently, they focus on building an internal market competitive enough to ensure self-sufficiency to the nation.

opinion perceives openness to international exchanges as the key driver of development; institutions as the International Monetary Fund¹⁰ foster similar policies with their programs, aiming at the maximum trade liberalization not only among advanced countries, but for the South of the world as well. Despite similar considerations, fast-developed countries as China and the Asian tigers¹¹ prove that growth relies on a balanced mix of protectionist policies and measured trade openness, combining together both these two aspects of international trade.

In conclusion, international trade can be considered both as a driver of development and as a cause of uncertainty and inequality among countries. Trade deregulation could damage workers because of the increase of global competition, but at the same time their purchasing power could improve since prices reduce. Firms supported by the growth of international trade both require a higher workforce and have a substantial rise on demand due to the expansion of their market. Countries' income from customs duties could decrease because of trade liberalization; on the other hand, taxes on productive activities could increase. All in all, negative effects display in the short term but international trade drives to growth in the long run. As a matter of fact, economic development of the last decades of the 20th century lead by liberalization of international trade reduced distances between "North" and "South" of the world, allowing new actors to arise on global market¹².

1.2 EVOLUTION AND CURRENT FRAMEWORK OF INTERNATIONAL TRADE

In order to outline the global commercial area of today, it is useful to provide a brief description of the contest in which international trade developed. In this manner, it is possible to highlight that the economic system is not a steady element, but it transforms

¹⁰ See paragraph 1.2.2 *The governance outline*

¹¹ The so-called "Four Asian Tigers" are the economies of Hong Kong, Singapore, South Korea, and Taiwan. They are named in this way to highlight the rapid industrialization they underwent between the early 1960s and 1990s, and the exceptionally high growth rates they maintain.

¹² G. RICCHIUTI, *Costi e benefici del commercio internazionale*, in "Enciclopedia Treccani", 2009

over time. Therefore, the historical scenario in which international trade evolved is hereby depicted.

1.2.1 An historical overview

Commercial relations among nations rapidly grow from the last years of the 19th century because of the widespread availability of new means of communication and the resulting decrease of costs of transportation. At the beginning of the 20th century, two forces characterize the international contest: Western Europe and Eastern United States of America. But innovations in transport of goods increase worldwide trade flows, driven by an expanding demand of raw materials from high-industrialized countries. At the same time, the commercial development is combined with the start of international flows of capitals.

The outbreak of World War One produces an arrest of commercial exchanges among European countries, but it lets North America and Japan to grow because of military orders and the increasing demand of resources from nations in war.

The 1929 American Great Depression nullifies such developments because of the collapse of incomes, the increase in unemployment rates, the failure of many banking-houses and the block of American investments in Europe. The global framework is already deeply connected, and the American crisis rapidly spreads to other countries by a reduction of international exchanges. It mainly results in economic protectionist policies.

Trade flows resume only after the Second World War as economic protectionism ends and the world economy recovers its previous integration. A significant economic growth is marked out by the conclusion of first multilateral trade agreements. Because of further technological innovation in production and a new international division of labor, states need to establish some trade policies to regulate international market¹³. They create a free trade system and establish three powerful international organizations in

¹³ See paragraph 1.2.2 *The governance outline*

economic field: the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (or World Bank, WB), and the International Trade Organization (ITO, soon substituted by the World Trade Organization, WTO). The United States of America drives this process, and at the same time it supports the increasing European integration, in order to avoid the expansion of the Russian Communism. But countries from the so-called South of the world are kept out from this network so far.

Economic growth persists in the sixties. The United States of America and Western Europe experience years of substantial development and of structural changes in their economic structures: the reshaping of the agricultural sector is combined with the expansion of the industrial segment, and they foster the degree of diffusion of Foreign Direct Investments (FDI) in manufacturing field. A significant growth of the industrial sector affects even the Soviet Union, but the bond among countries of the Soviet bloc starts to weaken. Some countries of the far East (the Asian tigers: South Korea, Hong Kong, Taiwan, and Singapore) pass through years of considerable growth linked with decentralization strategies of western corporations. But the catching up of Japan with western technologies is one of the central events of this period: at first, Japan imitates European and Northern American manufacturing, but then it acquires its own skills to develop its industrial sector. On the other hand, South America relies only on the export of few agricultural and mineral products, primarily to the United States; countries are scarcely integrated and they establish a strong damaging competition among them.

The FDI practice keeps growing and it is essential for economic recovery after the 1973 oil crisis, when the volume of international exchanges collapses because of industrialized countries' recession: since Northern countries can no longer afford to import raw materials from Southern states, they directly access to them through FDI. Even the Soviet Union starts to open towards other countries, and in 1991 COMECON¹⁴ is officially dismantled. A new geo-economics delineates since new countries (the so-

¹⁴ COMECON (Council for Mutual Economic Assistance) is an economic organization established in 1949 by the Soviet Union as a reaction to the Marshall Plan. Its aim is to support and guide the development of its members: the communist states under the Soviet's sphere of influence.

called BRICs¹⁵) start to be key players of the global economic scene, and the gap among countries of the South of the world emphasizes increasingly. The worldwide scenario is deeply unbalanced.

During the last decade of the 20th century, world economic integration mostly depends on the spread of regional trade agreements, and international trade increases following those paths. Particularly, political and economic integration within the European Union lets regional trade to increase and it starts turning Europe into the most significant internal market of the world. In addition to this, the spread of technological developments in telecommunication, the diffusion of multinational corporation, and the establishment of global supply chains support international trade expansion up to the beginning of the 21st century.

Despite this trend of growth, the early 2000s open with other economic downturns that cause the sharp decrease of world trade volumes since countries reduce their import and export flows. At first, this situation originates from the September 11th attacks on the World Trade Center, and it results in economic and financial instability. After that, a positive economic trend appears again in 2003 and lasts up to 2008. During this period, the Asian region leads international trade development becoming the chief buyer of industrialized countries' industrial products. But also, additional developing countries as Latin America and the Middle East contribute to global economic growth. FDI from Northern states keep growing, involving an increasing number of developing nations.

This positive drift suddenly stops in 2008 because the United States subprime mortgage crisis turns into a worldwide banking crisis and affects the global financial system, causing the Great Recession. This period of economic decline lasts until the early 2010s. It produces a sharp downturn in the world demand of goods and services, damaging developed countries above all. Obstacles to access to financial services worsen the situation, and FDI flows decrease as well. In this period, emerging countries are the ones

¹⁵ BRICs is the acronym coined in 2001 for the association of four emerging countries (Brazil, Russia, India, and China; South Africa is added in 2010) that lead newly industrialized countries. They distinguish for their large and fast-growing economies.

that sustain international trade and production; they strengthen their economies and record their highest growth rates. On the other hand, the contraction in developed nations' demand and the austerity policies adopted to reduce governments' budget deficit lead their economies to decline.

1.2.2 The governance outline

After World War Two, a climate of increasing economic growth and global political relaxation leads to a gradual liberalization of international trade. It takes two shapes: multilateralism or regionalism.

Multilateralism involves the global demolition of obstructions to goods or services exchanges. It starts after the Bretton Woods Conference of 1944, essentially convened by the United States to regulate the international monetary and financial order after the conclusion of the conflict¹⁶. Its main result is the institution of three international organizations to govern the economic system.

The International Monetary Fund is established to promote monetary cooperation among nations, to ensure exchange-rate stability and to guarantee the equilibrium in balances of payments. Nowadays, its primary purpose is to improve sustainable economic development of its member countries by making resources available to them in financial difficulty periods. It provides the so-called Structural Adjustment Programmes (SAP), recommendations for economic growth that countries wanting to access loan have to follow.

The International Bank for Reconstruction and Development, that evolved into the World Bank, is set up to restore the economies of countries implicated in the Second World War by financing their reconstruction. Then, its focus shifts from European nations to Southern countries, aiming at reducing poverty and enhancing their

¹⁶ A. VANOLO, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, UTET, 2014, ch. 6

development. It funds projects in non-profitable fields as education and healthcare; moreover, one of its goals is to eradicate governments' corruption.

The International Trade Organization is instituted to promote global exchanges liberalization through the suppression of protectionist policies such as duties and import restrictions. However, because of the difficulties in reaching an arrangement between the United States and Europe (mainly, with the United Kingdom) this project is substituted soon by the General Agreement on Tariffs and Trade (GATT 1947). GATT is a voluntary multilateral agreement aimed at removing any preferential trade agreement that favors one country against another one. GATT achieves most of its goals; in the fifties, tariffs are less than half of the ones of 1934 in the United States¹⁷. From 1986, GATT is redefined in the negotiations of the Uruguay Round and in January 1995 the result comes into force: the World Trade Organization is established.

WTO is an international organization acting as institutional and regulatory framework for global commercial exchanges and for resolution of trade arguments; moreover, it can impose penalties to its members. According to its Constituent Act, it oversees “the implementation, administration, and operation”¹⁸ of the covered agreements, and provides a “forum for negotiations among its Members concerning their multilateral trade relations”¹⁹; it also offers a “framework for the implementation of the results of such negotiations”²⁰. WTO is built on three fundamental cornerstones:

- the *most favored nation* clause: if a country grants a trade benefit to another country, it has to extend it unconditionally to all WTO members; trade policies can not alter towards different states;

¹⁷ A. VANOLO, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, UTET, 2014, ch. 1

¹⁸ WTO, *Marrakesh Agreement Establishing the World Trade Organization*, Marrakesh, 1994, art. III.1

¹⁹ WTO, *Marrakesh Agreement Establishing the World Trade Organization*, Marrakesh, 1994, art. III.2

²⁰ WTO, *Marrakesh Agreement Establishing the World Trade Organization*, Marrakesh, 1994, art. III.1

- the *national treatment* policy: imported and domestically produced goods undergo the same treatment, as far as taxation is concerned (it applies to similar or directly competitive products);
- *prohibition of quantitative restrictions*: limitations of imports are banned, as well as the rise of existing duties or the introduction of new ones.

With the establishment of WTO, GATT remains an important part of the agreements about international trade in goods; moreover, it is updated in GATT 1994. Besides that, a set of additional agreements is adopted:

- General Agreement on Trade in Services (GATS): it sets down a multilateral trade system to the service sector specifying four manners of supply for the delivery of services across countries:
 - cross-border supply: a service “from the territory of one Member into the territory of any other Member”²¹;
 - consumption abroad: a service “in the territory of one Member to the service consumer of any other Member”²²;
 - commercial presence: a service provided “by a service supplier of one Member, through commercial presence in the territory of any other Member”²³;
 - presence of natural persons: a service given “by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member”²⁴.
- Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS): it provides minimum standards for the regulation of intellectual property aiming at

²¹ WTO, *Marrakesh Agreement Establishing the World Trade Organization – Annex 1B: General Agreement on Trade in Services*, Marrakesh, 1994, art. I.2(a)

²² WTO, *Marrakesh Agreement Establishing the World Trade Organization – Annex 1B: General Agreement on Trade in Services*, Marrakesh, 1994, art. I.2(b)

²³ WTO, *Marrakesh Agreement Establishing the World Trade Organization – Annex 1B: General Agreement on Trade in Services*, Marrakesh, 1994, art. I.2(c)

²⁴ WTO, *Marrakesh Agreement Establishing the World Trade Organization – Annex 1B: General Agreement on Trade in Services*, Marrakesh, 1994, art. I.2(d)

opposing counterfeiting while supporting the circulation of technological innovation, in order to improve social and economic welfare all over the world²⁵.

- Agreement on Trade-Related Investments Measures (TRIMs): it specifies rules for the domestic regulation of foreign investors and simplifies operations with foreign markets for international firms²⁶.

When a country joins WTO, it has to sign and ratify all these agreements adopted with the Marrakesh Agreement of 1994.²⁷

A stimulating way of conceiving the GATT-WTO system is the one proposed by P. R. Krugman, that employs a mechanical analogy: it is like a tool used to push a heavy object, global economy, up to an uphill climb, the path towards free trade²⁸. It requires both levers to move forward in the right direction, and brakes not to slide backwards. The obligation to not raise up existing duties represents the principal brake of this system, together with the prohibition to subsidize export; whereas the central leverage towards liberalization are trade rounds, where countries negotiate trade policies.

On the other hand, regionalism concerns two or more nations that associate themselves to eliminate trade obstructions among them, in order to simplify economic exchanges. Often, states involved in similar agreements are marked out by a relationship of geographical closeness and by mutual interdependence²⁹. Differently from multilateralism, other countries are left out from this preferential treatment.

“Horizontal regionalism” distinguishes the first period of this phenomenon, around fifties and seventies. Groups of Northern countries link themselves in order to broaden

²⁵ F. MARRELLA, F. GALGANO, *Diritto del commercio internazionale*, 3° edizione, Padova, CEDAM, 2011, ch. 1

²⁶ F. MARRELLA, F. GALGANO, *Diritto del commercio internazionale*, 3° edizione, Padova, CEDAM, 2011, ch. 1

²⁷ Together with GATT, GATS, TRIPS and TRIMs, when a country joins WTO it has to accept also the Dispute Settlement Understanding (DSU), a *memorandum* on rules and procedures managing consultations to resolve trade disputes.

²⁸ P. R. KRUGMAN, M. OBSTFELD, M. J. MELITZ, *Economia internazionale 1 – Teoria e politica del commercio internazionale*, 5° edizione, Pearson Editore, 2012, ch. 10

²⁹ A. VANOLO, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, UTET, 2014, ch. 6

their market, promote economic integration and also for political reasons. Nations of the South of the world associates as well, aiming at expanding their market and defending themselves from foreign competition, but similar agreements often fail because of lack of political cohesion among involved countries.

From the last two decades of the 20th century, a different period of regionalism begins: “vertical regionalism”. Countries of the North of the world stipulate trade agreements with Southern nations, but significant complications persist in making similar agreements efficient.

Trade regionalism can be ranked in four categories, with an increasing degree of economic integration³⁰:

- *free-trade area*: member countries dismiss customs barriers among them, but trade policies of single nations towards others are independent;
- *customs union*: besides being a free-trade area, involved countries have a common external tariff for all goods entering the area;
- *common market*: in addition to the above-mentioned features, there is freedom of movement of factors of production (mainly, capital and labor), enterprises, and services;
- *economic union*: participant countries adopt common economic, fiscal, and monetary policies.

Table 1.1 shows major regional trade agreements currently into force:

³⁰ A. VANOLO, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, UTET, 2014, ch. 6

Name	Countries	Year	Type	Category
AFTA Asean Free Trade Agreement	Brunei, Cambodia, Indonesia, Laos, Malaysia, Singapore, Thailand, Vietnam	1967 (ASEAN Association of Southeast Asian Nations) 1992 (AFTA)	South-South	Free-trade area
European Union	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, The Netherlands, Portugal, Spain, Sweden, United Kingdom ³¹ (EU 15), Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia (UE 25), Bulgaria, Romania (UE 27)	1957 (EEC European Economic Community) 1992 (EU)	North-North	Economic union
MERCOSUR Southern Common Market	Argentina, Brazil, Paraguay, Uruguay	1991	South-South	Common market
	Bolivia, Chile		South-South	Free-trade area
NAFTA North America Free Trade Agreement	Canada, Mexico, United States	1994	North- South	Free-trade area

Table 1.1 Major regional trade agreements

Source: own elaboration, from A. VANOLO, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, UTET, 2014, ch. 6

Whereas trade regional agreements could be perceived as in conflict with WTO rules, those realities coexist in the current global commercial area, mainly for political reasons. As a matter of fact, regionalism and multilateralism are not mutually exclusive: often, being part of a regional agreement leads national export growth, at first within the region but then also towards the outside. Trade regional agreements are often established to set up scale economies and to share common policies with other

³¹ On 23 June 2016, the British government held a referendum on the United Kingdom's withdrawal from the European Union invoking Article 50 of the Treaty on the European Union; a majority voted to leave the EU. Currently, the terms of withdrawal are under negotiation, but the United Kingdom is set to leave the European Union by March 2019.

countries, or to strengthen the economic weight of a country in multilateral negotiations. WTO recognizes regional agreements as special exception to multilateralism in the article 24 of Multilateral Agreements of Trade in Goods ³².

1.2.3 Current scenario and routes of trade

Today's situation of international trade is still quite unstable, as a result of the American crisis of early 2000s: negative effects of financial crisis quickly transmitted on worldwide trade flows, as well. While in 2004 the growth rate of global exchanges was equal to 10.4%³³, in 2007 it stopped at 5.7%³⁴ and in 2011 it is equal to 5.3%³⁵. In 2013, the amount of global export of goods does not catch up with the increase forecasts and its volume growth rate is equal to 2.4% (the same as the previous year)³⁶; also in 2015, the development of international trade is slower than the expected outcome, and definitely lower than the average level before crisis, but from 2016 the amount of international exchanges should start to mark a slight increase³⁷.

Broadly speaking, time of crisis weakened developed countries' trade flows because of the austerity policies adopted to foster their internal economy, that reduced their ability to import goods from abroad at the same time. But it did not completely stop international exchanges for the importance to keep access channels to foreign markets working.

³² WTO, *Marrakesh Agreement Establishing the World Trade Organization – Annex 1A: Multilateral Agreements on Trade in Goods-GATT 1994*, Marrakesh, 1994, art. XXIV

³³ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2005-2006*, ICE, 2006, ch. 1

³⁴ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2007-2008*, ICE, 2008, ch. 1

³⁵ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2011-2012*, ICE, 2012, ch. 1

³⁶ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2013-2014*, ICE, 2014, ch. 1

³⁷ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 1

The slowdown of international trade due to the American crisis can be explained both by cyclical factors and by structural causes³⁸. Cyclical aspects are linked with the weakness of the aggregate demand, with transformations in its geographical and sectorial composition, and with the decline of investments in this period (investments represent the most import-intensive element of demand); structural factors are represented by the development dynamic of global value chains (with the international fragmentation of manufacturing processes and the worldwide expansion of production networks), and by protectionist policies introduced again by governments to safeguard themselves from the crisis.

International value chains made economies more connected and integrated, but more sensitive to shocks circulation as well. The global division of production stimulated global exchanges of goods and services but after an equilibrium in international partition of different stages is reached, it reduces its effects on trade relations.

The current situation of the global economic activity is rather diversified. The United States of America is gradually increasing its economy again, whereas in the Eurozone recovery moves still slowly and the export expansion is weak. Besides that, differences among countries are quite evident: in Germany, France and Italy growth is rather moderate, while Spain shows a more dynamic performance, above European average³⁹. Effects of Brexit are not clear yet, but it will impact on other nations' economies both through the trade channel and for an increasing financial instability. Emerging countries display different patterns as well. China's gross domestic product (GDP) growth rate is slowing down in the last years, and in 2015 it has been the lower since 1990⁴⁰ because the country changed its development model from an export-based economy to a nation built on domestic consumption. Recession worsened in Brazil as well, because of a political crisis, and in Russia. On the other hand, India is growing steadily. Despite geo-

³⁸ M. REPOLE, *Il rallentamento del commercio mondiale*, ICE, 2015

³⁹ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 1

⁴⁰ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 1

political instability, Africa and Middle East development is increasing, while Central-Southern America economies exhibit a slight contraction.

