

# **The impact of globalisation and increased trade liberalisation on European regions: Carpi and Prato case studies**

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<sup>1</sup> The Carpi case study has been produced by Alessia Mariotti and Lorenzo Zirulia, while the Prato case study has been produced by Silvia Grandi and Enza Zabbini.

# **The impact of globalisation and increased trade liberalisation on European regions: the Carpi textile industrial district in Emilia-Romagna**

## **1. Introduction**

The aim of this report is to investigate how the Carpi textile industrial district in Italy has been facing the recent threats (but opportunities as well), linked to the globalization of markets. The report is organized as follows. In Section 2, we provide a short description of the economic and social evolution of Emilia-Romagna, the Italian region where Carpi is located. Section 3 focuses on the Carpi district. After a short review of its historical and cultural background, the section describes the recent changes and the present situation of the district (then following the increased international competition), both in quantitative and qualitative terms. Section 4 describes regional and local policies in recent years, and their connections with changes occurring in the industrial sectors. Finally, Section 5 concludes, summarizing the lessons that, we believe, can be learnt from the Carpi case.

## **2. General economic and social evolution of Emilia-Romagna**

### ***2.1 Short history of economic development in Emilia-Romagna***

At the end of the Second World War, Emilia-Romagna was mainly an agricultural region, while the industrial activity, concentrated in particular in the mechanical and food sectors, emerged as significantly damaged by the war.

The region, however, was soon able to play an active role in the process of structural change and economic growth that characterized the Italian economy in the 50's and 60's. From one side, the old agricultural structure was rejuvenated, also following institutional changes (like the national law 756, passed in 1964, which abolished sharecropping). From the other side, industrial development was sustained both by direct public intervention (like the huge investments that created two important chemical hubs in Ravenna and Ferrara) and private initiatives. In that respect, the sustained growth in domestic and international demand created opportunities in several industries, which were promptly taken by a generation of new entrepreneurs (many of them previously being croppers or blue-collar workers). As a consequence, in the period 1958-62, the average yearly Emilia-Romagna growth rate in GDP was 11,1% (compared to 8,3 % for Italy).

In this development process, a key role has been played by the emergence of industrial districts, as the textile district in Carpi, on which this report is focused. This form of organization of production, with its network of specialized small firms accompanied by a high degree of social cohesion, is not limited to Emilia-Romagna, but characterized and still characterizes many other Italian regions as well, like Veneto, Piedmont, Lombardy in the North, Tuscany and Marche in the Centre, and Apulia and Campania in the South.

Growth continued in '70s, when an important institutional innovation has been the creation of administrative regions (i.e. the so-called "Regioni" in the Italian Constitution). In the case of Emilia-Romagna, this administrative level played a positive role, both for the policies under its direct control and for the coordination of decisions taken at lower levels. In that respect, Emilia Romagna regional policies in 70's were characterized by some recurrent features, which substantially belong also to the provincial and communal levels. First, public decisions were the outcome of a well conceived planning activity, with the involvement of business association, in a pragmatic spirit of collaboration. In particular, an important role was played by ERVET, i.e. the regional agency in charge of supporting industrial development. Founded in 1974, this agency created sectoral and intersectoral centres for the provision of support services to firms (e.g., CITER for knitwear and Centro Ceramico for ceramics), and it was involved in the determination of "strategic" sectors, including those in which industrial districts were active.

Together with economic goals, regional policies pursued social goals as well. First, woman participation to work was favoured, allowing the region to gain leading positions in Italy in terms of female employment rates. Second, several policies has been characterized by a redistributive intent in favour of the poorest. Third, the no-profit sector has been promoted, in particular in the form of workers' cooperatives. All this interventions were the outcome of, but also contributed to, the social cohesion which is a fundamental ingredient in the functioning of industrial districts.

In the 80's, Emilia-Romagna was one of few regions positively contributing to the Italian trade balance (the others being Lombardy, Piedmont and Veneto). Its firms gained leadership in numerous market niches at the international level, in sectors like packaging, ceramic tiles and wood carving machineries. Emilia-Romagna emerged as a truly European region, being open both in terms of exports and outward direct foreign investment. At the same time, the socio-economic system was still characterized by a high level of social capital, with high income and low inequality. The high level of social trust is confirmed by the low level of tax evasion and by the spirit of cooperation between citizens and public institutions.

In more recent times, Emilia-Romagna confirmed its leadership positions in technologically advanced niches. The technical background of entrepreneurs, the good level of education of the workforce and a qualified network of suppliers make these types of production particularly competitive. The situation for consumer goods sectors was instead more problematic. On one side, some highly innovative firms emerge, like Barilla e Parmalat in the food industry, Max Mara and La Perla in the clothing industry, Magli and Pollini in the shoe industry; on the other side, the small firms system, overall, seemed unprepared for globalisation. This occurs also in the Carpi district, where the number of firms exhibited a strong reduction. However, as we will see, the surviving firms were able to implement those changes that preserved the international competitiveness of the district.

