Globalization and the Italian Industrial Districts

Josh Whitford
Columbia University
Italy's manufacturing exports by product type

Source: Becattini and Dei Ottati (2006) elaboration of ISTAT data
Relative export performance 1995-2005

Source: Capitalia 2005
The Italian debate (1)

Italy has an industrial structure that relies heavily (but not entirely) on flexible networks of small and mid-size firms

- The “Emilian model” to prominence in the 1980s
  - Strong export orientation
  - Reliance on local institutions and “collective competition goods
  - Specialization in light industry and “Made in Italy” products
    - e.g. clothing, textiles, shoes, machine tools, etc.
      - Niche and luxury markets, high customization
      - Product and process innovation
The Italian debate (2)

- Loss of national competitiveness due to low productivity growth

- Has what was once a strength become a liability?
  - National industrial specialization in sectors particularly exposed to low-wage competition
    - Path dependency and opportunity cost? Did the peculiarities of the 1980s mask a more fundamental weakness to a model premised on small firms and traditional products?

- Small firms – often family held – are unable (or perhaps unwilling) to grow and internationalize
  - District firms are more likely to export, but can they become global players?
Italy's balance of foreign manufacturing trade by cluster of products

Source: Becattini and Dei Ottati (2006) elaboration of ISTAT data
Change in industrial employment by type of regional industrial structure

Change in employment 1991-2001

Source: Signorini and Omiccioli (2005)
Share of mfg value added by province type

Source: Becattini and Coltorti (2006) elaboration of ISTAT data
But the concerns are real

- Structural transformation and heterogeneity of district performance
  - The rise of “leader firms”
    - Divergent local interest in the reproduction of local collective goods
  - Substantial “delocalization” of productive phases favored by an already “fragmented” production process
    - Eastern Europe as a favored location
      - Smaller firms delocalize “through” leader firms
        - But not all districts are equally blessed with leader firms
  - Shifting sectoral specialization and a move away from the “final” market
    - Textiles, leather growing relative to clothes and shoes
    - A relative shift from final goods to the machines for making those goods
Italian industrial districts and the international fragmentation of production – concentrated in E. Europe

![Bar chart showing employees induced abroad due to district firms' intra-industry trade](source: Coro` and Volpe (2006))
Structural transformations and their implications for regional competitive advantage (1)

- Differential delocalization and innovation [Belussi and Sammarra (2007)]
  - Montebelluna “sport-system”
    - “Selective” relocation
      - 8000 workers in Montebelluna, 60,000 employed abroad through subcontracting activities (many clustered in Timisoara, Romania)
      - Internationalization of phase production has included the relocation of Montebelluna subcontractors (reproducing relational structure)
      - New investment of R&D, entry of foreign MNCs into district
  - Vibrata-Tordino-Vomano (VTV) fashion district
    - “Replicative” relocation
      - Firms in district have made little effort to innovate
      - Greenfield investments in Eastern Europe and N. Africa that exacerbate competitive pressures
        - The types of activities in the district are not intrinsically different from those located abroad
Structural transformations and their implications for regional competitive advantage (1)

What happens to the machine tool industry as their end-users increasingly move abroad?

- Historic source of innovation has been inter-sectoral “cross-pollinization”
  - E.g. Sassuolo in ceramics and tilemaking machine tools
  - Vigevano in shoes and shoemaking machine tools
  - Biella in textiles and textile machine tools

- Districts propensity to export correlates to their propensity to delocalize

Access to technology elsewhere threatens position of Italian final goods producers..., which can in turn threaten machine tool producers privileged access to market information

Reverse engineering of machine tools may give rise to “complete” competitor districts
The questions

- If there is more than one way to offshore, can regional actors influence how this happens?
  - Policies oriented towards the renewal of regional competencies
    - Reproduction of local competencies (to compensate for the weakening of traditional entrepreneurial channels)
  - Policies oriented towards the active internationalization of the district
    - What constitutes a “trans-local public good”?
      - Standards?
      - Inter-cluster associationalism and trans-local networks?
        - e.g. Italian association in Sassuolo with satellite office in Castellon de la Plana
        - Montebelluna with service center in Timisoara
The geography of Italian Manufacturing

Italian provinces in 1996:

Black = Provinces dominated by large enterprises

Grey = Weakly industrialized

Dotted = Provinces dominated by industrial districts

Hash = Mixed between large enterprise and industrial districts

Source: Becattini and Coltorti (2006) elaboration of ISTAT data