In 2015, the amount of global export marks an increase of 3% compared to the previous year⁴¹; the most significant growth is played by the Middle East, followed by the European Union and Asia. Table 1.2 ranks the chief exporting countries:

Ranking			Country	Value		Percentage change		Percentage share		
2010	2014	2015		2014	2015	2011-15 ⁽¹⁾	2015	2010	2014	2015
1	1	1	China	2.342	2.275	7,6	-2,9	10,3	12,3	13,8
2	2	2	United States	1.621	1.505	3,3	-7,1	8,4	8,5	9,1
3	3	3	Germany	1.495	1.329	1,1	-11,0	8,2	7,9	8,1
4	4	4	Japan	690	625	-4,1	-9,5	5,0	3,6	3,8
5	5	5	The Netherlands	673	567	-0,2	-15,7	3,8	3,5	3,4
7	7	6	South Korea	573	527	2,5	-8,0	3,0	3,0	3,2
11	9	7	Hong Kong	524	511	5,0	-2,6	2,6	2,8	3,1
6	6	8	France	580	506	-0,7	-12,8	3,4	3,1	3,1
9	10	9	United Kingdom	505	460	2,1	-8,9	2,7	2,7	2,8
8	8	10	Italy	530	459	0,5	-13,4	2,9	2,8	2,8
13	12	11	Canada	475	408	1,1	-14,0	2,5	2,5	2,5
10	13	12	Belgium	472	398	-0,5	-15,7	2,7	2,5	2,4
15	15	13	Mexico	397	381	5,0	-4,1	1,9	2,1	2,3
14	14	14	Singapore	410	351	-0,1	-14,5	2,3	2,2	2,1
12	11	15	Russia	498	340	-3,2	-31,6	2,6	2,6	2,1
24	21	16	Switzerland	311	290	8,2	-6,9	1,3	1,6	1,8
16	20	17	Taiwan	320	285	0,8	-10,8	1,8	1,7	1,7
17	18	18	Spain	325	282	2,1	-13,2	1,7	1,7	1,7
19	19	19	India	323	267	3,4	-17,2	1,5	1,7	1,6
20	16	20	United Arab Emirates	375	265	4,4	-29,3	1,4	2,0	1,6
Total amount				13.438	12.032	2,3	-10,5	70,1	70,7	73,0
World				18.995	16.482	1,5	-13,2	100,0	100,0	100,0

⁽¹⁾ Average annual growth rate from 2010

Table 1.2 Top 20 global exporting countries (goods)

(values in billion current dollars and percentage change compared to the previous year)

Source: ICE elaboration (2016) from WTO data, in ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016

⁴¹ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 1

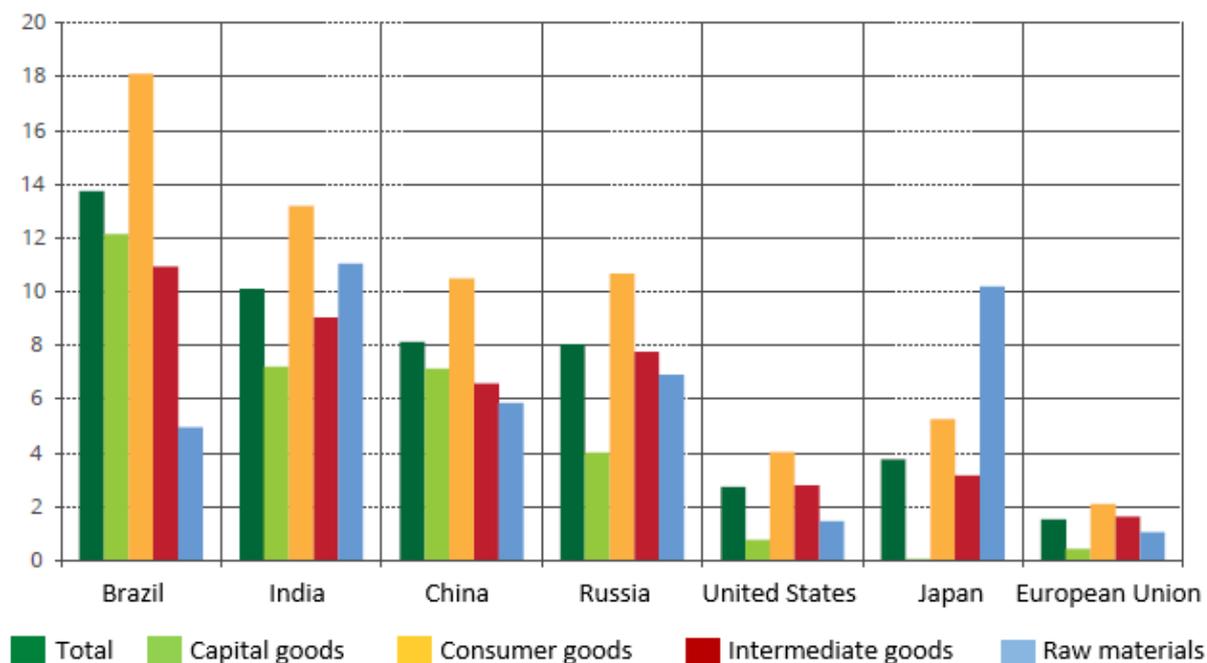
The top 20 nations increase their market share from 70.7% of 2014 to 73% of 2015. China and the United States keep a leading position, they boost their relevance of 1.5% and 0.6%, respectively. Germany, Japan, and The Netherlands steadily follow them; their export value reduce, but their share on the total amount of the global market increase compared to the previous year. On the other hand, exporters of raw materials such as Russia and United Arab Emirates reduce their market share from 2014 to 2015. Italy, its share being constant, loses two places, overtaken by Hong Kong and the United Kingdom.

Next to an international background still marked by economic and geo-political uncertainties, policies enhancing global exchanges are of crucial importance. Firms organize in international production networks increasingly, and movements of goods in global supply chains are key components of the amount of world exports; at the same time, those goods may be subject to several customs transits, so trade barriers effects on them are amplified. For these reasons, delegates of the G20⁴² highlight the importance of international supply chains for economic development, and commit themselves not to introducing additional restrictive actions to global trade flows. However, since the beginning of American crisis measures limiting international exchanges keep increasing.

Nowadays, on average duties are higher in emerging countries – mainly in Brazil and India, whereas the United States of America and Europe exhibit a limited level of protection. On the other hand, developed countries tend to keep a significant tariff protection on components rather than on final products, as proved by the ratio between the amount of duties on intermediary goods and total duties. Moreover, Japan and Unites States apply a relevant defense degree in consumer goods, compared to European Union, and Japan adopts an extremely high protection on import of raw

⁴² G20, or Group of Twenty, is an international forum for governments and central banks governors from 20 leading economies; it was founded in 1999 in order to discuss policies issues for the promotion of international financial stability.

materials as well. Graph 1.1 shows the current amount of duties divided by country and group of products:



Graph 1.1 Current amount of duties, by country and group of products

Source: ICE elaboration (2016) from WB data (Wits), in ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016

In conclusion, the current situation of global economic activity displays the growing role of emerging countries together with the central position they are assuming on worldwide market, turning from passive actors to key players of international trade. At the same time, developed countries are recovering after the crisis, even if their trade flows level is not at pre-crisis amounts yet. Moreover, crisis impact on the overall economy proves the deeply connection of the international framework, highlighting the increasing importance of regulating the global commercial area because of its relevance on countries development.

CHAPTER 2

UNITED STATES OF AMERICA

Since the United States of America represents the target-market for the analysis of this paper, an overall examination of the country appears to be fundamental before proceeding further: in particular, it will concentrate on facts affecting the economic and commercial perspective of the nation. Therefore, this chapter aims at providing a global overview of such aspects, focusing then on the attractiveness and on the critical issues of the US market for an Italian export company. At the same time, trends in the US furniture industry are outlined.

2.1 GEO-POLITICAL AND GEO-HISTORICAL BACKGROUND

As mentioned above⁴³, the United States of America is one of the two major forces which characterize the international contest at the beginning of the 20th century, together with Western Europe. Estimates show that in 1913 United States' per capita GNP is five times higher than the European average, and 25% larger than United Kingdom's⁴⁴, the wealthiest country in Europe. The US' commitment in World War One and Two as supplier of weapons and raw materials proclaims them leading characters of the global scenery, even if in the span of years between them it suffered the Great Depression of 1929. The American crisis entailed also the block of US investments in Europe, but it

⁴³ See paragraph 1.2.1 *An historical overview*

⁴⁴ A. VANOLO, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, UTET, 2014, ch. 1

regained its top status soon thanks to public policies in support of growth and employment. After the recovery of international trade flows that follows the Second World War, the United States acts as a key-player in establishing a dense network of international organizations and in promoting the development of commercial partnerships all over the world. From an economic point of view, the United States of America is the country better provided with manufacturing activities and scientific researches⁴⁵.

In the decades after World War Two, the United States and Western countries stand opposite to the Soviet bloc during the so-called Cold War: a political, ideological, and military conflict between the two coalitions. Acting the containment strategy, the US supports countries which can restrain the expansionism of the Soviet communism, and intervenes in local wars against Communist domination such as the Korean War of 1950-1953⁴⁶ and the Vietnam War of 1955-1975⁴⁷. On the other hand, in the seventies the United States of America changes its approach towards the Soviet Union developing a process of peaceful coexistence; it stipulates agreements about strategic weapons reduction and it appears to keep an easing of tensions on the global scene. Then, the fall of the Berlin Wall in 1989 represents a turning point for the political equilibrium all over the world: the United States can expand its hegemony outside the Western countries, gaining more power than ever before. In these years, four cornerstones of United States of America's foreign policy start to take shape, and they are still actual:

- the US tends to ward the rise of potential challengers off by keeping the differential of resources unchanged compared to other global forces;
- the US acts as external balancer by opposing the establishment of hostile hegemonies in strategic regions;

⁴⁵ A. VANOLO, *Geografia economica del sistema mondo. Territori e reti nello scenario globale*, UTET, 2014, ch. 1

⁴⁶ The Korean War starts with North Korea's invasion of South Korea; China and the Soviet Union assist North Korea, whereas the United Nations, with the United States as leading force, aid South Korea.

⁴⁷ The Vietnam War is officially fought between North and South Vietnam; the former is supported by the Soviet Union, China, and other communist countries, whereas the United States army sides with South Vietnam and other anti-communism allies.

- the US operates to keep global economy open;
- the US always ensures the access to key energy resources all over the world⁴⁸.

After the Cold War, the United States of America intervenes in the Middle East crisis when Iraq invades Kuwait, an US' ally, to annex it; this conflict results in the Gulf War of 1990-1991⁴⁹. Then, the US is involved in a further war after the attack to the World Trade Center and to the Pentagon on September 11, 2001; the United States starts its battle against terrorism fighting in Afghanistan⁵⁰ and in Iraq⁵¹. American forces in the Middle East are withdrawn from 2009, and the war is declared formally over in December 2011.

In the same years the Internet, originated in US defense networks, spreads to public use affecting the global economy, society, and culture all at once. The dot-com boom guides the longest economic expansion in US history, supported by a stable monetary policy and a reduced social welfare spending. Then, the mid-2000 housing bubble leads to a large economic shrinkage which culminates in the 2008 financial crisis.

Today, the United States of America is the third most populous country in the world, with over 324 million people⁵²; moreover, it records a quite high population growth rate⁵³ in comparison to other developed countries. Those factors contribute to increase the United States' internal economic potentiality and to enhance its growth. So, the US is assumed to be the world's foremost and most influential power.

⁴⁸ *Stati Uniti d'America*, in "Atlante Geopolitico", Treccani, 2014

⁴⁹ The Gulf War is a conflict waged by a coalition force of 35 nations guided by the United States against Iraq, to support Kuwait from its invasion; it ends with the expulsion of Iraqi forces from Kuwait and the restoring of its autonomy.

⁵⁰ The War in Afghanistan starts in 2001 with the United States supported at first by Canada and the United Kingdom, and later joined by the rest of the NATO to dismantle the Taliban power.

⁵¹ The Iraq War starts in 2003 with the invasion of Iraq by a United States-led coalition to oppose the government of Saddam Hussein in this region.

⁵² US' population exceeds 324 million, but it follows China's -over 1,370 billion- and India's - about 1,280 billion

Figures as at April 2017, in www.census.gov/popclock/

⁵³ Approximately 1% per year

Stati Uniti d'America, in "Atlante Geopolitico", Treccani, 2014

The United States of America is currently led by President Donald Trump, the Republican candidate who defeated Hillary Clinton, the Democratic one, in the 2016 election. It upsets US political history putting an end to eight years of Democratic control of the White House with Barack Obama⁵⁴.

2.1.1 International relations

The United States of America is often related to the idea of “soft power”. By definition, soft power means that the attractiveness of an international player does not consist only of traditional material aspects such as economic and military resources, but also of immaterial features as culture and ideals it embodies⁵⁵. So, the focus is on the capability of a country to condition other nations to adopt a similar behavior, without forcing them in any way but only exerting its influence. What happened after the United States started to fight against terrorism in 2001 can be cited as an example of its soft power: other nations forthwith supported the US purpose validating its action and joining it in that war.

In addition to this, the global nature of US economic interests implicates a foreign policy that addresses to all regions of the world. For this reason, the United States of America maintains formal diplomatic relations with the extent of the nations, and they are a member of several international organizations, playing a leading role within them.

At a global level, the United States is a permanent member of the United States Security Council, being a founding member of the United Nations and most of its specialized agencies (among others, the World Bank Group, and the International Monetary Fund). It is also a member of the Organization for Economic Co-operation and Development (OECD) and a member of the World Trade Organization.

Policies at a local level firstly address to neighboring countries and to the remainder nations of the American continent. Beginning in 1994, the United States sets up the

⁵⁴ Barack Obama is elected president in 2008, amid the financial crisis, and he is reconfirmed for a second term in 2013.

⁵⁵ *Stati Uniti d'America*, in “Atlante Geopolitico”, Treccani, 2014

North American Free Trade Agreement with Canada and Mexico; with them, the US has the strongest business relationships and the interregional trade among these three partners soared since NAFTA went into force thanks to the gradual demolition of barriers. On the other hand, relations with Southern America have evolved from years in which the United States evaluated it only as an area to exploit by taking advantage of its influence, to the current situation in which it is building positive relationships based on common strategic interests.

The second traditional trajectory of US foreign policy consists in the network of relations toward the European Union. At the first place, there is the “special relationship” the US shares with the United Kingdom since World War Two; the two countries have exceptionally close interests in several fields as economic activity, international policy, trade, and culture, and for this reason the level of cooperation between them in all these areas built a strategic alliance that reconfirmed in multiple occasions. As far as the whole of Europe is concerned, the United States shares most of European policies and values, but it is in permanent economic competition with EU since the European Union has more economic power on an aggregated level. At the same time, Europe is weaker in the international context in terms of capability to influence other countries. After the end of the Cold War, the United States attempts to build warm diplomatic and trade relations also with the Russian Federation; it has been possible until the NATO bombing of the Federal Republic of Yugoslavia in 1999⁵⁶, and this attempt went significantly deteriorating later with the crisis in Ukraine⁵⁷ and the sharp differences of views regarding Russian military intervention in the Syrian Civil War⁵⁸.

⁵⁶ In 1999, during the Kosovo War, the NATO starts a military operation against Yugoslavia to force the withdrawal of Yugoslav army from Kosovo.

⁵⁷ In 2014, Russia makes several military incursions into Ukraine to take control of the territory of Crimea; the majority of members of international community condemns the Russian Federation for its actions and many of them implement economic sanctions against Russian companies.

⁵⁸ The Russian military intervention in the Syrian Civil War begins in September 2015 to help the Syrian government against rebel and jihadist groups.

Another geopolitically significant area for the United States of America is the Middle East. In this region, Israel represents an historical ally for the United States, and so the US shapes its overall foreign policy on its relationship with it; it primarily concerns financial and military aid, but the United States also provides political assistance to this nation. Moreover, the bilateral relationship with the Kingdom of Saudi Arabia is relevant because it supports the steadiness of oil prices and therefore the stability in the economies of Western countries where Saudis have invested.

The last sizeable direction of US international affairs addresses to Central and Southeastern Asia. Here, the central challenge for the United States is the fight against terrorism; so, relationships with this area of the world are extremely significant to determine equilibrium at a global level. With India, connections are moving gradually closer since at least a decade, because of the growing relevance acquired by the Republic of India in the international market; as a matter of fact, India is assuming an always more significant position among US' trading partners. On the other hand, the development of the US-Chinese relation is more complex to deal with for both countries since each nation regards the other as a potential adversary in the global commercial scenario, even before than as a strategic partner. Given the level of the strong economic interdependence of the two countries, it can be regarded as one of the most important bilateral relationships of the century; for this reason, the United States has an interest in keeping a stable partnership with China. Moreover, on an attempt of counterbalancing Chinese power, the United States of America is expanding its position in Southeastern Asia by establishing a network of bilateral partnerships with other nations.

Despite all of this, it is noticeable also that the United States of America does not participate in several international agreements, undermining their effects because of the US strength due to their total population and economic influence. The central argument for non-participation is that they restrict US sovereignty and freedom of action. By and large, US non-participation in multilateral agreements concerns themes

of human, civil, and political rights, but the example of the Kyoto Protocol about climate change impacts also on the economic activity of the country.

2.2 MACROECONOMIC ENVIRONMENT

From a more strictly economic perspective, the United States of America currently is the most powerful economy of the world: with a GDP of approximately \$18.57 trillion in 2016⁵⁹, it is the largest national economy, and US' GDP accounts for close to a quarter of the world total. This is notably due to the top-level productivity rates the country reaches, the high average incomes, and its extremely qualified and knowledge-intensive service sector. But at the same time, the United States has been the epicenter from which the international economic crisis of 2008 spread all over the world, and their federal public debt is constantly growing. On the other hand, GDP growth rate is quite stable over the last years⁶⁰, and the unemployment rate is rather moderate. All these features make the US economy a fundamental pillar of the international scenario.

At a global level, the American economic system is one of the most developed. It is based on the service sector (it accounts for nearly 80% of GDP composition⁶¹); the banking and insurance sectors, and the whole financial industry, have the most relevant role within it. Over the last decades, also the so-called “new economy” lead by Information and Communication Technology (ICT) increased significantly. But as far as trade and transportation industries are concerned, the service sector is considerably developed as well; as a matter of fact, the US has a well-advanced infrastructure network and it is one of the largest trading nations in the world.