## ***2.2 Evolution of sectoral structure both employment in the region***

In this paragraph we look at the recent evolution of Emilia-Romagna under three dimensions: i) industrial structure (in particular, firms' size and their typologies); ii) employment; iii) export activities.

*(Industrial structure)* The current regional industrial structure of Emilia Romagna is still dominated by small firms, although since the 90's medium-size firms became the leading actors

in the system, in particular in terms of employment. However, the dimensional growth of Emilia Romagna firms did not modify the approach to specialization which is typical of small firms.

For a better understanding of Emilia-Romagna industrial structure, we look at the level of local employment areas (“Sistemi Locali del Lavoro”). Local employment areas are defined as those aggregations of communes where most people live and work. As shown by the charts in appendix (see Figure 2.1 and the following) the region is almost entirely characterised by local employment areas that are specialized in manufacturing. This is consistent with the “Third Italy” Italian industrial development model described by Bagnasco (1977). In particular, the four main industrial sectors in Emilia-Romagna are textile, mechanics, agriculture and food industry, furniture and ceramics. The main agricultural and food local areas are located in the north western part of the region, while mechanics is concentrated around Bologna, and the ceramic and furniture industrial districts are located in Romagna (south east and coastal area). There is only one textile district, i.e. Carpi. Figure 2.6 shows clearly that the mechanic and food industry sectors are mainly characterised by medium-sized and large firms, while small and “micro” firms are associated to ceramics and furniture, and textile.

The presence of numerous firms (that goes together high employment rates) is the outcome of widespread entrepreneurial culture and organizational capabilities. In Emilia-Romagna there are more than 138.000 artisan firms, about one third of the whole, including the agricultural sector. In the manufacturing sector, they account for the 70% of firms, while the share for construction and transportation is around 80%.

The artisan attitude towards production, which often characterizes the other firms in the region, favours a strong attitude towards learning, continuous improvements in products, technologies and organization, and trust-based cooperation, and it surely constitutes an element of strength of the regional system.

Emilia-Romagna represents also the largest cooperative district in Italy, and one of the largest in Europe. According to the Chambers of Commerce data, in 2002 there were 4114 cooperative firms in the region. While their number is about 1% of regional firms, their economic weight and their external impact is much higher. First of all, the size of cooperative firms is in some cases very high: In this region, this type of large firms often plays the role of socioeconomic “integrator” across productive chains. Related to their size, the share of total employment of cooperative firms is about 10%.

(*Employment*) 3,4% of Emilia-Romagna workforce, including both employees and self-employed, is active in the primary sector (agriculture and fishing). The percentage is 33,8% for the secondary sector (industry *strictu sensu*) and 62,8% for the tertiary sector (services) (source: Unioncamere, 2005). The region, then, has the typical employment structure of service-based economies. This is also confirmed by the trend in the employment distribution, in which the tertiary sector is constantly growing (from 60,9% of workers in 2000 to 62,8% del 2006), while industry (from 34,6% in 2000 to 33,8 in 2006) and agriculture (from 4,4% in 2000 to 3,4% in 2006) are declining.

As long as the secondary sector is concerned, textile and clothing declined from 2,8% in 2000 to 2,4% 2006 (accounting for 8% of the workforce in this sector in Italy), while the fashion industry in five years went from 3,4% to 3,0%; the engineering industry accounts for the 12,9% of the workforce (it was 13,3% in 2000), while wood, non-metal materials, plastic and paper altogether account for 6,8%. In the tertiary sector, the highest share is for retail trade, which accounts for 24,4% of the workforce in services. Within this segment, 5,3% is active in the hospitality industry, with a share which is growing from 2000 to 2006.

If we look at the geographical distribution of employment, establishments in the province of Bologna account for the 25% of the total numbers of regional employees. The share is 17% for Modena (the province where Carpi is located), while establishments in Reggio Emilia and Parma provinces account for the 12% and the 10% of employees, respectively. For the other provinces, shares are between 6% and 9%.

Finally, if we look at employment quality, a study on medium-size firms in the North East of Italy, produced by Mediobanca e Unioncamere and referring to 1999, shows that the share of

white-collar workers and managers (over total employment) was 33% for Emilia Romagna, 29,8% for Veneto e and 27,1% for Friuli-Venezia Giulia. The high skill and competences of the workforce is still a source of competitive advantage of Emilia-Romagna firms, with a positive impact on wages. Related to that, Emilia Romagna must not be seen a static system, that passively adapt to changes in demand, but rather as a dynamic system in which technological and organization innovation are more and more widespread across firms.

(*Exports*) Emilia Romagna exports constitute about 11,9% of national exports, and in 2000 the region has become the third Italian exporting region after Lombardy and Veneto in absolute value. Although Emilia Romagna is not specialized in high tech industries (in line with Italy, and in a certain sense with Europe), activities with a significant technological content play a significant role; the mechanical industry, for instance, accounts for 55% of total regional exports: a share which is similar to the one of Lombardy, but definitively higher than the one in the rest of Italy; ceramics, non-metal materials, chemicals, plastic, paper together account for about 23%; while the share of more traditional, “made in Italy” sectors (textile, clothing, shoes, furniture, food) is about 21%.