Furthermore, it is the world's second largest manufacturer, and even if the industry sector comprises less than 20% of GDP composition⁶², it represents a fifth of the global manufacturing output, being the first country in terms of production amount. The US

⁵⁹ International Monetary Fund

⁶⁰ International Monetary Fund

⁶¹ *The World Factbook*, Central Intelligence Agency, US

⁶² *The World Factbook*, Central Intelligence Agency, US

secondary sector is highly diversified. Automotive, high-tech, and aerospace industries lead it, but pharmaceutical and chemical industries are equally well-developed: US firms are near the forefront in technological advances in all these fields. As a matter of fact, the onrush of technology that affects the industry sector has been the driving force of the US economy for decades, and the high productivity of the nation is a decisive factor in its trend of growth still in nineties. The agriculture has an outstanding productivity as well, even though it accounts only for 1% of US GDP composition⁶³: the United States is the first world exporter of staple foods, controlling almost half of world grain exports.

In pursuing its economic policy, the United States has regularly increased its budget deficits since the end of sixties; to recover from economic crisis of 2008 and to create jobs, President Obama adopted an interventionist policy that boosted the federal public debt, providing a \$787 billion fiscal stimulus⁶⁴ to be used over 10 years. Between 2009 and 2011, US budget deficit rose by 9,2% on average⁶⁵ subjecting the US economy to other international actors, mainly to China (currently, China is the largest foreign financier of the US public debt). This results in a source of imbalance in global relationships, being a structural weakness of the US economic system in the medium to longer term that adds to economic recession results caused by the financial crisis of 2008.

Crisis ends with the recovery started from 2010, that marks an upswing of economy rates of growth as well. Moreover, being the US economy energy-intensive, falling oil prices since 2013 have alleviated many of the problems increases of previous years created. In 2015, the US economy rebounds: the level of output surpasses its pre-crisis peak by 10%⁶⁶, unemployment is significantly reduced thanks to robust private-sector employment, fiscal sustainability is largely re-established and corporate profits are high.

⁶³ *The World Factbook*, Central Intelligence Agency, US

⁶⁴ *The World Factbook*, Central Intelligence Agency, US

⁶⁵ *Stati Uniti d'America*, in "Atlante Geopolitico", Treccani, 2014

⁶⁶ OECD, *OECD Economic Surveys: United States*, 2016

Signs of economic recovery exhibit also on US trade balance: besides Canada and Mexico, that became its key commercial partners after the institution of NAFTA, the principal countries the United States has trade relationships with are China and Japan and, among European nations, the United Kingdom and Germany.

2.2.1 International trade

Since the United States of America is one of the world's most significant economic markets, it plays a fundamental role in international trade as well. The United States is the second largest trading nation at a global level⁶⁷; moreover, the dollar is used as the standard unit of currency in international markets for commodities such as gold and petroleum.

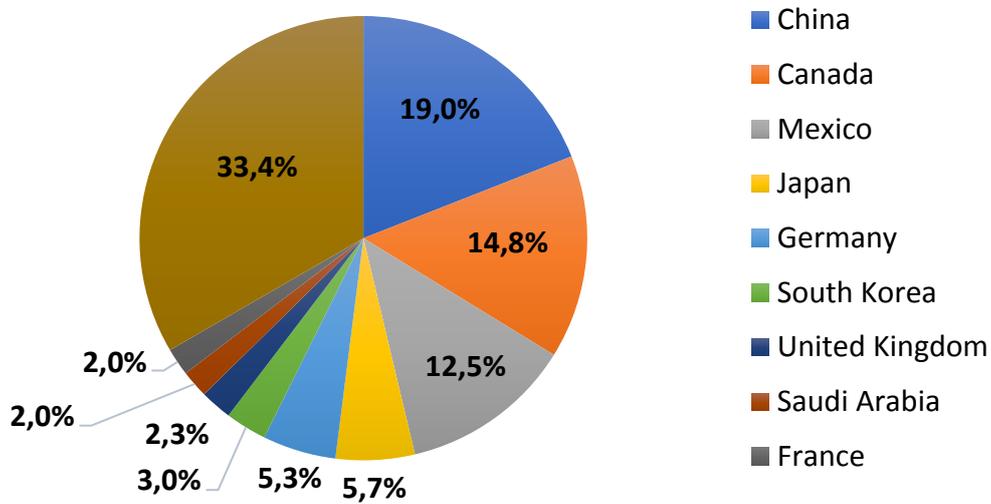
International trade is essential to the national economy; as a matter of fact, the combined value of US imports and exports is equivalent to about three-tenth of its GDP⁶⁸. Leading imports concern manufactured goods, petroleum and other fuel products, and machinery and transportation equipment. As mentioned above, Canada and Mexico are US principal trading partners, their market share significantly increasing after the institution of NAFTA; China, Japan, the United Kingdom, and Germany follow them among its major commercial counterparts, for import. Graph 2.1 shows the major US import sources in 2014.

⁶⁷ *The World Factbook*, Central Intelligence Agency, US

See also table 1.2 *Top 20 global exporting countries (goods)*

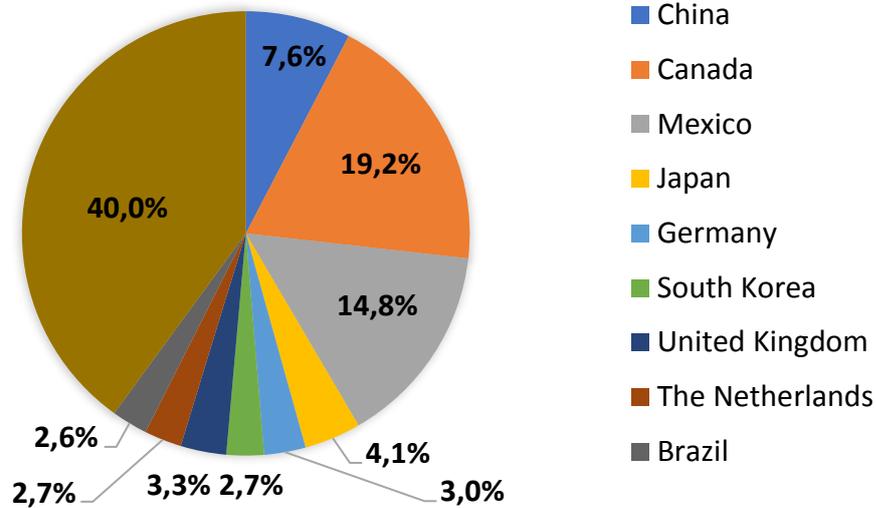
⁶⁸ World Bank

In 2015 export of goods and services in the United States is at 12.6% of GDP, while import is at 15.4%.



Graph 2.1 Major US import sources (2014)
Source: Encyclopædia Britannica, Inc.

On the other hand, being renowned for its innovative goods and services and high standards of quality, United States' exports gain a competitive edge as well. Major exports include electrical and office machinery, chemical products, motor vehicles, airplanes and aviation parts, and scientific equipment. Graph 2.2 shows the top US export destinations in 2014, attesting once more the relevant role played by NAFTA in conditioning US foreign trade; China, Japan, and the United Kingdom come straight after Canada and Mexico in the top five of US trading partners, as far as export is concerned (The Netherlands and Brazil take Saudi Arabia and France's place among leading export counterparts of the United States).



Graph 2.2 Major US export destinations (2014)

Source: Encyclopædia Britannica, Inc.

As it can be seen from the above, international trade agreements are essential in shaping the development of US commercial networks. On the whole, the United States of America is connected with 20 additional countries through bilateral or multilateral free trade agreements, enhancing its market access to over 760 million consumers. Moreover, the United States is in negotiations for the institution of the Transatlantic Trade and Investment Partnership (TTIP) with the European Union, aiming at establishing a high-standard trade and investment agreement to increase access to European markets for “Made in America” goods and services. On the other hand, after having completed negotiations of a regional Asia-Pacific trade agreement, the so-called Trans-Pacific Partnership (TPP) Agreement, on February 2016, on January 2017 President Trump signed a presidential memorandum concerning the withdrawal of the United States from this agreement.

2.2.2 Italy’s perspective: appeal and challenges of the US market

The United States of America is the fourth wider and the third most populous country in the world; moreover, it is the first nation for GDP amount at a global level. Beginning with these considerations, it is straightforward to understand why the United States represents a great chance to gain worldwide visibility and to conquer additional market

share for foreign firms. It offers the largest consumer market on earth and several free trade agreements it signed with other countries provide enhanced access to hundreds of millions of additional consumers as well.

For Italy, the United States of America is the primary trade partner outside of Europe and in 2015 it is the third country of destination of Italian export⁶⁹; then, the US one embodies a mature and advanced market for Italian production. By and large, Italian goods appeal to US medium and high-end consumers for their quality and innovation features. As a matter of fact, the leading industries of Italian export in the United States are the engineering, fashion, agri-food, and furniture ones. But the perception of “Made in Italy” in the United States is not uniform: Italian reputation is noteworthy as far as food and beverage, lifestyle, fashion, and culture are concerned; on the other hand, technologically advanced products are not perceived as at the forefront compared to German and Japanese ones.

Moreover, even if the US market distinguishes to be fully transparent and efficient, it provides some challenges to foreign firms as well. Major corporations and large industrial groups rule its production structure both in manufacturing and in sales fields, so contractual relationships are often unbalanced and Italian Small and Medium-sized Enterprises (SMEs) could face complications in terms of non-tariff and bureaucratic barriers.

Among the main setbacks the US economy had to face in the first decade of the 21st century, the economic downturn known as the Great Recession is one of the worst facts. At first, this financial crisis made international economic operators waiting with bated breath because of the difficulties in forecasting its worldwide spread and its effects on global economy. Being the epicenter of the crisis, the United States is also the country where its effects initially arose. Since it ranks in a leading position as destination market of international flows of goods, estimates of crisis outcomes on US imports are forthwith developed. First evaluations depicted a scenery in which manufacturing imports are

⁶⁹ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 3

heterogeneously penalized in all industries⁷⁰, where the most affected segments are the traditional “Made in Italy” ones.

Table 2.1 shows percentage changes in US imports of Italian goods during the period from 1996 to 2009.

	1996-00	2001-02	2003-07	2008-09
Total	8,8	-0,7	6,3	2,0
"Made in Italy":	7,7	1,7	6,9	1,9
- food	7,1	5,3	7,2	-0,1
- fashion	6,1	-1,9	5,8	0,7
- home system	10,9	5,2	8,4	4,3
Consumer goods	12,7	9,3	9,7	8,4
Transportation equipment	9,9	3,1	3,7	-0,4
Electromechanics	8,4	-1,0	6,6	2,5
Electronics	8,2	-7,9	8,4	0,6
Intermediary goods	8,9	-0,6	4,9	3,8

Table 2.1 US: import of Italian goods

(average annual percentage change at constant prices)

Source: Prometeia elaboration (2008) in A. DOSSENA, *Crisi americana: quali prospettive per gli esportatori italiani?*, ICE, 2008

The most relevant decreases related to the crisis of 2008 affect the food industry, fashion, transportation equipment, and the electronics ones. Since the “Made in Italy” segment faces minimum variations of US domestic demand, this can provide an explanation for import shrinkages in this sector during the economic recession. On the other hand, declines in values of transportation and electronics are due to the central position the United States fulfil in global segmentation of supply chains. However, these figures point out an overall slackening in the pace of growth of US imports in all the

⁷⁰ A. DOSSENA, *Crisi americana: quali prospettive per gli esportatori italiani?*, ICE, 2008

sectors in consideration; this involves that Italian exports in the US market deal with more stringent conditions for their chances of development.

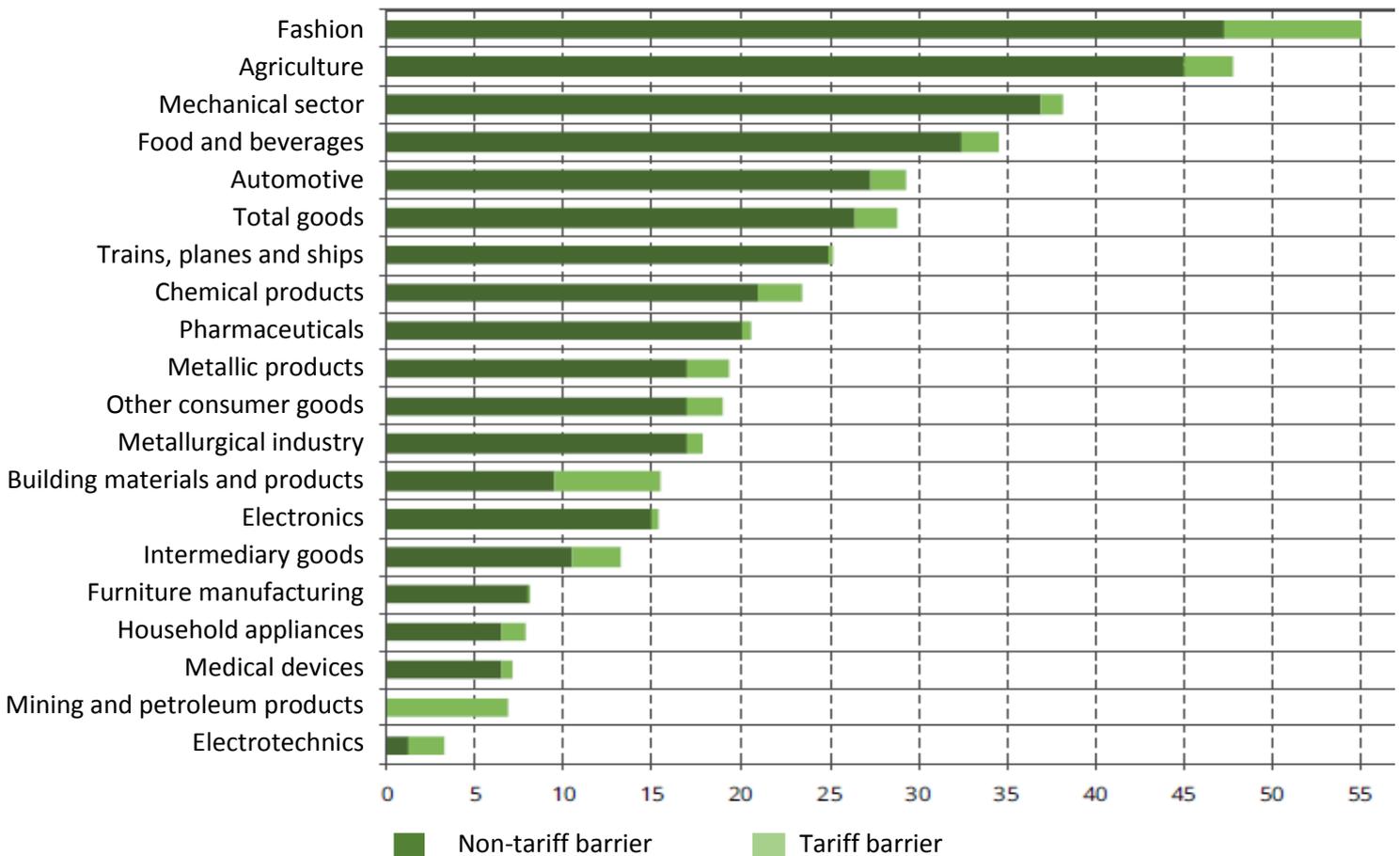
In addition to these considerations concerning the demand-side, it should also be considered the intensely competitive environment Italian exports have to face in the US market after NAFTA institution and with the growth of Asian trade flows at a global level. Because of the high variability in the international scenario, it is not straightforward to speculate on the pace of Italian exports over next years.

A significant still-undefined variable concerns the developments of TTIP negotiations between the United States of America and the European Union. The two leading economic players at a global level start consultations for the institution of this agreement on March 2013, but currently they have not settled anything yet⁷¹. If TTIP will be established, it will impact in several ways on Italian exports. Since the vitality of US market represents the principal support element to the acceleration of global exchanges over next years⁷², Italian companies should take advantage of the US driver to regain a competitive position in this marketplace exploiting the strengthening of the Atlantic axis provided by TTIP.

TTIP can increase the level of economic interchange between Italy and the United States because the Italian manufacture can obtain new competitiveness in the US market, currently being the most affected supplier by existing trade barriers. The principal reason of this is the sector-based composition of Italian exports to the United States. Graph 2.3 shows trade barriers to sectorial Italian exports in force in 2014.

⁷¹ At the beginning of June 2017, the US Trade Secretary Wilbur Ross and the Italian Minister for Economic Development Carlo Calenda asserted their intent of resuming TTIP negotiations, but at the moment they are still frozen because of difficulties on reaching an agreement between the two counterparts on many themes.