### **3 Analysis of the restructuring process in the vulnerable sector**

#### ***3.1 Historical and cultural background***

Carpi is located between Modena and Mantua, on one of lateral streets of Via Emilia. Although it has never been a centre of industrial tradition, like Prato since the Middle Ages, Carpi was a small city. This implied a certain degree of differentiation in the economic activities, which were organized with the typical corporative structure of the medieval societies: the guilds.

Guilds were institutions regulating the activities from which they took their name, also limiting individual initiatives. The wood shaving manufacture was organized in a guild at the beginning of 17th century. The production process consisted in obtaining shavings from willow and poplar trunks, and these were used to weave hats. In the first half of 18th century, the Duke attributed the right to exploit the raw material to the Carpi entrepreneur Carlo Francesco Scacchetti, and the guild was obliged to supply him the merchandise in the desired quantity and quality.

Carpi export was initially directed towards the British markets, in which hats has become a fashionable item for nobles and princes. With the Italian political unification process (1861) a free trade regime was established and other European and extra-European market started to be served. Facing now a strong competition, an internal re-organization of the shaving guild was needed. In particular, it was necessary to improve the quality of the product, and increase the specialization of the workforce in order to do that. While straw weaving was traditionally done by women at home and in an irregular way, soon it become a full time job, with some of these women (called "trecciaiole") taking the role of masters.

In 1895, the Carpi shaving industry employed 3000 boys, 1970 women and 1000 men, whose principal activity was straw extraction. Six years later, also following the introduction of specialized machineries, the industry employed 13500 women and 2450 men in a regular way, while irregular workers were 11760 women and 1055 men.<sup>2</sup>

The First World War caused a crisis since most credits of straw hats manufactures had been given to German clients. The first solution was to send the goods to Switzerland, and from there to everywhere it was in demand, without distinction among enemies and allies. The second solution was to use the same productive structure, the same firms and the same workers, to produce mimetic nets for the Italian and allied army.

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<sup>2</sup> Cigognetti L. and Pezzini M., *Dalla lavorazione delle paglie all'industria delle maglie: la nascita del distretto industriale di Carpi*, Torino, Rosenberg & Sellier, 1994.

The Second World War had a big impact on the Carpi economy, too. However, Carpi did not experience plant destructions, and significant resources (in particular financial resources), were still present in the agricultural sector at the end of the war. Then, there was the possibility to revert to the shaving manufacture, taking into account that the Japanese competition had been eliminated with the collapse of the Japanese empire, and that the international markets had been re-opened. However, there were doubts on the real upturn of straw hats demand. At the end, it was commonly agreed that a return to the past was impossible. Straw manufacture was considered by then a secondary activity. In fact, during the war, sewing machines, once used for hats, were adapted to the production of shirts and other pieces of clothing for soldiers, and this type of activity was continued also after the end of the war. It must also be considered that skills for straw manufacture had significantly decreased: because of the low wage, the number of "trecciaiole" (women who were skilful in weaving straw) was declining. In mid 60's, in Carpi there were 13 straw hats manufacturer, while the shirt factories were 89 and the knitwear factories 138. In the 70's, the straw hats industry disappeared.

In the district restructuring process, a key role was played by women's initiatives. Women were willing to contribute to domestic income, without neglecting their family duties (as happened with straw manufacture). For that reason, they were in search of a new, promising market in which they could invest.

In 1950 the home, artisan production of sweaters started, requiring a modest capital for the purchase of machine and yarns. Female homeworking become the true support of the Carpi productive activity, taking back and developing the network of the pre-existing production organization.

What followed was an extraordinary industrial growth, so that at the beginning of the 50's local workforce starts to be scarce, and this forced people working in this sector to widen their own productive area<sup>3</sup>. The first (male) entrepreneurs typically come from other activities. Often, they were former street merchants, with relevant skills in bargaining and, thanks to their wives, with knowledge on products. Demand was receptive, and able to sustain the start of numerous new enterprises that could take advantage of mechanisms of financing and organization that were already tested.

The transformations in the local economy had an impact on the society: many families abandoned the countryside to move to town, many small merchants became real entrepreneurs, and a number of collateral jobs emerge, like hemmers, model makers and ironers, for which competitive prices were guaranteed thanks to piecework.

The development of the industrial district in Carpi occurred according to a division of labour logic that had strong geographical consequences: Carpi became the centre where end products are realized, and where firms producing merchandise for goods' finish (dye works, typographies, serigraphies, etc) were located; while it is in the neighbouring towns, as Concordia and Mirandola, where knitters were decentralized. Given their origins, Carpi firms were (and substantially are) almost exclusively individual or family businesses, with a marked propensity towards a "do it alone" strategy and commercial and creative flexibility.

During the 60's and 70's the good state of the economy leads to an increase of production. New plants were built, and at the same time there was the hiring of the best home knitters for the manufacture of samples for foreign markets. However, the share of homeworking was still predominant, since, despite the incessant rhythms of work and the clear contempt of their social security rights, Carpi knitters were relatively well remunerated. However, most benefits of this production system, both of economic and political nature, were enjoyed by employers, who can take advantage of low labour cost, elimination of investment risk, absence of union conflicts and great flexibility of the workforce<sup>4</sup>.

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<sup>3</sup> Cigognetti L. and Pezzini M., "Dalla lavorazione delle paglie all'industria delle maglie: la nascita del distretto industriale di Carpi", in Bellandi M. and Russo M. (eds), *Distretti industriali e cambiamento economico locale*, Torino, Rosenberg & Sellier, 1994.

<sup>4</sup> D'Attore P. P. and Zamagni V., *Distretti, imprese, classe operaia*, Milano, Franco Angeli, 1992.

In the 70's, however, some exogenous shocks induced a strong transformation in sector organization of the sector. Higher qualitative standard started to be demanded, which were incompatible with homeworking because of the scarce controls; firms started moving from handicraft to industry; the Value Add Tax (IVA), introduced with the 1972 fiscal reform, favoured the diffusion of regular working relationships; and, finally, in 1973 a law regulating homeworking was approved. Altogether, these elements reduced homeworking in favour of buyer-supplier relationships. The new structure of the inter-firm relationships was characterized by final firms, concerned with distributive channels, financial management and design, and subcontracting firms, assuming the risks of the purchase and maintenance of the machineries and adapting production to the request of buyers. However, the fragmentation of the production implied a scarce integration of information: while final firms were informed of market characteristics, subcontracting firms possessed technological knowledge.

The transformations in the production system and organizational model lead to notable changes in firms' location. From the Carpi area, knitwear production extended progressively into the neighbouring provinces, Mantua, Ferrara and Rovigo, and subsequently into more distant Italian regions as Apulia.

During the 80's, for the first time after three decades of growth in employment, the district underwent a period of crisis, with a significant reduction in the number of firms. The market became more and more segmented, consumer's tastes more diversified, and, above all, there was an increase of the international competition from new industrialized countries (NICs), leading to loss in market shares of national producers inside the EEC. During the 80's, moreover, clothing consumption was characterized by low growth rates, with an average of 1,3% from 1980 al 1990, compared to 5,1% in the 70's<sup>5</sup>.

These new conditions lead the district to adopt a series of changes, which permitted temporarily stable levels of employment and an increase in production volumes.

Among these changes, in the 80's and then in the 90's, we find the birth and the development of the phenomenon of "Pronto Moda". "Pronto Moda" is a new model of organization of production. It consists in the creation of an up-to-date product, in terms of fashion tendencies, which is realized in small lots, introduced in the market close to the sales season, and addressed typically young, female, consumers.

Samples are created three or four months in advance of the sales season, rather than one year; moreover, they are created on the basis of most important existing collections. For this reason, it is considered an "open" system, since new models are designed during all the production process. The shortening of the productive cycle is obtained through the reduction in time for design, samples production and advertising, since machine time is not squeezable beyond a certain limit. Once the customer has chosen its product line, the delivery usually occurs within a month. This limits the risks of unsold merchandise and allows retailers to arrange products always in line with demand requirements.

The success of this model made Carpi the capital of "Pronto Moda", changing again the organization of production system. Indeed, "Pronto Moda" firms are usually more specialized and smaller than "programmed" firms. During the 90's, "Pronto Moda" firms underwent a strong selection, due to sector maturity and unfavourable economic conditions. Selection occurred because of competitive threat coming both from national producers and low-cost foreign producers.

"Pronto Moda" firms belong to the categories of small firms (till 9 employees) and medium-size firms (10-49 employees), representing, in both the cases, less than one third of finished-product firms in the district. Only some of them exhibited a positive growth rate in turnover, usually associated to investments for the promotion of their brand.

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<sup>5</sup> Bigarelli D. and Crestanello P., "Strategie di diversificazione e di riorganizzazione produttiva a Carpi negli anni Ottanta", in Bellandi M. and Russo M. (a cura di), *Distretti industriali e cambiamento economico locale*, Torino, Rosenberg & Sellier, 1994.

### ***3.2 The Agreement on Textile and Clothing as a sectoral shock***

In this paragraph we briefly summarize the salient features of the Agreement on Textiles and Clothing (ATC), the trade agreements for the textile sector that, signed in 1995, constituted a crucial step towards free trade in the industry. Despite the gradualism of its application, from the point of view of Carpi it produced a true shock, since it increased sharply international competition.