⁷² A. LANZA, *L'accordo Ttip e il suo impatto sulle esportazioni dei settori italiani*, ICE (2015)



Graph 2.3 Trade barriers to sectorial Italian exports to the United States (2014)

(percentage on export values)

Source: Prometeia elaboration (2015) from WTO data, in A. LANZA, *L'accordo Ttip e il suo impatto sulle esportazioni dei settori italiani*, ICE, 2015

The sector-based specialization of Italian manufacturing primarily directs towards food, fashion, and mechanical sectors, which are among the most penalized by trade barriers currently on force. By and large, non-tariff barriers impact on traded goods⁷³; in fashion and agricultural segments such barriers represent more than 40% of the total value of

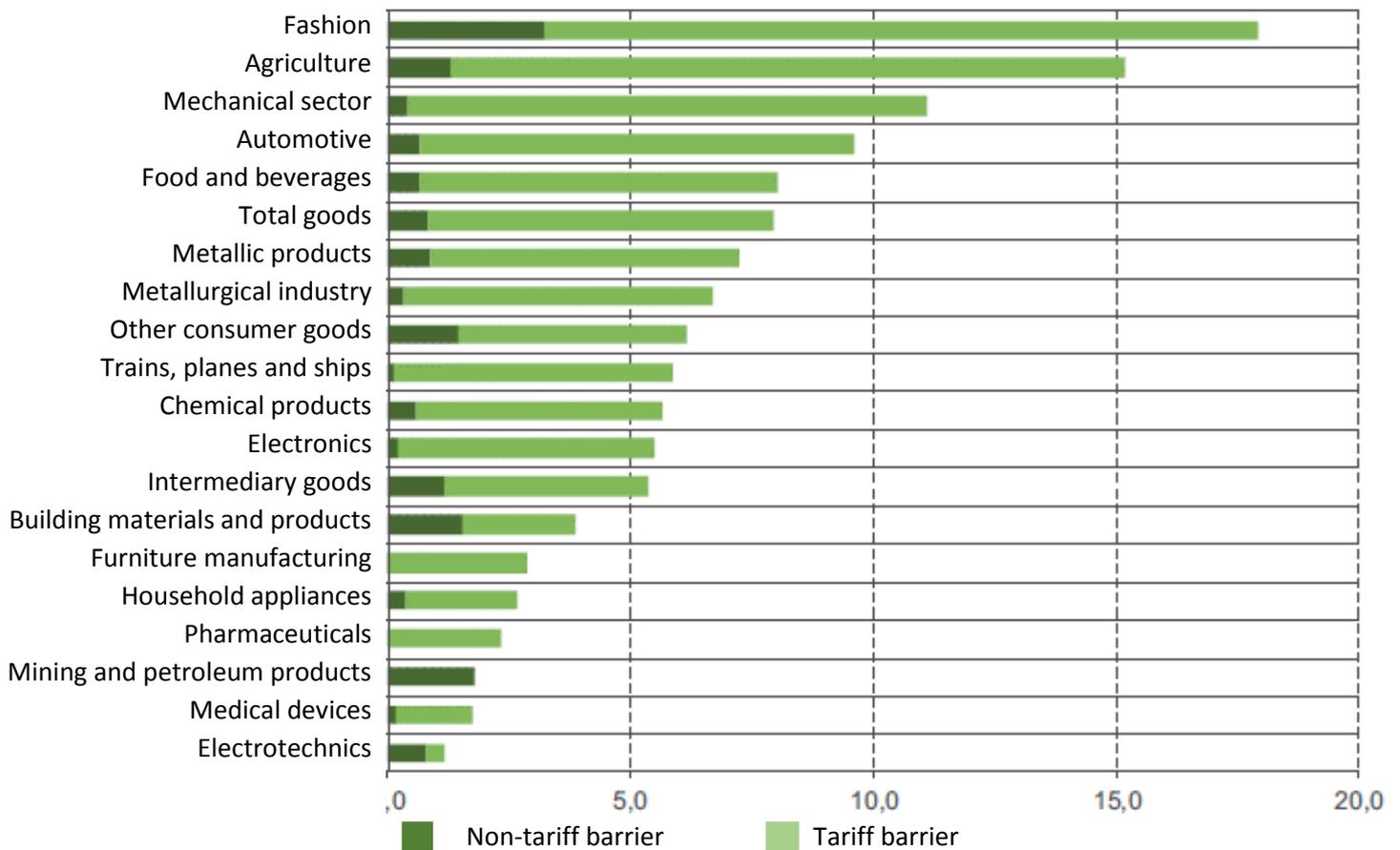
⁷³ Non-Tariff Barriers to Trade (NTBs) refers to mechanism of restrictions resulting from prohibitions, conditions, or specific market requirements that make import or export of goods difficult and costly; set up barriers to trade take a form other than the simple imposition of a tariff, they include quotas, embargoes, rules for valuation of goods at customs, and rules of origin. In agriculture and in the food segment, non-tariff barriers often concern quality conditions imposed by the importing country on exporting countries; otherwise, they may regard quantitative limits on import volumes, and so on.

export. But excise duties are relevant as well; in the fashion industry, they account for the 7% of the export, while their value is around 6% for building materials.

If TTIP will be instituted in its more-optimistic version, suppressing tariff and non-tariff trade barriers at all, sales will increase of 18% in the fashion system, of 11% in the mechanical sector, and the food supply chain will rise its export of 8%. In absolute terms, given the level of trade between the United States of America and Italy in 2014 at constant prices, it will stand for additional 2 billion euros on the export value⁷⁴, with a particular contribution of the mechanical sector equal to 750 million euros, 620 million euros from the fashion system and about 250 million euros from both automotive and food segments⁷⁵. Graph 2.4 shows estimates about percentage increase of sector-based Italian export to the United States if trade barriers are abrogated at all with the establishment of TTIP.

⁷⁴ A. LANZA, *L'accordo Ttip e il suo impatto sulle esportazioni dei settori italiani*, ICE, 2015

⁷⁵ A. LANZA, *L'accordo Ttip e il suo impatto sulle esportazioni dei settori italiani*, ICE, 2015



Graph 2.4 Percentage increase of sector-based Italian export to the United States if trade barriers are totally abolished with TTIP

(at constant prices)

Source: Prometeia elaboration (2015), in A. LANZA, *L'accordo Ttip e il suo impatto sulle esportazioni dei settori italiani*, ICE, 2015

Moreover, these estimates do not consider the focal peculiarity of Italian production structure: small-sized companies face several obstacles in enhancing their business abroad because of fixed costs needed to enter foreign markets. A simplification and a harmonization of export processes can lead to additional advantages for the fragmented manufacturing fabric of Italy. As a matter of fact, free trade agreements should not be considered only as a benefit to major corporations, but they can remove trade barriers that disadvantage SMEs as well.

Briefly, the three main pillars⁷⁶ on which TTIP relies can be all particularly convenient for Italy:

- market access: removing excise duties on goods, TTIP can support top-quality Italian production exports that currently are damaged by some tariff peaks in fields concerning fashion, agriculture and building materials, for example;
- regulatory aspects and non-tariff barriers: non-tariff barriers to trade implicate the most relevant extra charges on Italian export, being equal to 25% on average, but reaching levels higher than 30% in food and beverages, and in mechanical segments, and above 40% in agriculture and fashion system⁷⁷; the elimination of similar obstacles can enhance trade in these sectors;
- “other rules”: this part of the agreement involves regulations pro SMEs, to ease import and export flows for small-sized companies providing them information on legislation currently on force in the counterpart market, *inter alia*.

So, TTIP can represent a remarkable opportunity for Italy to grow in one of the most powerful markets of the world.

2.3 AN OUTLOOK ON THE US FURNITURE MARKET

Beyond the analysis of the US market as a whole, it appears to be fundamental to focus briefly on the current state of the US furniture market in particular. This section outlines an overall overview on it.

After the crisis of 2008, the US furniture market regains its pace of growth in 2009⁷⁸, supported by a macro-economic environment which turned favorable once again. As a matter of fact, the US economy has been able to maintain a healthy growth rate and a continually improving labor market on its road to recovery from the financial crisis.

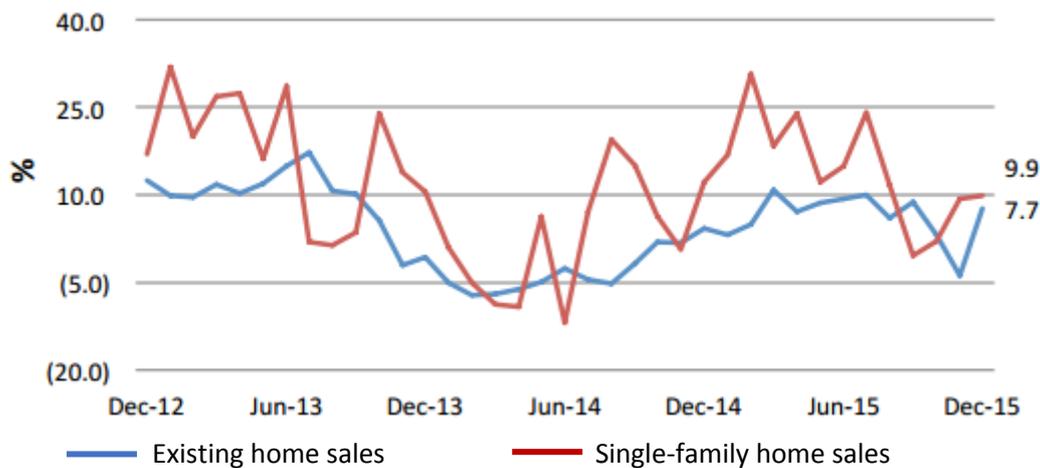
⁷⁶ A. TETI, *Il negoziato Ttip: un'opportunità da cogliere*, ICE, 2015

⁷⁷ See graph 2.3 *Trade barriers to sectorial Italian exports to the United States (2014)*

⁷⁸ D. WEINSWIG, *A deep dive into the US furniture market*, Fung Business Intelligence Centre, 2016

Currently, the outlook for the US furniture industry is positive as the sector is following the broader economic recovery and it is benefitting from the improvement in the housing market as well.

Home sales increase in the wake of the overall economic upswing is supported by a growing GDP and a healthy employment market, but the recovery has not impacted in all of the United States equally and figures about new home sales shows volatility in recent times. Graph 2.5 shows the pace of existing and new single-family home sales in the United States from December 2012 to December 2015.



Graph 2.5 Existing and new single-family home sales

(year over year percentage change)

Source: National Association of Realtors/US Census Bureau, in D. WEINSWIG, *A deep dive into the US furniture market*, Fung Business Intelligence Centre, 2016

New home sales decline sharply around September 2015, to rebound the following month and then the indicator keeps rising until the end of the year. Taking advantage of a quite stable economic environment, forecasts attest a continuous improvement for the unit volume of it. Existing home sales improved up to 7.7% in December 2015 as well. So, this growth in the housing market acts as a tailwind for furniture and home furnishing sales.

As a matter of fact, furniture store sales have improved substantially over recent years, in tandem with the recovery in the US housing market; over the course of the last two years, this sector is outperforming other retail trade businesses such as department

stores and clothing stores in the United States. Sales at furniture stores have outdone those at department stores and clothing stores by 16.6% and 10.7%⁷⁹, respectively, and predictions agree on their improving performance over next three years, given a steady macro-economic environment.

Another consideration to be made concerns the customer profile of this market. Albeit in wider terms US consumers have switched their expenditures back to furniture, recently the so-called “millennials”⁸⁰ have become the largest consumer group in the US furniture market. While in 2012 they represented the 14% of the furnishing market, in 2014 they account for 37% of it⁸¹. But since they have lower average disposable incomes, they spend less than older consumers do. As a consequence of their growing role, they become the core of many retailers’ growth strategies; their tastes are different, since they often look for smaller, multifunctional and affordable furniture, and so the offer is converging into this new demand.

Another trend that is appearing in the US furniture segment is the always more central position e-commerce is gaining as sales tool in this field. It involves both online players like Amazon, and the own-channel of traditional retailers (in which they have to invest in order to improve their sales volumes). E-commerce in the furniture segments represents a significant source of disruption because it impacts also on logistics and on delivery processes, generating elements of innovation in this sector.

To sum up, the overall overview in the US furniture market is positive, as this industry is following the broader economic recovery and the growing housing market; forecasts attest that the market is growing at a compound annual rate of 2.9% between 2015 and 2019⁸². At the same time, furniture and home furnishings companies active in the United

⁷⁹ D. WEINSWIG, *A deep dive into the US furniture market*, Fung Business Intelligence Centre, 2016

⁸⁰ “Millennials”, or “Generation Y”, are the demographic cohort including people born from early 1980s and early 2000s.

⁸¹ D. WEINSWIG, *A deep dive into the US furniture market*, Fung Business Intelligence Centre, 2016

⁸² D. WEINSWIG, *A deep dive into the US furniture market*, Fung Business Intelligence Centre, 2016

States face some headwinds: on one hand, consumer behavior is changing, driven by the emergence of “millennials” as a leading consumer group in this field; on the other hand, the adoption of new technologies intensifies purchases on digital devices. Therefore, it can be seen how the landscape of this sector is becoming always more dynamic and more stimulating to analyze.

CHAPTER 3

THE ITALIAN FURNISHINGS SECTOR

Further to the analysis of the previous chapter concerning features of the US economy and focusing on trends in the home furnishings sector in the United States of America, this section outlines the configuration and the most particular aspects of the manufacturing segment under exam in Italy. After an overall introduction about the production structure of the Italian home furnishings sector, the chapter secondly highlights export inclinations over the last few years; furthermore, it provides an analysis of its principal destination markets and then it focuses on the bilateral trade relationship between Italy and the United States of America.

3.1 AN OVERALL OVERVIEW

Together with the timber sector, the Italian furnishings industry constitutes the so-called “Sistema Legno-Arredo”, a cornerstone of the “Made in Italy” production⁸³. At a detailed level, it is composed by several segments: office and shop furniture, chairs and seats, kitchen furniture, and other furniture. Italy is a net exporter in this sector, but a consistent part of its production historically addresses to its internal market.

The supply chain of the “Sistema Legno-Arredo” is a traditional component of the overall manufacturing sector in Italy. As a matter of fact, in 2015 Italy is the first European country for number of companies operating in this field⁸⁴, prior to Germany and latest competitors as Poland.

⁸³ Traditionally, the four pillars of “Made in Italy” in the world are the so-called “4 Fs” sectors: Food, Fashion, Furniture and Fabricated machinery.

⁸⁴ FEDERLEGNO ARREDO, *Rapporto Federlegno Arredo 2016, 2017*

Home furnishings supply chain includes all the actors involved in the production process and in furniture sales: suppliers, competitors, retailers, and end consumers. All the activities they perform contribute to the realization of the final output, and the interaction among different production stages constitutes a key element in defining industry competitiveness at a global level.

The Italian furnishings sector identifies itself for its high specialization level, its substantial fragmentation, and the resulting concentration of production units in specific territorial areas. Being so rooted in the territory, the extent of companies operating in this segment are small or medium-sized firms, usually family-run businesses. The most consistent amount of production takes place in five regions, corresponding to five furnishings clusters; each of them can be identified for a specific core production. Italian furnishings clusters are dynamic realities impacting positively on employment and sales volume levels of the regions where they develop. On the following lines, they are briefly introduced.

- Between Veneto and Friuli Venezia Giulia, the *distretto del mobile di Livenza e del Quartier del Piave* develops; its focal business is the production of home furnishings directed to the mid to high-end segment. Here, medium or large-scale companies establish as well, proving the industrial level of the production. This cluster impacts on the total Italian turnover for the 21%, with its 7.770 firms and 49.300 workers⁸⁵; it forthwith follows Lombardia for export amounts, being placed at the second position of the rank⁸⁶. In particular, the area of Treviso manufactures the 56% of the total volume in the home furnishings sector on its own, and the 46% of the timber sector, at a national level⁸⁷.

- In Lombardia, the area between the cities of Como and Milano is the birthplace of the *distretto del legno-arredo della Brianza*, the oldest among the Italian furnishings clusters. It is highly qualified in the production of upholstered

⁸⁵ FEDERLEGNO ARREDO, *Rapporto Federlegno Arredo 2016, 2017*

⁸⁶ FEDERLEGNO ARREDO, *Rapporto Federlegno Arredo 2016, 2017*

⁸⁷ FEDERLEGNO ARREDO, *Rapporto Federlegno Arredo 2016, 2017*

furniture, living rooms, kitchens, and bedrooms of a high qualitative range. Its strength relies on the closeness with Milano, where professional designers study and set up their businesses. Here, large enterprises and small-sized businesses coexist. Lombardia ranks at the first place for number of companies operating in both timber sector and furnishings sector, with 10.130 firms and 49.200 workers⁸⁸; moreover, it is the first Italian region as far as export volume in the furnishings segment is concerned⁸⁹.

- Between the regions of Puglia and Basilicata, the *distretto del mobile imbottito della Murgia* is set. Its core business is upholstered leather furniture of medium-low cost. With 3.334 firms and 14.694 workers⁹⁰, the home furnishings supply chain drives regional output in this area.

- In Friuli Venezia Giulia, the *distretto della sedia di Manzano* expands in the area around Udine. Its specialization is the production of wooden chairs of medium quality, together with chairs, seats and pieces of furniture made by other materials. It primarily aims at the medium segment of the market. With its 2.070 firms and 19.090 workers⁹¹, this cluster is the third region in terms of turnover, as far as the furnishings sector is concerned.

- In the Marche region, the area around the city of Pesaro is the *distretto delle cucine di Pesaro*. It is specialized on kitchen production in the value for money segment, but its overall production ranges from home furnishings to office equipment. A large number of small-sized firms surrounds few leaders of larger dimensions. With 2.520 firms and 18.000 workers⁹², this cluster ranks at the fourth position in terms of turnover and number of employees in the home furnishings sector.

⁸⁸ FEDERLEGNO ARREDO, *Rapporto Federlegno Arredo 2016, 2017*

⁸⁹ FEDERLEGNO ARREDO, *Rapporto Federlegno Arredo 2016, 2017*

⁹⁰ FEDERLEGNO ARREDO, *Rapporto Federlegno Arredo 2016, 2017*

⁹¹ FEDERLEGNO ARREDO, *Rapporto Federlegno Arredo 2016, 2017*

⁹² FEDERLEGNO ARREDO, *Rapporto Federlegno Arredo 2016, 2017*

Table 3.1 shows the production and dimensional structure of Italian furnishings clusters in 2001 (Table 3.1.a highlights the relevance of their core business for the three clusters which are highly qualified in a specific production):

a. Production structure

	Chairs and sofas	Office and shop furniture	Kitchen furniture	Other furniture	Total
Livenza e Quartier del Piave	12	15	12	61	100
Brianza	26	18	3	53	100
Murgia	87	4	2	7	100
Manzano	61	9	6	24	100
Pesaro	11	12	17	60	100

b. Dimensional structure

	Size class				Total
	< 10	10-49	50-249	>250	
Livenza e Quartier del Piave	13	40	42	5	100
Brianza	44	33	21	2	100
Murgia	15	38	22	25	100
Manzano	24	52	19	5	100
Pesaro	22	48	24	6	100
<i>Kitchen furniture</i>	4	32	27	37	100

Table 3.1 Production and dimensional structure of Italian furnishings clusters (2001)
(percentage composition)

Source: Intesa San Paolo elaboration from Istat data, in SERVIZIO STUDI e RICERCHE INTESA SAN PAOLO, *L'industria del mobile in breve*, 2008

As mentioned above, small and medium-sized companies distinguish the overall Italian productive fabric; this is particularly true for the home furnishings sector, as Table 3.1.b shows. But the importance of clusters does not concern only the territorial organizations of firms; it discloses the simultaneous presence of determinant material aspects, such as the availability of qualified working force and of associated suppliers, together with immaterial factors, as the unique knowledge of products and of production processes; these features become essential for guaranteeing competitiveness of businesses.

Therefore, the foremost strengths of the Italian furnishings sector can be identified in the remarkably high quality of its production, attested by the worldwide reputation of

the “Made in Italy” brand as well; the competitive quality/money ratio it ensures; its intense specialization, allowed also by clusters; its traditional experience in techniques and processes belonging to this production segment.

On the other hand, some weaknesses arise as well. Typical features of clusters often slow down firms’ inclination both to outsource their production and to reach consistent amounts of exports. Moreover, the copious presence of small and medium-sized companies proves the high competitiveness level in this field; and another difficulty SMEs face concerns the often-huge costs they have to bear in order to both keep up with innovations in the sector and to expand towards new markets.