The agreement scheduled four phases: the first one lasted from January 1 1995 to December 31 1997, when all the countries were expected to integrate into the GATT products from the specific list in the Agreement which accounted for not less than 16 per cent of its total volume of imports in 1990 (integration means here that trade in these products became governed by the general rules of GATT). The second phase (1 January 1998 – 31 December 2001) expected every country to integrate products accounting for at least 17% of the imports in 1990. The third phase (1 January 2002 – 31 December 2004) expected the integration of products accounting for at least 18% of imports in 1990. Finally, all remaining products were integrated at the end of the transition period on 1 January 2005. At each of the first three stages, products were to be chosen from each of the following categories: tops and yarns, fabrics, made-up textile products, and clothing.

All the Multifibre Arrangement (MFA) in place on 31 December 1994 were carried over into the new agreement and maintained until the restrictions are removed or the products integrated into GATT. For products remaining under restraint, ATC laid down a formula for increasing the existing growth rates. During the first phase, and for each restriction previously under MFA bilateral agreements in force for 1994, annual growth were not less than 16 per cent higher than the growth rate established for the previous MFA restriction. For the second phase (1998 to 2001), annual growth rates were 25 per cent higher than the rates in the first phase. For the third phase (2002 to 2004 inclusive), annual growth rates were 27 per cent higher than those in the second phase.

### **3.3 The evolution of textile and clothing in the ATC era**

*(The sector at the national level).* In the period 2001-2005, the Italian textile and clothing industry showed a constant reduction in turnover, due to a negative tendency both in the in domestic and foreign markets. SMI-ATI (which is the Federation of the Italian Textile, Clothing and Fashion industries) estimated in the period a 15% decrease in turnover and a 8,2% decrease in exports (at current prices). Also the number of firms and employees decreased (respectively -16% and -14%), while the importations maintained a positive trend of growth (+10%) (Figure 3.1 in the Appendix).

The state of textile industry, however, changed in 2006. In this year, the turnover started again to grow, thanks to internal consumption and exports, and this trend has been confirmed in 2007, even if at a lower pace. The recovery of the Italian textile industry during 2006 lead also to growth of imports related to delocalization. This has a negative effect on trade balance, whose positive value remains nevertheless very high (Figure 3.2 in the Appendix). Forecasts on the future evolution of the Italian textile industry appear to be positive, even if the effects on employment are not easily predictable: given firms delocalization strategies, as growth in turnover does not correspond anymore to a proportional increase of the production realized in Italy.

*(The sector at the province level)* The dynamics of the sector in the province is similar to one at the national level, in terms of growth, number of firms, employment and export<sup>6</sup>.

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<sup>6</sup> Notice, however, that the textile sector in Modena province is active mainly in knitwear and clothing, while upstream manufacture is substantially absent.

The most relevant fact emerging from the last survey by the Observatory on the textile and clothing sector in the Carpi district concerns the recovery of knitwear and clothing in terms of turnover. After a long period of slowdown, in 2005 the value of the production starts growing again, with a significant acceleration in 2006 (Figure 3.3 in the Appendix). Factors leading to this positive dynamics are in part exogenous, with respect to the local context, and due to an upsurge in clothing consumption in the Italian market, which still constitute the main market of Carpi firms; some other, nevertheless, are to be found inside the district, linked to firms' strategies and re-organization processes. In slowdown years, Carpi firms have been very active in new initiatives: they qualified and diversified the product, they reorganized the distributive networks, they invested in advertising and communication. These changes lead to a recovery in terms of competitiveness, and, partially, in terms of market shares.

However, similarly to what happened at the national level, the recovery of turnover in knitwear and clothing went together with a further decreasing of the number of firms and employees (see Table 1 in the Appendix). Data from the Italian National Confederation of the crafts and small and medium-sized enterprises (CAN) show in the last decade a persistent reduction in registered firms, with a mortality rate around 3%. This phenomenon is not only due to cyclical phases of crisis in this sector, but also to succession in family firms and strong international competition from low labour cost countries. The decrease in the number of firms, however, is not uniform across firms' typologies. The decrease has been more significant for subcontracting firms, which are much more exposed to foreign competition, under the form of delocalization, and to the "unfair" competition from the black economy, under the form of Chinese factories that are active in the territory. Final firms are usually in a better position, which can count on export and market niches. Meanwhile, new typologies of firms emerged, like "advanced" subcontracting firms, which offer design, services and integrated production, and firms that are specialized in design and samples, following the decision by small and middle firms to outsource this phase of the production process.

The divergence between the positive dynamics of the turnover, and the negative one of employment, is primarily due to subcontracting outside the district. However, in the case of Carpi, delocalization towards foreign countries has played a relative minor role, compared to other districts: the movement has been typically to areas which are close to the district. The district of Carpi appears then as an open system (as it has always been), whose production is mainly concentrated in Italy.

As we mentioned before, turnover growth in 2002-2006 period was mainly driven by the domestic market, while exports recovered only recently. This reduced the export orientation of the district, and now two thirds of production is sold in the domestic market.

If we look at export data more in detail, from 2002 (when Modena province exports reached a peak) to 2004 export declined, while in 2005 start again to grow, and 2006 exhibits a slowing in this tendency (Figure 4). In resemblance to the national level, the dynamics of the local exports exhibits significant differences between knitwear and clothing. Knitwear export has undergone a significant decrease, while clothing has been characterized, on average, by a positive growth. Modena clothing exports outperformed Italian exports in terms of growth rates, while knitwear exports (in value) reduced by half in the period. As a consequence, export changed significantly: from the predominance of knitwear to the predominance of clothing.

At the same time, exports of tops and yarns have increased, in light of the trend towards delocalization, which consequently implied also a growth in clothing imports. The main low labour cost foreign countries Modena imports are Turkey, China and Romania, for textile products, and China, Turkey and Tunisia for clothing.

Also in terms of foreign destination markets, the changes were significant. The share of export toward western European countries has decreased in favour of Eastern Europe countries, both as delocalization targets and finished products markets. Knitwear exports are more strongly connected to Western Europe, compared to clothing, and show a lower degree of differentiation in terms of export destination countries. More than 60% of the decrease in knitwear exports is due to the strong reduction of exports towards Germany, which remains nevertheless the first

export destination, followed by France, United Kingdom, Spain and Belgium. In clothing, instead, although Western Europe is still the main export destination, Asian and North America gained prominence. Among the main export destinations, we find France, Spain, Japan, Germany and the United States.

Together with variations in turnover trends, one can also observe changes in firms' distribution channels. Sales with the highest growth rate are those towards independent retailers, which now accounts for more than the half of sectoral turnover of the area, while a decline was observed in the wholesale channel and large retailers, where price competition is tougher. The distribution strategy followed by final firms of the district was in fact oriented towards the overcoming of wholesaler intermediation, coherently with the product upgrading policies. This transformation represents a significant change for the Carpi district, which was traditionally operating through wholesalers. Marketing and communication investments were significant, and obtained significant results. This strategy was supported by opening of owned and franchise shops, which in any case account at the moment for a limited, although growing, share of sales, since most firms are too small to make this investment convenient. These tendencies are observed both in knitwear and clothing, although in knitwear sales to wholesalers and large retailers have still a high incidence.

Products sold with the brand of the producer exhibited a significant growth rates and represent at the moment more than two thirds of turnover of the district. This strategy of promotion of proprietary brands lead to excellent results both in domestic and international markets, and it was followed also by a few small firms. In these years, also new brands appeared, proposed by young firms managed by a new generation of entrepreneurs.<sup>7</sup> This fact represents an important novelty for firms in the Carpi district, which use to sell an anonymous product. The "visibility" of these brands represents a crucial element to explain the district return to growth of the turnover. Beyond the support of their own brands, some firms acquired new productions on licence, related to local prestigious brands license and firms outside the district. This licensed production is growing, and its profitability will be measured in the next years.

*(The other sectors at the province level)* The dynamics of other industries in the area is particularly important since these sectors are expected to absorb at least partially the job losses occurred in textile and clothing.

The area of Carpi is active in a number of other sectors: food farming industry, mechanic industry (especially agricultural and wood carving machines), electronics, automation and plastics. A relevant share of public investments concerned particularly food and agriculture (Modena is becoming the Italian capital for biological food) and the mechanic industry, the most important one after textile, with 130 firms, 1300 employees and a 55% export share.

Overall, these sectors exhibit positive growth. Internationalization processes, together with technological innovation spurred by the regional industrial strategy (see Section 4), brands strengthening, accumulation of tangible and intangible capital, are at the basis of firms' competitive strategies. From one side, large firms engage in transnational agreements, mergers and acquisitions, which increase concentration at the horizontal level; from the other side, there is a tendency towards greater and greater specialization for small firms.

Concerning food and agriculture, firms in this sector were the first to face global competition of the global markets following "network" strategies, as showed by different examples of vertical and horizontal integration whether vertical or horizontal of traditional products. Parmesan cheese, Lambrusco and Modena Ham, are the most known products, recognized also at European level, with the labels of protected designations of origin (PDO) and protected geographical indications (PGI). The continuous demand segmentation lead firms in food and agriculture to develop the flexibility of their production processes, but above all to

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<sup>7</sup> Among renowned and emerging brands we find Blumarine (Anna Molinari, Blugirl), Liu-Jo (Liu-jo girl, L.jo, Liu-jeans, Ajay), Clips, Ki6? (Parrot, Les Parrotines, Lu-mà!, Mpd), Champion, Gaudì, Denny Rose, A-style, Love Sex Money, Twin Set, ecc.

improve the quality of their products and to broaden the range of offer for the consumers. At the moment, there are about 1000 firms with 1800 employees (which confirms the extremely small size of local firms), with a share of export of 20%.

#### **4. Industrial policies at the regional level**

In this section we discuss recent industrial policies (broadly intended) at the regional and at the local (i.e. district) level. These policies have an impact on social welfare in two ways: through their direct effect on the vulnerable sector and through their effect on other sectors competitiveness, and then ability of absorbing the job losses in textile and clothing.