As a matter of fact, causes of Italian companies’ difficulty to continuously impose in international markets can be found in their same peculiar structure. In particular, the “3 Ds” factors⁹³ impact on this effort: diffusion, dimensions and distribution. The former refers to export inclination of Italian firms: while in absolute terms it is the first export country outside of the European market, and follows Germany at the second position for intra-Community export⁹⁴, its relative weight (4,2% at a European level and 3,3% outside of the European market⁹⁵) on the total amount of companies is still marginal. This is directly due to the size of most of Italian firms, and therefore it is linked with the second “D”, “dimension”: in 2013, 99,4% of active companies was behind 50-workers level⁹⁶. It follows that Italian export companies face huge obstacles in gaining a significant market share in new emerging markets because of the high fixed costs starting export involves; also, they have fewer opportunities to diversify their end-markets, for the same reasons. Then, “distribution” concerns the delivery channels on

⁹³ A. DOSSENA, A. LANZA, *Esportazioni italiane: un ampio potenziale ancora da sfruttare*, ICE, 2013

⁹⁴ In 2013 Italy boasted more than 160.000 export companies at a European level, and more than 125.00 export companies to extra-European markets.

A. DOSSENA, A. LANZA, *Esportazioni italiane: un ampio potenziale ancora da sfruttare*, ICE, 2013

⁹⁵ Against an average level respectively of 5,4% and 4,2% of its main European competitors.

A. DOSSENA, A. LANZA, *Esportazioni italiane: un ampio potenziale ancora da sfruttare*, ICE, 2013

⁹⁶ A. DOSSENA, A. LANZA, *Esportazioni italiane: un ampio potenziale ancora da sfruttare*, ICE, 2013

which export companies can rely, as commercial intermediaries and trade operators, but in Italy they still play a secondary role in supporting national export.

A further peculiar feature of the Italian “Sistema Legno-Arredo” concerns the restrained dynamics of the internationalization of production processes. While other traditional sectors of the “Made in Italy” manufacture often face the competitive pressure of emerging countries quickening offshoring procedures to shift production in foreign countries, the Italian furniture sector does not adopt this approach. The complexity and the significant differentiation level of the final product are typical traits of the furniture system and, together with the interdependence with other manufacturing sectors during production phases, remarkably reduce a simple internationalization of production stages. In 2014, the turnover of foreign companies with Italian participation operating in the furniture sector accounts only for the 0,2% of the total turnover in all the production segments⁹⁷, and the number of employees stands for the 0,8% of the total⁹⁸.

In the first years of 2000s, the national market for the Italian furnishings sector reaches a maturity level that involves a weakening in the Italian control of it; at the same time, a gradual erosion of market shares takes place at a global level because of the increasing emerging of international competitors. Those new players pose a threat especially for low and medium-range manufacturers, and force Italian firms to reposition themselves on high market segments for both price and quality, in order to overcome competition and not to give up.

Moreover, another key factor Italian companies employ to regain their position in the global scenario is the expansion of their international networks searching new possibilities through addressing new markets. Section 3.2 provides an outlook of export trends over the last few years, focusing on the evolution of principal destination markets.

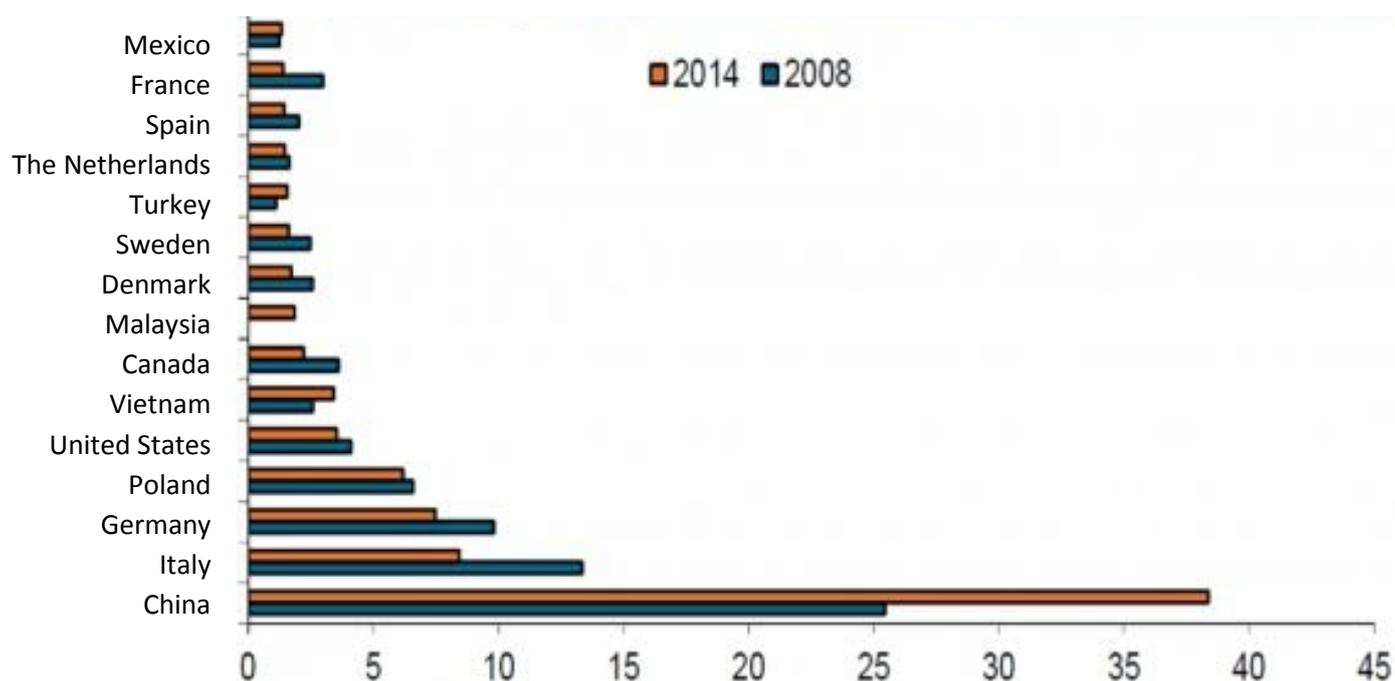
⁹⁷ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 4

⁹⁸ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 4

3.2 EXPORT EVOLUTION

Since the late 20th century, the home furnishings sector starts to internationalize increasingly; export inclination of Italian furnishings firms goes from 17% of 1980 to 34% of 2006⁹⁹. This growth mainly concerns bedroom and living room furniture, together with upholstered furniture, whereas other segments as kitchen and office furniture proved to be more stationary. Then, the economic crisis affects global exchanges of goods, and the Italian manufacturing undergoes a difficult period as well. But in recent years, Italian export has to face another threat: the emerging and the affirmation of new competitors such as China and Poland¹⁰⁰, countries with lowest wages and high availability of raw materials, above all wood.

Graph 3.1 shows a comparison between foremost furniture export countries in 2008 and in 2014.



Graph 3.1 Foremost furniture export countries
(market share at current prices)

Source: Intesa San Paolo elaboration from UNCTAD data

⁹⁹ SERVIZIO STUDI e RICERCHE INTESA SAN PAOLO, *L'industria del mobile in breve*, 2008

¹⁰⁰ LA REPUBBLICA, *Mobili italiani in difficoltà per la concorrenza di Cina e Polonia*, April 4th 2017

While in 2008 the Italian market share on worldwide export was near to 15%, in 2014 it is well below 10%. On the other hand, China maintains its leading position increasing its market share from 25% to approximately 40%. While Germany is losing ground as well, this graph shows the gradual appearance of new actors in the international scenario, such as Turkey and Malaysia.

By and large, the Italian furnishings sector is gradually recovering now, but it is still far from pre-crisis levels. Last decade develops with a fluctuating trend and currently the sector discloses a growth pattern, both in production volume and in export amounts. For this reason, a deepened analysis from the outbreak of the economic crisis to the progressive upswing appears to be fundamental.

3.2.1 Italian furnishings export from 2007 to 2017

In 2007, before the crisis effects reached a worldwide expansion, the Italian trade surplus in the home furnishing sector marks an increase even if export growth (+3.9%) is considerably lower than import growth (+10.9%)¹⁰¹. In particular, the chairs and sofas segment shows a declining trend in export amounts, while its level of imports reaches a pick of 16%; however, this remark can be explained by the ongoing substitution process of Northern Eastern Italian production (where the Manzano cluster develops) with exports of countries where companies operating in this field shifted their production plants.

Chief destination markets of Italian furniture are France, the United Kingdom and Germany, with France increasing its import from Italy by 1.3%¹⁰²; more generally, those countries represent the leading commercial partners for Italy, even if export amount starts to falter. On the other hand, import of furniture from the United States of America

¹⁰¹ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2007-2008*, ICE, 2008, ch. 6

¹⁰² ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2007-2008*, ICE, 2008, ch. 6

decreases (-0.9%¹⁰³), disclosing the internal weakening the country is experiencing as first sign of the economic crisis. Then, with a growth of 14.9%¹⁰⁴, Russia proves to be the most dynamic marketplace for Italian furniture in 2007; it is going through an overall period of economic development that reflects itself on a lively increase of Italian exports concerning all sectors (+25.6% on average from 2004 to 2007¹⁰⁵), but above all the traditional “Made in Italy” ones.

In 2008, trade in Italian furniture decreases; export growth stops and its amount marks a reduction of 4.5%¹⁰⁶, and import amounts drop as well. Further to the decline in the chairs and sofas segment (-10.8%) already registered in the previous year, export of bedroom and living room furniture slows down as well (-0.9%)¹⁰⁷.

Export through traditional Italian counterparts (mainly, the United Kingdom and the United States of America) reduces, whereas the Russian market continues its growth together with emerging players in the furniture sector as the United Arab Emirates and Ukraine (in particular, Italian export still marks an overall growth in the Middle East, even if the pace of sales is considerably slower if compared with the previous years). Similar outcomes highlight the spreading effects of the American crisis at a global level.

Besides the crisis, the advancement of China causes the slackening in Italian furniture exports as well. As a matter of fact, from 2005 it becomes the first export country in the home furnishing sector, constantly increasing its market share (from 18.6% of 2007 to 21.3% of 2008¹⁰⁸) to the detriment of main competitors, as Italy was. Other countries

¹⁰³ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2007-2008*, ICE, 2008, ch. 6

¹⁰⁴ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2007-2008*, ICE, 2008, ch. 6

¹⁰⁵ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2007-2008*, ICE, 2008, ch. 5

¹⁰⁶ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2008-2009*, ICE, 2009, ch. 6

¹⁰⁷ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2008-2009*, ICE, 2009, ch. 6

¹⁰⁸ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2008-2009*, ICE, 2009, ch. 6

less integrated in the global network, and therefore less affected by the crisis, increase their performance (Poland and Vietnam above all¹⁰⁹) damaging traditional competitors as Canada and the United States of America.

In 2009, Italian furniture export carries on with its negative trend marking a decrease equal to -22.3%¹¹⁰. Most negative outcomes occur in not designed for domestic use furniture, as office and shop furniture (-34.7%¹¹¹), but home furniture sales reduce as well.

While Chinese market share keeps growing, Italy's portion experiences a deteriorating performance reducing of one percentage point compared to the previous year. The increase of China relevance in the furniture segment transformed the worldwide scenario from 2000 to 2009: China reached the first position as export country increasing its market share by 18 percentage points in ten years, to the detriment of Italy (down of 5%), Canada (-6%) and the United States (-4%); among developed countries, Germany is the only one able to rise its market share in this time frame.

Italian furniture export to its main destination markets, France and Germany¹¹², lowers less than the sector average; while most consistent losses registers in the United Kingdom, in the United States of America and in Spain. Fast-growing markets as Russia, the United Arab Emirates and Ukraine marks unsatisfactory results as well, proving lack of dynamism on worldwide demand of manufactured goods, while Italian furniture export to Libya (+4.5%) and Morocco (+19.9%)¹¹³ increases during this year. However, recovery of international trade flows after the crisis outbreak is still faraway to achieve.

¹⁰⁹ See graph 3.1 *Foremost furniture export countries*

¹¹⁰ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2009-2010*, ICE, 2010, ch. 6

¹¹¹ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2009-2010*, ICE, 2010, ch. 6

¹¹² In 2009, France and Germany together account for 29% on Italian furniture export. ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2009-2010*, ICE, 2010, ch. 6

¹¹³ SERVIZIO STUDI e RICERCHE INTESA SAN PAOLO, *L'industria italiana del mobile e i suoi distretti all'uscita dalla crisi*, 2010

Being one of the highest international specialization segment for Italy, the furniture sector remains a leading one for Italian export. Nevertheless, in 2010 export amount is still quite steady, even if it prevails on import volume.

The scenario in Italy's major end markets is quite unchanged if compared with the previous year, whereas sales in the United Kingdom, in the United States, in Russia and in Spain sharply reduce. Despite this, trade flows between Italy and Northern America mark a slight increase as far as the total export is concerned; demand is slowly warming up again in this area, and Italian sales in the United States of America are gradually recovering. At the same time, the relative weight of this region for Italian export is reducing, in favor of Eastern Asia above all; as a matter of fact, export to China intensifies in the furniture sector as well.

In 2011, Italian trade balance with foreign countries slowly improves, being still below pre-crisis levels; export amount moderately grows (+3.9%), while import is quite steady (+0.2%)¹¹⁴.

The unsatisfactory pattern of export mirrors both a mild dynamism of principal destination markets as France, Germany and the United States, and a decrease in other significant markets as the United Kingdom, Spain, Portugal, and Greece, while emerging markets' vitality as the Asian and Eastern European ones are unable to compensate for them.

Although the declining trend of Italian market share on global furniture market lessens, it does not stop; in 2011, it drops from 8.8% to 8.6% (being around 15% at the beginning of the 2000s)¹¹⁵. China is strengthening its leading position in the global rank, while Germany overcomes Italy at the second place and Poland reinforces its fourth placement.

¹¹⁴ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2011-2012*, ICE, 2012, ch. 6

¹¹⁵ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2011-2012*, ICE, 2012, ch. 6

In 2012, furniture import reduces of 10.8%, being affected by the adjustment phase ongoing in the real estate industry; for this reason, the trade balance slightly enhances since export amount scarcely increases (+0.9%)¹¹⁶. The increasing demand of Italian furniture from both traditional markets as Russia, Switzerland, and the United States, and from faraway countries as the United Arab Emirates and Saudi Arabia, compensates sales reduction to established European countries as France and Germany.

Despite this trend, Italian market share on global furniture export suffers an additional and significant decrease; main competitors as Germany and Poland experience the same trend, while Chinese market share is constantly rising over the last few years.

Table 3.2 shows a comparison among Italian market share in the furniture sector and the one of its major competitors, underlining changes occurred in this field from 2003 to 2012.

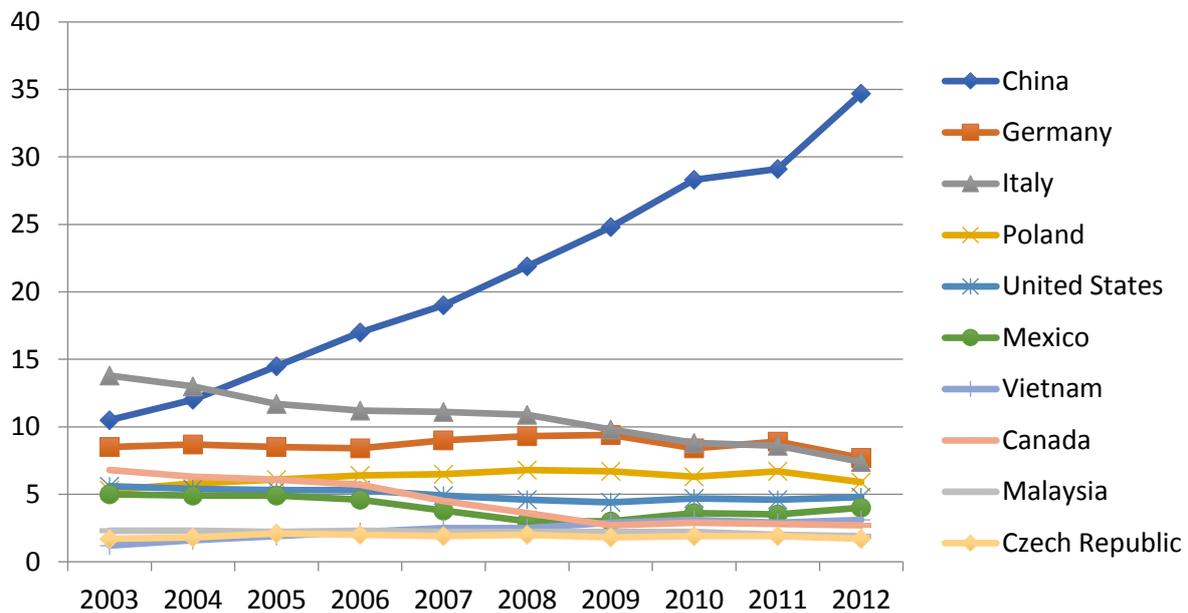
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
China	10,5	12	14,5	17	19	21,9	24,8	28,3	29,1	34,7
Germany	8,5	8,7	8,5	8,4	9	9,3	9,4	8,4	8,9	7,7
Italy	13,8	13	11,7	11,2	11,1	10,9	9,8	8,8	8,6	7,4
Poland	5,3	5,8	6,1	6,4	6,5	6,8	6,7	6,3	6,7	5,9
United States	5,6	5,4	5,3	5,3	4,9	4,6	4,4	4,7	4,6	4,8
Mexico	5	4,9	4,9	4,6	3,8	3	3	3,6	3,5	4
Vietnam	1,2	1,6	1,9	2,2	2,5	2,5	2,9	3,1	2,9	3,1
Canada	6,8	6,3	6,1	5,7	4,5	3,6	2,7	2,9	2,8	2,7
Malaysia	2,3	2,3	2,2	2,3	2,2	2,2	2,2	2,2	2	1,9
Czech Republic	1,7	1,8	2,1	2	1,9	2	1,8	1,9	1,9	1,7
Total	60,7	61,8	63,3	65,1	65,4	66,8	67,7	70,2	71	73,9

Table 3.2 Global market shares on furniture market (2003-2012)
(percentage on global export)

Source: ICE elaboration from EUROSTAT data, in ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2012-2013*, ICE, 2013, ch. 4

Graph 3.2 better highlights patterns of countries' market shares in this time frame.

¹¹⁶ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2012-2013*, ICE, 2013, ch. 4



Graph 3.2 Pattern of global market shares on furniture market (2003-2012)

Source: own elaboration, from ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2012-2013*, ICE, 2013, ch. 4

It is straightforward to notice the extraordinary growth of China: from 2005, it outdoes Italy at the top position among world furniture export countries, developing according to incredibly high growth rates. Italian and German market shares slowly converge, with a decline registered by the former and an increase of the latter. Other countries' export volume proves to be quite steady in this period.