##### ***4.1 The regional industrial strategy***

In recent years, an important institutional change in Italy was given by the so-called "federalist reforms", with the (partial) transfer of industrial politicise to administrative regions.

The first changes are associated to the so-called "Bassanini decrees" in 1997 and 1998; a change in Part Five of the Italian Constitution followed, assigning exclusive or shared areas of intervention, and the corresponding resources, to the regional administrations.

The national level still manages the main laws for supporting internationalization, scientific research and technological innovation (with few exceptions), depressed areas and women entrepreneurships, while the regional level managed, among the others, all the laws concerning small and medium-sized firms. At the same time, the 112/98 national law assigned to local governments and Chambers of Commerce a number of other administrative functions, among which are of considerable importance those attributed to communes and related to the creation, enlargement and closing of production plants.

In accordance with the national law, Emilia-Romagna region launched a reform through a regional law passed in 1999 and called "Reform of the regional and local system". Finally, the last step in the process of decentralization of industrial politics is constituted by the regional law 7/2002, called "Promotion of the regional system for industrial search, innovation and technological transfer", followed, in 2007, by the classification of the regional industries and the identification of the most relevant sectors for the regional economy based on their weight in employment and the degree of specialization with respect to the Italian economy.

Until now, two three-year plans for regional industrial and development policies have been launched (2000-2002 and 2003-2005), which add to other programs in areas such as communication infrastructures, environmental and energy policies, professional training and territorial planning.

The three-year programs represented an attempt of organic industrial policy at the regional level. In that respect, the Emilia Romagna regional administrators did not see their role as simple execution and management of interventions which are decided at the Ministry of Industry. Rather, they took the opportunity to build a regional strategy for development and industrial competitiveness, tailored on the specific regional needs. The general principle of action behind the program is that regional competitiveness cannot be attained through a continuous search of reduction in costs (especially labour costs), but rather promoting firms' innovativeness and internationalization, entrepreneurship, public administration efficiency, and guarantying at the same time social and environmental sustainability. It is clear that those principles are particularly relevant for most dynamic industries, including those from which, in the Carpi area, growth in employment is expected. At the same time, a particular attention is devoted to small and medium-sized firms, which constitute the large majority of regional firms.

As long as the 2003-2005 program is concerned, seven main areas of interventions have been determined:

1. Financial support to firms, in particular for innovative activities;

2. Support for the acquisition of last generation quality certificates;
3. Support to industrial research and technological transfer;
4. Support to entrepreneurship;
5. Support to internationalization;
6. Interventions in favour of local development, also in terms of environmental quality and energetic efficiency
7. Interventions favouring the digital access of laws, information and data, also with the goal of improving public administration efficiency.

#### *4.1 "Industrial" policy at the district level*

Since the 80's, provincial and local administrations implemented policies to support new technology adoption and the related professional up-dating. Such policies lead to the creation of CITER (Emilia Romagna Textile Information Centre), to which the Commune of Carpi, Ervet and industrial and artisan association adhered. The primary goal the centre was to supply relevant informative services about fashion tendencies, demand conditions and technologies.

Nowadays, CITER activities were significantly reorganized and orientated particularly towards the development and the promotion of the innovation and knowledge transfer; support to creation of networks among research centres, universities and firms; and dissemination of information on new foreign markets (Asian markets in particular). It is evident that changes in CITER activities followed but then sustained the recent changes in the district organization that we describe before.

A key area of public intervention in the district is professional training. In that respect, Carpiformazione is the public agency in charge of it, and it plays a key role in the district dynamics. Carpiformazione is specialized in offering courses in the fields of fashion, textile and clothing, and concerning all the phases in the value chain, from design, samples manufacture, industrial production, marketing, and accounting. The main customers of Carpiformazione are the European Union, the Ministry for Employment and Social Security, the Emilia Romagna region, the Province of Modena and the firms in the district.

Projects have usually business associations and unions as partners. In some cases, these organizations are the project promoters; about 300 firms supply each year a qualified support to planning and accomplishment of the training activity. The range of courses that are offered is wide: training is offered to workers who are already active in the textile industry, but also to professional school students and to unemployed people. The centre regularly contributes to the activity of research by Observatory on the textile and clothing sector in the Carpi district, and it act as coordinator or partners in international projects, usually funded by European research programs. Finally, together with other Italian agencies and organizations, it is active in research activities on the fashion industry and in the production of teaching materials.

## **5. Conclusions**

The district of Carpi surely deserves the name of "vulnerable region", since its specialization in a traditional sector like textile makes particular the threat from foreign competition particularly strong.

The district, however, seems to have taken the way to transform this threat in an opportunity, preserving its international competitiveness. In this process, there has been a significant change in the actors which play the leading role: medium-size firms have gained prominence, innovating in their organization of work and investing in aggressive marketing campaigns and in their own brands, while small, traditional firms massively exited the market.