In 2013, almost all sectors contribute to the increase of manufacturing trade balance; among expanding sectors, traditional segments of Italian specialization mark a positive trend, attesting an export recomposition to high quality products. Home furnishings export increases by 2.3%¹¹⁷, being still below pre-crisis levels.

Recovery is driven by extra-European markets as Russia, the United States of America, Switzerland, China, the United Arab Emirates, and Saudi Arabia, while sales to principal European destination markets are still weak. As a matter of fact, relative weight of

¹¹⁷ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2013-2014*, ICE, 2014, ch. 4

foreign markets has gradually changed over the last few years: the worldwide importance of the European Union considerably lessened during the economic crisis, and Northern American significance decreased as well; on the other hand, developing and emerging countries strengthened their position on the global scenario.

2014 starts following the path of 2013, with a slight increase of the manufacturing trade balance thanks to a generalized recovery in world demand. Political and economic global scenario throws down a challenge for Italian export companies because of the precarious Russian situation and the escalation of geo-political tensions in the Mediterranean area. Despite this factors adversity, Italian firms' efficiency lets them to exploit mature markets such as the Northern American one; its re-positioning is the result of strategies focusing on quality rather than on price. The home furnishings segment is among growth sectors, its export amount marking an increase of 3.2%¹¹⁸; moreover, Italy's placement in global competitive background recovers positions, seeming to stop the negative trend of the last few years.

Italian trade balance increase arises from mixed geographical dynamics: an upturn in demand from developed areas compensates for criticalities of Northern Africa, Middle East, and Russia. The greater contribution to growth comes from the European Union, which regains weight on Italian export with Germany as the main trade partner of Italy. But Northern America is the region which mostly impacts on the trade balance improvement, for the domestic upswing it is experiencing.

In 2015, overall manufacturing export rises again (+3.7%¹¹⁹) even if trade balance is negative since import growth is higher than the export one; this performance can be attributed to a series of factors, firstly to the reboot of Italian domestic demand restricted in national supply since production capacity decreased during the crisis for many failures. In particular, the home furnishings sector is affected by the Russian crisis,

¹¹⁸ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2014-2015*, ICE, 2015, ch. 4

¹¹⁹ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 4

but it develops driven by Chinese and American markets and, at the same time, by the recovering European one; export rate of growth of 2015 is nearly twice the average one in 2010-2014¹²⁰.

Together with Germany, Italy reconfirms one of the major European exporters in the furniture segment, the two countries accounting for the 60% of the total export¹²¹. Despite this, the Italian market share shrinks between 2000 and 2010, in favor of Germany; up to 2015, Germany forereaches Italy becoming the first furniture export country in Europe, while Italy's market share undermines.

Table 3.3 shows the evolution of Italian market share on furniture exports from 2000 to 2015.

	Share on global export				Share on European export			
	2000	2010	2014	2015	2000	2010	2014	2015
Furniture sector	14,5	8,8	7,3	6,8	38,3	29,5	29,2	29,1

Table 3.3 Italian share on furniture export
(percentage at current prices)

Source: own elaboration, from ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 4

Italy loses market share both at a global level and at the European one. As mentioned above, the first pattern can be attributed to the significant growth of Chinese infiltration in traditional Italian markets as the United States of America and the United Kingdom; however, it represents a threat mainly for medium to low-end production, while it does not impact on high quality manufacturing. On the other hand, shrinkage in the European market is due to the increasing affirmation of Germany as top furniture exporter.

In 2016, Chinese furniture export undergoes a sharp drop slowing down its performance (-6%) for the first time after years of continual growth, while other top exporters as Germany, Italy and Poland slightly increase their market share (equal to 8%, 8% and 7%,

¹²⁰ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 4

¹²¹ ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2015-2016*, ICE, 2016, ch. 4

respectively)¹²². The United States of America confirms the first import country at a global level, followed by established European economies as Germany, the United Kingdom, and France.

In particular, the Italian furniture export firstly addresses to the European Union (its share being equal to 56,3%¹²³), with France, Germany and the United Kingdom as leading counterparts for Italian exchanges. The United States comes after them with a 9% share¹²⁴, followed by Eastern countries as Russia, China, and the United Arab Emirates; the Asian-Pacific region is another appealing area for Italian interior design and furniture firms to expand in.

3.2.2 Overall considerations

The home furnishings sector is an excellence for Italian global competition. In the last few years export trend is not steady, it fluctuates on the pace of the economic crisis which spread all over the world, and it is affected by the changing situation in the worldwide scenario, with the ascent of new international competitors.

Until 2004, Italy is the top exporting country in the furniture field at a global level¹²⁵, but the following year it loses its first place being substituted by China; the gap between the two countries increases with the Italian slowdown due to the crisis, while Chinese export carries on its acceleration. Chinese achievements go at the same speed of Italian retreat both in the European and in the Northern American marketplaces. In order to maintain its competitiveness, Italian furnishings industry tries to innovate itself focusing more and more on quality and innovation, to aim at high-end markets. Germany overcomes Italy as well, its furniture export increasing at higher growth rates.

Also, core end markets of “Made in Italy” furniture changed during this time frame; traditional destinations as France and Germany downsized themselves in favor of extra-

¹²² CSIL, *Rapporto di Previsione sul Mercato del Mobile Arredo*, 2017

¹²³ CSIL, *Rapporto di Previsione sul Mercato del Mobile Arredo*, 2017

¹²⁴ CSIL, *Rapporto di Previsione sul Mercato del Mobile Arredo*, 2017

¹²⁵ See table 3.2 *Global market shares on furniture market (2003-2012)* and graph 3.2 *Pattern of global market shares on furniture market (2003-2012)*

European emerging countries as Russia and the Asian nations. As a matter of fact, one of Italian firms' strategies to regain their market shares at a global level is the shift towards new emerging markets, with higher potential. This is related to worldwide changes in economic situation: Eastern countries imposes themselves on the scene, becoming key players of the global economy.

Since crisis outbreak got Italian furnishings sector during an ongoing transformation phase as difficulties were already arising because of the increasing competitiveness at a global level, at first Italian companies have been severely disadvantaged by this conjuncture. Then, the furniture segment emerged from this situation reshaping itself: the extent of companies operating in this field faced similar obstacles committing to increase their production efficiency and enhancing their quality levels. Measures to expand in new emerging markets have been adopted, in order to differentiate their trade goals.

In particular, an investigation by E. Marvasi¹²⁶ highlights how Italian export repositioned itself at an intra-sectorial level rather than at an infra-sectorial one. Sectors and products of international qualification can be divided into four categories, according to their specialization level (where international specialization is used as a proxy of the export volume) and their relative price (where price is used as a proxy of quality):

- specialization and high quality: products with both high export level and high relative price, therefore showing a qualitative advantage;
- specialization and low quality: products with a high export level but low relative price, therefore showing a price advantage;
- de-specialization and low quality: products with both low export level and low relative price, therefore showing some structural issues since despite low prices the export amount is scarce;

¹²⁶ E. MARVASI, *Prezzi e qualità: in che direzione si muove l'export italiano?*, ICE, 2010

- de-specialization and high quality: products with a low export level and high relative price, therefore showing some structural issues since despite the top level of quality export is not significant.

The analysis proves that from 1999 to 2009 Italian export shifted towards the high specialization and high-quality class, showing that its main advantage comes from quality and products' sophistication.

This trend in Italian export confirms despite in times of recession it seems conceivable to suppose that high-priced goods' demand shrinks. However, data¹²⁷ shows a more emphasized decline in low quality goods export. A similar evidence marks out the unique pattern of Italian trade: traditional "Made in Italy" manufacture, distinguished for the excellence of its production, can maintain a notable market share at a global range focusing on enhancing the superiority of its quality level.

To sum up, both the ongoing upgrading of qualitative processes and the geographical differentiation of end-markets prove to be key factors for the gradual recovery of Italian export at a global level. Moreover, as far as "Made in Italy" specialization is concerned, the focus on quality appears to be fundamental in order to distinguish from emerging competitors. For this reason, also the furniture sector has to exploit the possibilities provided by both these two perspectives.

3.3 FOCUS ON ITA-US TRADE EXCHANGES

The United States of America is a traditional key commercial partner for Italy since the two countries share strong bilateral relations from a long time. They cooperate closely on major economic issues, including within the G8, and they belong to a number of the same international organizations already mentioned above¹²⁸, such as the United Nations (UN), the North Atlantic Treaty Organization (NATO), the Organization for

¹²⁷ P. ESPOSITO, C. VICARELLI, *La performance delle esportazioni italiane durante la crisi: la qualità conta*, ICE, 2011

¹²⁸ See paragraph 1.2.2 *The governance outline* and paragraph 2.1.1 *International relations*

Economic Co-operation and Development (OECD) and the World Trade Organization (WTO). This strong relationship is supported by the fact that the United States ranks at the third position among top import countries from Italy, following established Italian partners as Germany and France¹²⁹.

Together with Germany, the United Kingdom and France, the United States is one of the first furniture importer at a global level¹³⁰. Then, it plays a leading role among Italy's most important trade partners in the furniture sector as well: it is the third destination country of Italian furniture export with a 7% market share in 2014, following the whole Euro-zone (39%) and the United Kingdom (8%), and forerunning significant markets as Russia (7%) and China (2%)¹³¹.

In order to promote the Italian furniture sector in the United States of America, the Italian association of furniture industries, Federlegno Arredo, develops a program of initiatives supporting the internationalization of Italian firms in the US market. In addition to traditional plans for the incoming of American buyer to Italy, in occasion of international events as the Salone Internazionale del Mobile di Milano, realized with the collaboration of the Ministry of Economic Development and of the ICE (Istituto Nazionale per il Commercio Estero, National Institute for Foreign Trade), Federlegno Arredo focuses on the creation of synergies with strategic local operators as organizations, architectural firms, and dealers. It launches partnerships with services providers as well, in order to ease assistance and consultation to Italian companies under a legal and regulatory perspective. Another stimulating project concerns the analysis of the fourteen key Design Centers of the United States, representing a strategic channel to understand this market.

Moreover, Italian furniture and design companies prove to be extremely vital in organizing activities and events during the International Contemporary Furniture Fair (ICFF) occurring every year at the beginning of May in New York City. It is a central

¹²⁹ Coeweb, Statistiche del Commercio Estero

¹³⁰ Centro Studi Industria Leggera

¹³¹ World Bank

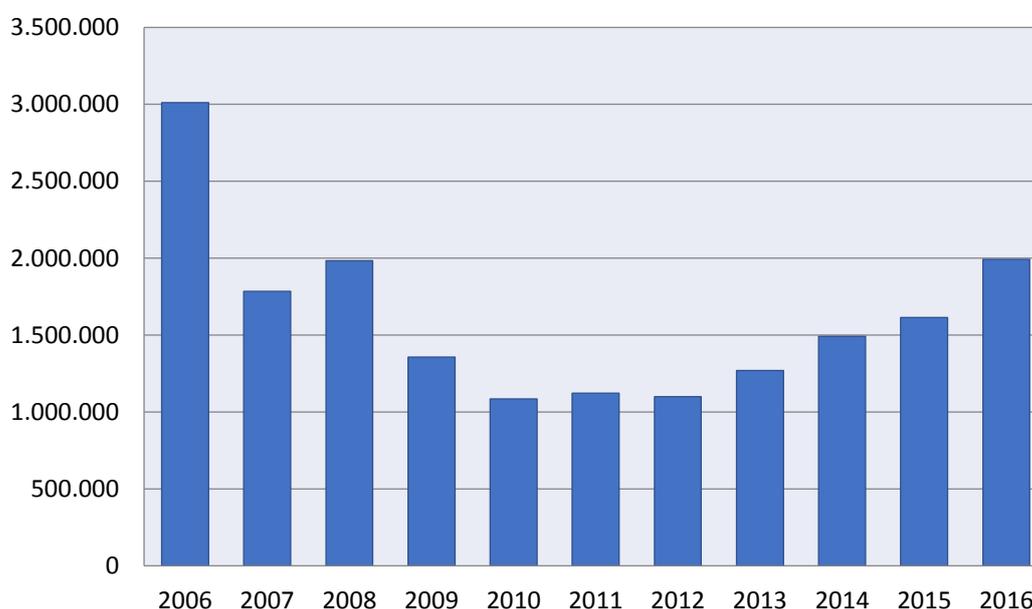
showcase for Italian businesses since it develops in one of the core international hub for design, an influent creative center attracting operators of this field from all over the world.

To go into details about trade exchanges in the home furnishings sector between Italy and the United States of America, Table 3.4 and Graph 3.3 show the pattern of Italian furniture export to the US market from 2006 to 2016.

	2006	2007	2008	2009	2010	2011
Furniture export	3.011.122	1.783.729	1.984.581	1.357.175	1.084.332	1.122.189
	2012	2013	2014	2015	2016	
	1.099.329	1.270.139	1.491.551	1.614.888	1.992.602	

Table 3.4 Furniture export from Italy to the United States (2006-2016)
(by quantity, kg)

Source: own elaboration, from Istat data (Coeweb)



Graph 3.3 Furniture export from Italy to the United States (2006-2016)
(by quantity, kg)

Source: own elaboration, from Istat data (Coeweb)

Before the outbreak of the economic crisis, Italian furniture export to the Northern American market peaked reaching an export amount larger than 3 million. This level arises from a positive path which drastically stops in 2007 and comes to a standstill in the first years of the new decade when the sales volume reaches its lowest levels, as data of 2010-2012 shows. In these years, the United States starts a gradual recovery of its economy with an upswing of internal demand and consumptions. These results reflect also on the pattern of Italian furniture export: it slowly restarts to grow from 2013, even if the resumption of trade is still far from pre-crisis level, being the export amount of 2016 equal to about two-thirds than the 2006 volume.

As far as the future of this commercial relationship is concerned, Italian interior design and furniture companies perceive the United States as the top foreign market into which continuing to expand their activities. As a matter of fact, while it is true that the Chinese market is growing more quickly, in absolute terms the American market lasts by far as the most relevant one outside of Europe because it is the first country to continuously ensure a reliable end market to Italian products. Italy's perspectives are positive since the US market offers Italian firms two advantages at its present juncture: thanks to the recovery it is crossing, it experiences the growth rates of an emerging country together with the volume, the infrastructures, and the operating conditions of a mature and established market.

Given the high potential this marketplace continues to offer, Italian businesses should increase their already established presence in New York and expand bringing the "Made in Italy" furniture to large cities of the West Coast as San Francisco and Los Angeles as well, as Federlegno Arredo president Roberto Snaidero suggests¹³². Moreover, Miami is another one of the most appealing cities since it can turn into a link with the Mexican and Southern American market as well.

¹³² G. MANCINI, *Italian furniture makers look for new growth opportunities on the West Coast*, Il Sole 24 Ore, July 29th 2016



Image 4.1 Reflex logo
Source: Reflex Spa

CHAPTER 4

CASE-STUDY: REFLEX SPA

The following chapter represents the final section of this paper: it provides an analysis of a practical case-study to be read against the theoretical background outlined in the previous parts. It refers to Reflex Spa company, a furniture firm specialized in high-end décor; the study is predominantly based on information acquired through the internship experience at the company under analysis. At first it depicts a general profile of the firm, and then focus shifts to the pattern of Reflex' sales in the United States of America from 2006 to 2016, trying to evaluate it on the light of the assessment of the previous chapters.

4.1 COMPANY PROFILE

History of Reflex Spa starts in 1987, when it is established in Biancade, in the heart of Treviso area, by Luciano Lucatello. But its constitution appears to be the natural outlet of Società Vetraria Biancadese Spa, a high-qualified glass manufacturing factory owned by the same family from the beginning of the 40s. Together with Angelo Srl, a forty-year-old firm specialized in wood processing for living and bedroom furniture, these three companies are a well-blended corporate group sharing the same executive, administrative and technical offices managed by a single owner; they interact among themselves to develop exclusive products exploiting continually renewed technologies.

Logos of the three companies are hereunder shown:



Image 4.2 Reflex, Società Vetraria Biancadese and Angelo logos

Source: Reflex Spa

Together, the three firms hire approximately a hundred workers, about a forty of them works for Reflex Spa in particular and the same number is employed in Società Vetraria Biancadese Spa, while a half of them is active in Angelo Srl¹³³. Then, they can all be categorized as small companies according to the definition provided by the European Union, while as far as the whole group is concerned, it is classified as a medium-sized business¹³⁴. Reflex Spa has a unique manufacturing plant; the company never chose to move its production relocating in other regions or abroad because of the tight bond it established with the territory where it arises. Therefore, material processing and the whole production process takes place exclusively in its Biancade plant.

Reflex Spa's annual turnover is around € 10 million; it originates from an average of 1400 business deals per annum¹³⁵. Commercial transactions are developed by three wholly owned outlets: the historical showroom itself is located in Biancade, where an entire and continually updated exhibition of Reflex products can be admired, but in 2007 the company opens an additional store in the center of Milano, in Brera, the area which is renowned as the exclusive part of the city where artists and designers settle down.

¹³³ Reflex Spa, 2016

¹³⁴ The European Commission describes small and medium-sized enterprises according to the staff account and either the turnover or the balance sheet total, as follows:

Company category	Staff headcount	Turnover	Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

EUROPEAN COMMISSION, *Annex of Commission Recommendation of 6 May 2003 2003/361/EC*, Title 1, Article 2

¹³⁵ Reflex Spa, 2016

Moreover, Reflex Spa has a further showroom in Berlin, proving its international vocation and its aim to incessantly expand its scope. These two additional showrooms have been set up in strategic places in order to strengthen Reflex' collaboration with an already existing and active customer base, and to develop new partnerships and innovative projects. As a matter of fact, the direct presence in the market allows the company to better understand and satisfy the customers' needs both from a design and a marketing perspective, leading to more successful collaborations. In addition to these three wholly owned outlets, Reflex Spa counts on about 800 dealers located all over the world which sell its products to the final customer; most of them are situated in Italy as well, but a large number is placed throughout Europe (with France, Germany, and the United Kingdom at the top positions), and they are also scattered across the world.

Reflex Spa is a home furnishing company addressing to high-end customers in the global furniture market, its products being characterized by a strong content of design, innovation, and technology. Sought-after materials represent the foremost strength of Reflex production; in particular, glass is the leading component giving to Reflex articles precious brightness and elegance (Reflex Spa is the first company using Murano massive glass and murrine as a base of its tables¹³⁶), but it privileges the application of further high-quality materials as marble, wrought-iron and wood as well. All these features are peculiarities of the "Made in Italy" production, and they play a relevant role in making Reflex manufacture appreciated by refined customers recognizing the value of Italian brands all over the world.

Reflex collections cover the complete range of products in the furniture segment: from chairs and tables to lighting systems and mirrors, from complements for the night area to office furniture, together with sofas and leisure objects.

¹³⁶ Legs of SASSI 72 table are in Murano massive glass (see *Image 4.3 An example of Reflex products*)



Image 4.3 An example of Reflex products

SASSI 72 table and NEW YORK chairs; STELLE chandelier; TITANIUM clock

Source: Reflex Spa

There are two core collections, providing two different assortments of products and materials. “Disegno” offers a complete series of furnishings distinguished by essential forms and strong and neat lines, the high precision of its conception project aims at a modern way of living in which the core elements are color and design; on the other hand, the “Glamour” collection is portrayed to be an elegant expression of luxury inspired to classical Venetian forms, combined with modern materials and technics.

In order to enrich the variety of its products, Reflex collaborates with well-known architects whether Italians or internationals; the most renowned partnership is the one with Pininfarina Spa¹³⁷, from which the  Reflex/Pininfarina Home Design project developed. It is a **Image 4.4 Pininfarina logo**

completely new collection combining different aspects of the Italian style: from the attention to the design to the continuous search of innovation, from the importance of providing custom-tailoring products to the high quality of employed materials. This collection delivers an integrated living system including a modular sofa, a table, a cabinet, a bookcase and two lighting systems where the use of some specific materials,

¹³⁷ Pininfarina Spa is an Italian car design and coachbuilder company cooperating with a wide variety of automobile manufactures (such as Ferrari, Alfa Romeo, and FIAT) to design vehicles. Then, it developed its activity into the one of a consulting company on industrial design, interior design, architecture, and graphic design as well.

copper combined with the walnut Canaletto wood¹³⁸, acts as a liaison among the different elements, conferring a distinctive character to the whole collection.



Image 4.5 Some articles of Reflex/Pininfarina home collection

SEGNO sofa-chaise longue; SEGNO 72 table; SEGNO desk and VELA chair

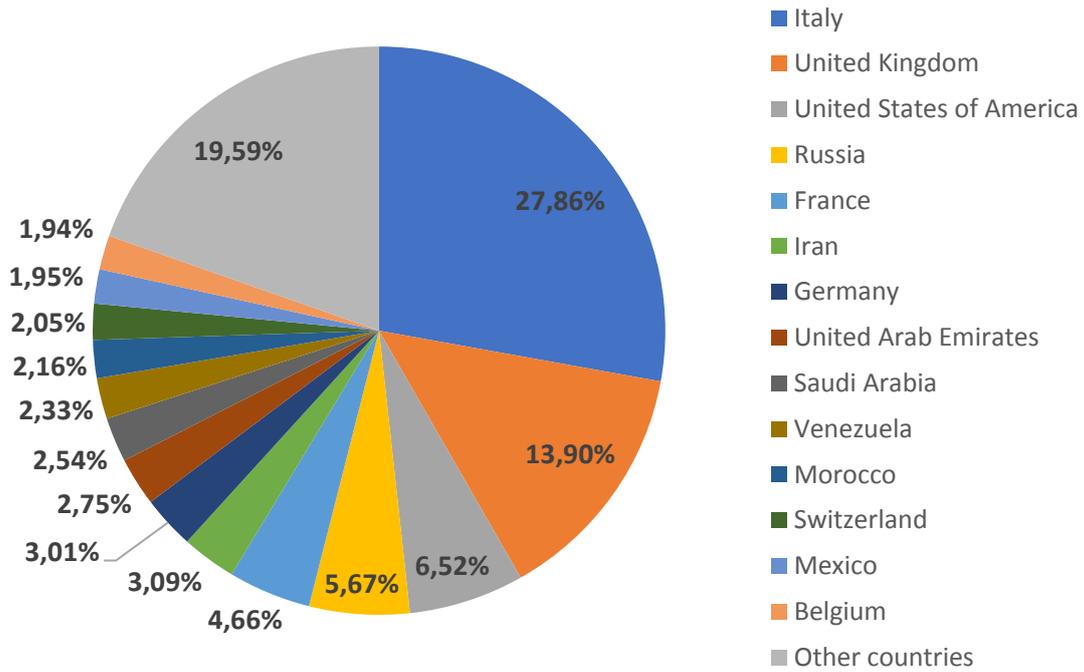
Source: Reflex Spa

The company reaches its clients throughout its website (www.reflexangelo.com); it exhibits the whole collection of Reflex' products and currently it is being renewed in order to enhance the experience it provides to customers. The website is available in Italian and in English as well, while the French and the German versions are at the design stage: this is a fundamental tool to increase the scope of the company visibility at a global level. The latest version of the website provides the access to a secure area through the registration of a customer profile, in this way the client can download Reflex complete set of catalogues and he can directly ask for information to the personnel of the firm. Moreover, the company aims at increasing its visibility exploiting the opportunities provided by social networks managing a Facebook profile (www.facebook.com/Reflex-Angelo), a Twitter page (www.twitter.com/reflexangelo), and a profile on Instagram as well (www.instagram.com/reflexangelo).

¹³⁸ See the union of these materials in *Image 4.5 Some articles of Reflex/Pininfarina home collection*.

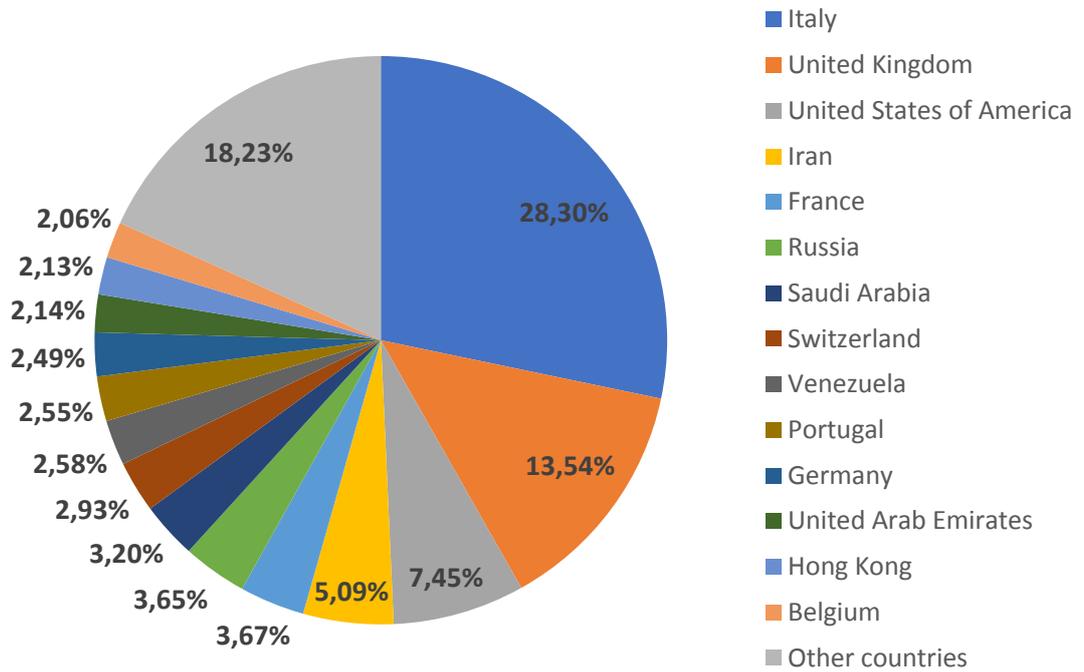
4.2 INTERNATIONALIZATION

As mentioned above, Reflex Spa sells its products all over the world boasting a commercial presence in about one hundred countries. The following graphs show the top 15 destination countries of Reflex sales in the last three years (2014-2015-2016).



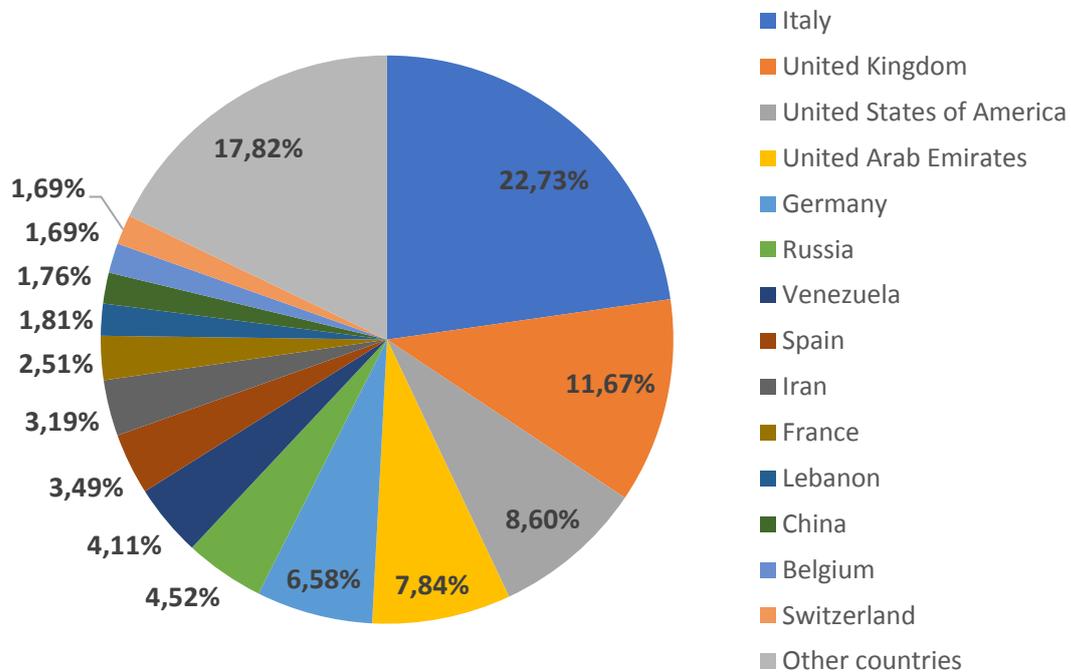
Graph 4.1 Top destination countries of Reflex sales (2014)

Source: own elaboration, from Reflex Spa data



Graph 4.2 Top destination countries of Reflex sales (2015)

Source: own elaboration, from Reflex Spa data



Graph 4.3 Top destination countries of Reflex sales (2016)

Source: own elaboration, from Reflex Spa data

It is immediately clear that Italy is the central destination market for Reflex' products; this is primarily due to proximity reasons since the company commercial network is widely extended in its own country through both the existence of a sales representative in every region and its presence in a large number of retailer stores. Despite this, Italian market share decreased from 2015 to 2016.

The United Kingdom steadily ranks at the second position of Reflex destination countries, its share showing a reducing trend as well. The importance of the English market is linked with significant partnerships established with noteworthy furniture distributors, first and foremost the commercial alliance built up with Harrods department store¹³⁹.

On the other hand, the United States of America is strengthening its third position gradually increasing its market share year by year; it is the only country to show a similar growing pattern among the ones into consideration. Together, Italy, the United Kingdom, and the United States account for almost a half of total Reflex turnover in 2014 and in 2015, while in 2016 the drop of Italian share involves the loss of this evidence.

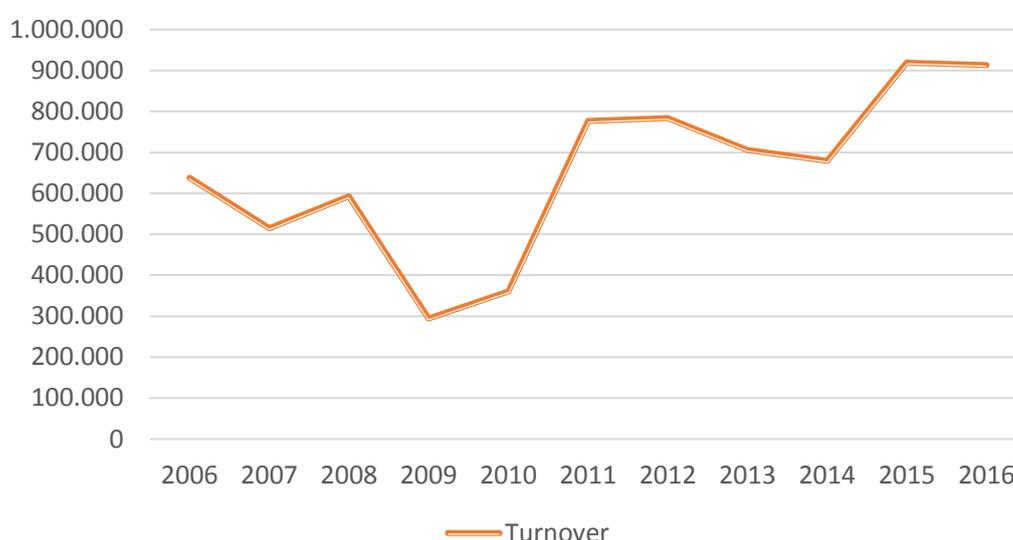
The following positions among destinations of Reflex sales are not steadily occupied by a country but disclose an evolution about performances of different nations. While the relevance of Russian market progressively loses ground, the United Arab Emirates more than doubles its turnover from 2014 to 2016; moreover, the Asian-Pacific region appears to become an appealing area for Reflex sales to expand in.

Another interesting remark to be made commenting these graphs concerns the slowly downward weight of the aggregate of "Other countries" towards the top 14, proving how the first destination markets of Reflex sales increase their relevance more and more.

¹³⁹ Harrods is probably the world most famous luxury department store and it is settled in London. It offers a wide range of products and services, from clothing to electronics, from jewelry to health and beauty items, and so on; home appliances and furniture are among its broad supply.

4.3 REFLEX SALES IN THE UNITED STATES OF AMERICA (2006-2016)

After providing an overview of both the furniture market in the United States of America and of the Italian furniture sector, and following to a general presentation of an Italian furniture firm specialized in high-end décor, this paper aims at analyzing the evolution of the under-examination company sales in the Northern American market. The following graph depicts the pace of Reflex turnover in the United States of America in a timeframe ranging from year 2006, before the outbreak of the financial and economic crisis, to year 2016, the last one for which data are fully available.



Graph 4.4 Reflex turnover in the United States of America (2006-2016)
(values in euros)

Source: own elaboration, from Reflex Spa data

Graph 4.4 discloses a fluctuating trend for Reflex sales in the United States of America mirroring the overall economic scenario of the two involved countries. Despite a sharp decline at the beginning of the analyzed period, with the turnover amount reaching its lowest levels in 2009, export evolution rebounds in the following years showing a global pattern of growth.

Examining this evolution in greater detail, it should be detected that initial effects of the economic crisis start to arise in the United States in 2007; this evidence is proved by a

slight downturn of American imports from Reflex Spa as well. But the beginning of the crisis discloses difficulties in forecasting both its spread through other countries and its effects on global economy: the company tries to recover its sales amount the following year, but it is not able to keep a growing pace and in 2009 it registers its deepest peak more than halving its total turnover comparing it to the one of 2006. An investigation by A. Dossena¹⁴⁰ aiming at providing first evaluations of the Italian economic scenery after the crisis outbreak suggests that imports of Italian manufacturing from foreign countries are heterogeneously penalized in all industries, but the traditional “Made in Italy” ones, as home furnishings is, are the most affected by this economic downturn. This declining pattern of Reflex sales in the United States is perfectly consistent with the overall trend of Italian furniture export in these years¹⁴¹: in 2009, the Italian export marks its most negative outcomes with a decrease equal to -22.3%¹⁴², where most consistent losses precisely records in the Northern American market; a similar unsatisfactory result proves lack of dynamism on the US internal demand due to the negative performance of its economy because of difficulties arisen from the crisis.

Studies¹⁴³ recommend Italian exporting businesses no to divert their attention from the US market in this negative period, but to try to enhance their growth strategies in order to strengthen their placement and to be able to fully benefit from economic recovery once it starts, also taking advantage of the weakening of less-rooted competitors. In 2010, Reflex turnover in the United States of America starts to mark a slight increase resulting in the excellent outcome of 2011: the United States is gradually emerging from the crisis and its economy is starting to recover, disclosing a regained vitality of the market and an undeniable upturn of domestic demand. In 2012, the US demand continues to increase; the following years Reflex sales in the American market slightly fall, but the overall positive trend is kept since the turnover amount exceeds pre-crisis

¹⁴⁰ A. DOSSENA, *Crisi americana: quali prospettive per gli esportatori italiani?*, ICE, 2008

¹⁴¹ See paragraph 3.2.1 *Italian furnishings export from 2007 to 2017*

¹⁴² ISTITUTO NAZIONALE PER IL COMMERCIO ESTERO, *L'Italia nell'economia internazionale - Rapporto ICE 2009-2010*, ICE, 2010, ch. 6

¹⁴³ A. DOSSENA, *Crisi americana: quali prospettive per gli esportatori italiani?*, ICE, 2008

levels of 2006. In 2015, the whole American market drives Italian export development¹⁴⁴ because of the domestic upswing it is experiencing in both demand and consumptions; Reflex sales benefit from these positive circumstances as well, marking the highest level of the last decade.

This analysis proves the leading role covered by Italian furniture in the US market; the sector rapidly recuperated after the economic downturn due to the crisis, and it has been able to express new competitiveness levels marking a noteworthy recovery despite the overall difficult background all the nations were passing through. The major contribution of this evidence can be found in the remarkable appeal the “Made in Italy” tradition covers abroad; when one of Reflex US dealers was asked to provide a current overlook of the US furnishings market and of the role of Italian imports within it, he replied as follows¹⁴⁵:

- “Currently, the US market is saturated with plenty of franchise stores selling inexpensive Chinese products; this fact in itself is not a terrible thing as it makes furniture more accessible to a lower income, but it does however make shopping for unique and well-crafted pieces difficult when you live in a city smaller than Washington DC. European goods are mostly sold in major US cities such as Los Angeles, New York, Miami, Dallas, etc. You won’t find Italian goods in most of the furniture stores in West Virginia and there definitely is not a market for Italian furniture in North Dakota and Iowa.

So, places like Washington DC, New York, and San Francisco are always going to be the trailblazers of introducing European products; which brings us to what role the Italian product plays in these markets. If you are talking contemporary goods or if you are talking traditional, the quality is always there. Clients that purchase real estate with a price tag of one million dollars or more are more likely to be

¹⁴⁴ See paragraph 3.2.1 *Italian furnishings export from 2007 to 2017*

¹⁴⁵ Excerpt from an interview personally conducted to one of the three owners of Theodores, a modern and contemporary furniture store located in Washington, DC selling Reflex products among other European and domestic home furnishings, on May 2017.

the demographic looking specifically for Italian goods. Therefore, the role of Italian furniture in the US market is status and luxury. Although the Spanish imports seems to be increasing, Italian furniture goods are still requested more often than any other imported furniture.”

Similar words are a direct feedback of the importance the US customer attributes to quality and design as far as home furnishings is concerned, all recognizable features of the “Made in Italy” manufacture; there is a high-end customer base appreciating Italian genius and experience, likely to prefer it rather than other countries products. When asked about the relevance of the “Made in Italy” locution on import and trade of home furnishings in the US market, the same Reflex US dealer replied:

- “As mentioned above, the “Made in Italy” sticker almost always means quality. We find more often than not, if a client is willing to wait twelve weeks to receive furniture, they already know it is coming from Italy and are purchasing because they know they will receive quality goods and in most cases excellent service from their retail store.”

Another Reflex US dealer has a similar point of view about the importance of the “Made in Italy” label on sales of home furnishings in the US market¹⁴⁶:

- “Italian furniture is perceived as a luxury product in the United States, even if some brands typically linked with the “Made in Italy” expression do not live up to the expectations (e.g. the brand Natuzzi ranks itself at a lower level than Roche Bobois sold products because of the quality of the leathers and of other employed materials); therefore, care must be taken when deciding to buy an Italian product. “Made in Italy” means quality and design, this brand is employed as a synonymous and a statement of added value for products. The client really

¹⁴⁶ Excerpt from an interview personally conducted to the Showroom Manager of Roche Bobois New York, a contemporary furniture store located in New York City (but part of a worldwide extended chain with an international network of more than 250 stores in prestigious cities of 50 countries) selling also Reflex products, on May 2017.

appreciates this, and this is proved by the fact that he is willing to wait a couple of months to have a similar product.”

Once again, quality appears to be a relevant component on the selection of an Italian piece of furniture; the excellence of the Italian production relies on the ability of its manufacturers and on the careful selection of raw materials, and this strength is worldwide recognized. Therefore, Italian furniture export companies can count on the US market and should increase their efforts to continuously enhance their presence in the United States of America.

CONCLUSIONS

The major aim of this research work is to analyze opportunities the US market discloses to the export of Italian furniture against changes occurred in the worldwide economic scenario during the last decade.

In order to achieve a whole perspective on this topic, the examination starts from an overview on international trade introducing the most significant theories trying to explain the reasons behind exchanges of goods among different regions: from the Ricardian model of “comparative advantage” to the New Trade Theory by Krugman, Helpman and Grossman about increasing returns to scale and networks effects, through the Heckscher-Ohlin and the Stolper-Samuelson theories about different factors endowment. Theories with a negative perspective of openness to global exchanges, as the Dependency Theory, are mentioned as well, in order to highlight both lights and shadows of trade liberalization.

Internationalization processes play a leading role in world economy since the last years of the 19th century, when commercial exchanges among nations rapidly grow because of new means of communication which cut down costs of transportation; still nowadays, they are assumed to be a key-factor of paramount importance to many countries’ development. For this reason, this paper depicts a general overview of the historical scenario in which international trade developed. Political, social, and economic improvements, together with new international business procedures and changes in the way international labor is divided, foster both the extension of world trade and the development of new internationalization techniques.

The current free trade regime is described in both its sides of multilateralism and regionalism, since it is essential in preventing protectionism and in supporting

cooperation among countries thanks to the role covered by the large number of international organizations operating in the economic field.

Despite in a first moment time of crisis weakened developed countries' trade flows, internationalization is a mean many nations adopted soon as a solution to emerge from the economic downturn they have been involved in: the search of new dynamic external markets has been an answer to avoid the breakdown. The international framework is deeply connected; therefore, the global commercial area requires a regulation improving countries development.

Globalization tends to shrink distances since nowadays events happened halfway around the world impact on our daily life as well; this does not entail the annulment of geographical space given that physical distance and countries boundaries are real, but a country's economy and its export are conditioned by both its ability to take part to global value chain and by the dynamic of external economics. Moreover, international trade proved to be a propagation vehicle of the crisis representing a powerful mechanism for the spreading of recession from construction and finance industries to the manufacturing sector as well.

The geographical orientation of a country's export toward less or more active markets is fundamental for its development, but the demarcation line between them is not neat and evident, it can change over time: globalization is not linear. Actors of the internationalization process modify in its different phases: while the United States of America together with Western Europe traditionally are one of the main forces characterizing the worldwide scenario, new players gradually emerge and currently China and the Asian tigers cover leading roles in the global economic framework.

Against this background, the central part of this paper develops as an economical research on official data and sectoral studies on both the US economy and the Italian furnishings sector. The key-points resulting from this analysis are recapitulated in the following SWOT matrix, together with some further causes for reflection, in order to depict a complete framework of the analyzed topic:

SWOT Analysis: The Italian furnishings market in the United States of America

STRENGTHS

1. High quality of "Made in Italy" production
→ competitiveness of products
2. Relevance of Italian market share on furniture export
3. Increasing focus on quality of both materials and design
4. Enhancing online visibility and fully exploit the potential of e-commerce
5. "Environmental friendly" products
6. Home automation systems

WEAKNESSES

1. High export costs for SMEs
2. Lack of support for internationalization of Italian SMEs
3. Import costs for the final customer
4. High costs due to the high quality of production
5. Logistic problems
6. High competitiveness among Italian SMEs
7. Product is "downplayed"

OPPORTUNITIES

1. Dimension of the US market
2. Stability of the US market
3. Love for the Italian taste
4. Development of TTIP negotiations
5. Subsidies for furniture and housing expenses
6. Upturn in household consumptions in the US market
7. Strong bilateral trade relationship between Italy and the United States
8. Globalization: global trade network always more connected
9. Focus on new customers: millennials

THREATS

1. Instability of international relations
2. Protectionism devised by President Trump
3. Affirmation of new competitors on the global scenario
4. Globalization: homogenization of international productions

Elements of every list are hereunder validated:

STRENGTHS

1. High quality of "Made in Italy" production → competitiveness of products
2. Relevance of Italian market share on furniture export
3. Increasing focus on quality of both material and design
4. Enhancing online visibility and fully exploit the potential of e-commerce
5. "Environmental friendly" products
6. Home automation systems

Italian whole production system historically relies on its comparative advantage provided by the high quality of its manufactured goods, which lets Italy to differentiate itself from emerging countries' competitiveness based on lower production costs; Italian products ensure a competitive quality/money ratio thanks to the high level of the Italian specialization. Therefore, the Italian production system, and the home furnishings sector in particular, should reinforce its strengths increasing its focus on providing products of first-class quality and top-level design. Moreover, even if in recent years Italy lost its first place as furniture exporting country, being replaced by the extraordinary growth of China, the Italian market share on the global furniture market is still extremely relevant and is quite steady over the last years.

In addition to these considerations, it is significant to highlight some perspectives which can act as a new stimulus for the sector under analysis. Firstly, e-commerce, which is currently perceived as the biggest source of growth in the furniture industry, being a major cause of disruption; Reflex Spa is trying to better exploit its potential as well, by renewing its website and enhancing its features. Then, the development of home automation systems appears to become an indispensable choice to keep up with the latest demand coming from the market. And lastly, increasing the attention on the

making of “environmental friendly” products is an interesting way of catching up with new global trends always more environmentally-aware.

The Italian furnishing system should focus on the above-mentioned features to reinforce its position in the global market and to enhance its appeal to customers.

WEAKNESSES

1. High export costs for SMEs
2. Lack of support for internationalization of Italian SMEs
3. Import costs for the final customer
4. High costs due to the high quality of production
5. Logistic problems
6. High competitiveness among Italian SMEs
7. Product is "downplayed"

The overall Italian productive fabric is characterized by the copious presence of Small and Medium-sized Enterprises spread in all the national territory; their limited dimension often slows down the inclination to reach consistent amounts of exports because the domestic entrepreneurial network structurally lacks both the required capital endowment to export and an accurate knowledge on how to internationalize¹⁴⁷, to whom considerable import costs for the final foreign customer correspond. Moreover, Italy lacks efficient delivery channels which support national export; the distribution system, still inadequate, could instead turn fundamental in aggregating the fragmented supply and providing appropriate logistics platforms to compete on the worldwide scenario.

The presence of several Small and Medium-sized companies operating in the same sector significantly increases the competitiveness level among them since they offer similar products to the same customer base; often, they trigger a price war in which the

¹⁴⁷ Figures supporting this topic can be found in paragraph 3.1 *An overall overview*

final price does not mirror the production costs and the final level of quality involved in goods. In addition to this, it is significant to mention the “play down” of products previously seen as eternal ones: the furniture system and other traditional sectors of the Italian manufacture are deeply affected by the emerging of companies revolutionizing the way a product is perceived (e.g. IKEA and Mondo Convenienza for furniture, Swatch for wristwatches, Zara for clothing, and so on).

The Italian furnishing system should convert its peculiar fragmentation in a strength for the sector if other actors of the economic framework, as the distribution system, support its export vocation and sustain commercial internationalization of SMEs; the development of trade operators will not modify the productive fabric of Italian manufacture, but it would result in an economic environment supporting firms’ expansion even in far and vital markets.

OPPORTUNITIES

1. Dimension of the US market
2. Stability of the US market
3. Love for the Italian taste
4. Development of TTIP negotiations
5. Subsidies for furniture and housing expenses
6. Upturn in household consumptions in the US market
7. Strong bilateral trade relationship between Italy and the United States
8. Globalization: global trade network always more connected
9. Focus on new customers: millennials

Since the United States of America currently is the most powerful economy of the world¹⁴⁸, the Italian furniture sector can count on the US market as a reliable commercial outlet for its products because of its relevant dimension and the substantial stability of

¹⁴⁸ Figures about the US economy can be found in paragraph 2.2 *Macroeconomic environment*

its economy after the recovery from the crisis. The US government is facing an upturn in household consumptions supporting them with subsidies for furniture and housing expenses; this can turn out to be a stimulating chance of growth for Italian furniture in the US market, if Italian companies are able to take advantage from this opportunity, exploiting also the attraction “Made in Italy” products traditionally exercise on the imagination of American people.

The United States of America is the principal trade partner outside of Europe for Italy, and the third destination country for Italian export, but this strong bilateral trade relationship will be affected by the development of TTIP negotiations. If TTIP will be established, it could increase the level of the economic interchange between these two counterparts because the Italian manufacture can obtain new competitiveness thanks to the reduction of trade barriers. This opportunity is straight linked with the always increasing role globalization is covering in connecting countries and in enhancing global trade exchanges.

Finally, an interesting growth opportunity can be offered to the Italian furniture sector by the emerging of a new consumer group in the furniture market, in the US one as well: millennials; millennials look for new multifunctional products, affordable but with a high design content, and they can disclose a stimulating challenge for Italian manufacturers to focus on.

THREATS

1. Instability of international relations
2. Protectionism devised by President Trump
3. Affirmation of new competitors on the global scenario
4. Globalization: homogenization of international productions

The Brexit process, the US presidential election and the worldwide dissemination of terrorism have all led to significant uncertainty and lower consumer confidence in global

markets, hindering sales of goods. Protectionism is one of the central themes of President Trump electoral campaign; this attitude triggers international conflicts since the United States is not the only superpower on the worldwide scenario, China is also a huge player, and the European Union is even bigger. Therefore, they could face the US protectionism with a similar reaction, targeting the most vulnerable US sectors. A similar trade war would cause a lot of disruption in world economy that currently relies on global value chains, since it would force a shortening of them. The scenario for Italian exports would be very difficult: first estimates attest that it would cost Italian businesses almost €800 million, 2% of the current overall value of goods exported to the United States¹⁴⁹; Italian furniture export would be heavily damaged if by the rise of tariffs on imports since the US market represents one of its main destinations.

The export of the Italian furniture sector is noticeably threatened also by the affirmation of new competitors on the global scenario: China is strikingly increasing its market share on furniture export from the beginning of 2000s, but new players as Poland and Mexico are emerging as well. Globalization covers also a negative role in this process since it leads to a homogenization of international productions, where lower price products are more likely to face a positive confirmation from the market.

This economical and theoretical research is integrated with the analysis of the case-study of Reflex Spa in order to accomplish the whole course of the investigation; it has been possible by mean of the direct internship experience in the above-mentioned company, a four-month path which turned out to be instrumental to prove and explain some key points of the previous analysis, representing a tangible example of approaching the US market.

The final stimulus this paper wants to impart concerns the importance of export for the Italian production system, in particular for the furniture sector: Italy cannot continue in ceding market shares on foreign import markets to other countries; even if the dimension of Italian firms currently has a negative impact on national export,

¹⁴⁹ L. CAVESTRI, *Italy's exports facing a €800 million hit if Trump hikes custom tariffs*, Il Sole 24 Ore, January 24th 2017

improvements in the distribution network can be launched by institutional actors to better support the internationalization of Italian SMEs. Nevertheless, focusing on export as an internationalization mean presumes a deep knowledge of destination markets: they have to be carefully evaluated, with their pros and cons. To expand in the US market, the Italian furnishing sector should increasingly head toward design and quality, the most competitive features Italian goods count on when facing foreign competition.

APPENDIX A

I hereunder report two interviews I made to some of US Reflex dealers in order to have a direct feedback on the Italian furnishings market in the United States of America and to collect the opinion of someone who is directly involved in it.

INTERVIEW N°1: THEODORES (WASHINGTON, DC)

I made the following interview on May 2017 sending the list of questions by email to Sandi, one of the three owners of Theodores furniture store.

Q. 1. Can you provide a current overlook of the US furnishings market? What is the role of Italian imports within it?

A. 1. *Currently, the US market is saturated with plenty of franchise stores selling inexpensive Chinese products; this fact in itself is not a terrible thing as it makes furniture more accessible to a lower income, but it does however make shopping for unique and well-crafted pieces difficult when you live in a city smaller than Washington DC. European goods are mostly sold in major US cities such as Los Angeles, New York, Miami, Dallas, etc. You won't find Italian goods in most of the furniture stores in West Virginia and there definitely is not a market for Italian furniture in North Dakota and Iowa.*

So, places like Washington DC, New York, and San Francisco are always going to be the trailblazers of introducing European products; which brings us to what role the Italian product plays in these markets. If you are talking contemporary goods or if you are talking traditional, the quality is always there. Clients that purchase real estate with a price tag of one million dollars or more are more likely to be the demographic looking specifically for Italian goods. Therefore, the role of Italian furniture in the US market is status and luxury. Although the Spanish

imports seems to be increasing, Italian furniture goods are still requested more often than any other imported furniture.

Q. 2. How is the consumer culture evolving in the US, as far as the home furnishings sector is concerned?

A. 2. *Many customers are living in open spaces plans. Condos and town houses are the most popular constructions these days and even large home owners are knocking down walls and expanding their spaces to gain visual space. These days great rooms are the only living spaces anyone uses.*

This new, uncluttered, and simple way of living has changed the way spaces are furnished. TVs are the most common element in every room and often many home owners have multiple TVs in great room spaces.

The customer wants less but better quality.

Q. 3. In your opinion, what is the relevance of the “Made in Italy” brand on import of home furnishings in the US market?

A. 3 *As mentioned above, the “Made in Italy” sticker almost always means quality. We find more often than not, if a client is willing to wait twelve weeks to receive furniture, they already know it is coming from Italy and are purchasing because they know they will receive quality goods and in most cases excellent service from their retail store.*

Q. 4. How has the trend of the sector been in the last years (2006-2017)) What impacted on it? How?

A. 4. *Colors have been emerging again and grey is totally out. People are asking for bold and progress looks in their homes. The result from this and the downsizing trend of purchasing condos and town houses with open great room spaces is a variety of different styles merging as one and becoming truly unique to each of the owners.*

Q. 5. Can you provide a forecast for next months/years?

A. 5. *Our lives are being simplified by technology which is changing the way we live. We are purchasing less but with more function and style. In other words, we hear less about opulence in our market and more requests for furniture having multiple uses. Trends will change to accommodate technology and our tasks are being condensed. I see the market of multifunctional furniture becoming the future.*

INTERVIEW N°2: ROCHE BOBOIS (NEW YORK CITY)

On May 2017, I had a conversation with Sandro, Showroom Manager of Roche Bobois New York, during a Skype call when he provided me some of his considerations about Italian furniture in the US market.

Roche Bobois offers two new collections every year in order to show something always new and innovative to its customers. The flagship product is always the leather sofa, but a whole selection of every furniture product is proposed to meet all market needs.

Q. 1. In your opinion, what is the relevance of the “Made in Italy” brand on import and trade of home furnishings in the US market?

A. 1. *Italian furniture is perceived as a luxury product in the United States, even if some brands typically linked with the “Made in Italy” expression do not live up to the expectations (e.g. the brand Natuzzi ranks itself at a lower level than Roche Bobois sold products because of the quality of the leathers and of other employed materials); therefore, care must be taken when deciding to buy an Italian product. “Made in Italy” means quality and design, this brand is employed as a synonymous and a statement of added value for products. The client really appreciates this, and this is proved by the fact that he is willing to wait a couple of months to have a similar product.*

Q. 2. How has the trend of the sector been in the last years (2006-2017)? What impacted on it? How?

- A. 2.** *From 2009, when I started managing Roche Bobois' showroom in New York City, turnover growth gradually started to recover following a quite steady pattern: this trend proves that the market was already emerging from the economic crisis (from 2008 to 2016, Roche Bobois New York's turnover grew from \$ 6 million to \$ 13 million).*
- Q. 3.** Can you provide a forecast for next months/year?
- A. 3.** *Up to now, the US Presidential election did not bring a substantial upheaval in the market, there has not been a significant impact. Our month of April has been a little "softer" if compared with the previous year, but we foresee a considerable recovery in May and in June, two months when we largely invest on advertising and promotion with important marketing campaigns and simultaneously with discount policies.*

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“Ita fact, mi Lucili: vindica te tibi.”

Lucius Annaeus Seneca, *Epistulae morales ad Lucilium*, I

“Fai così, mio Lucilio: rivendica il tuo diritto su te stesso.” Con queste parole il poeta latino Lucio Anneo Seneca apre l’epistolario rivolto al suo amico e discepolo Lucilio e lo esorta a rendersi padrone di se stesso, non disperdendo le proprie energie per ciò che non è importante e per cose che gli vengono imposte da altri. È lo stesso invito che sento indirizzato a me alla conclusione del mio percorso di studi: da questo importante traguardo comincia una nuova fase della mia vita in cui devo imparare a rendermi “padrona di me stessa”, apprendendo a gestire il tempo a mia disposizione in modo tale da trarre il massimo beneficio dalle energie positive che mi circondano e contrastando gli elementi di negatività, dando il giusto spazio a tutte le varie attività della vita. Per questo motivo, mi sembra doveroso ringraziare tutti coloro che mi hanno accompagnata fino a questo giorno e fino al raggiungimento di questo obiettivo, e coloro che spero continueranno ad essere al mio fianco da questo momento in avanti.

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