In that respect, two factors appear fundamental. The first one is **entrepreneurship**. Entrepreneurship refers here to the creation of new firms, to a new generation of individuals that tries to catch new market opportunities and enter new market niches. Entrepreneurship refers also to a general entrepreneurial attitude, widely spread in the district, which lead to new ways

of organizing production, new products, new distributive channels. As we saw, this entrepreneurial attitude has always characterized the district, which changed it several times during its history, often in a radical way. In a sense, this factor seems to be not easily replicable in different context.

The second factor is **policy**. Being the result of the same cultural background, also policy makers have traditionally exhibited a dynamic and innovative attitude. In particular, history suggests that policy has always *followed and sustained* the changes occurring in the district, often following exogenous events, and it never constituted an obstacle to development.

The restructuring process that preserved competitiveness lead however to a significant reduction of employment in the sector, with its unavoidable social costs. Nevertheless, the same two factors, entrepreneurship and policy, seems to have mitigated the negative effects. From one side, the other industries which are present in the district area showed a positive, counterbalancing dynamics in that respect. On other side, although it seems fair to say that policy, at least at the regional level, has not played a significant direct role in the district restructuring process, public intervention supported the growth in high-tech sectors, which absorbed job losses in textile.

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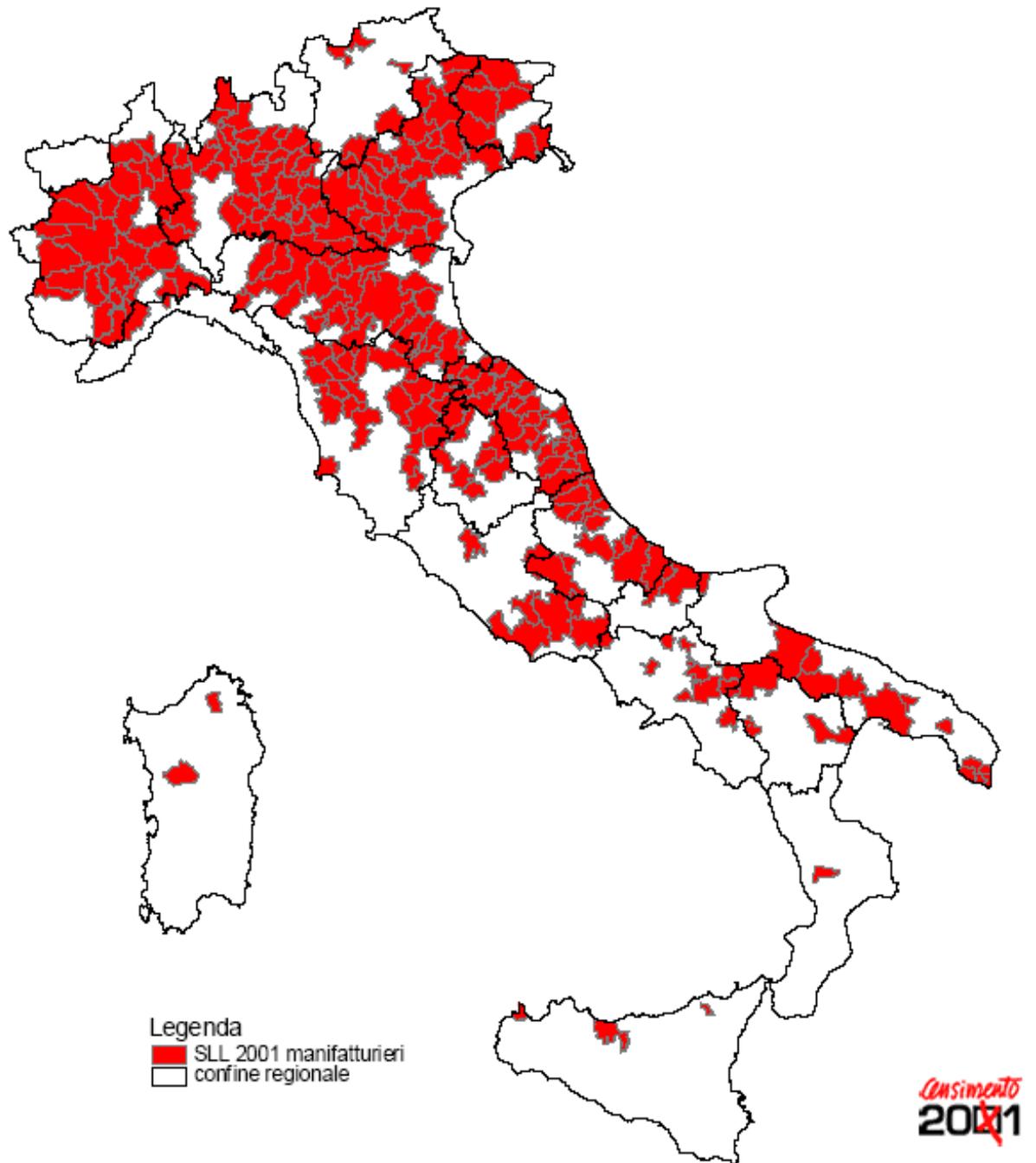
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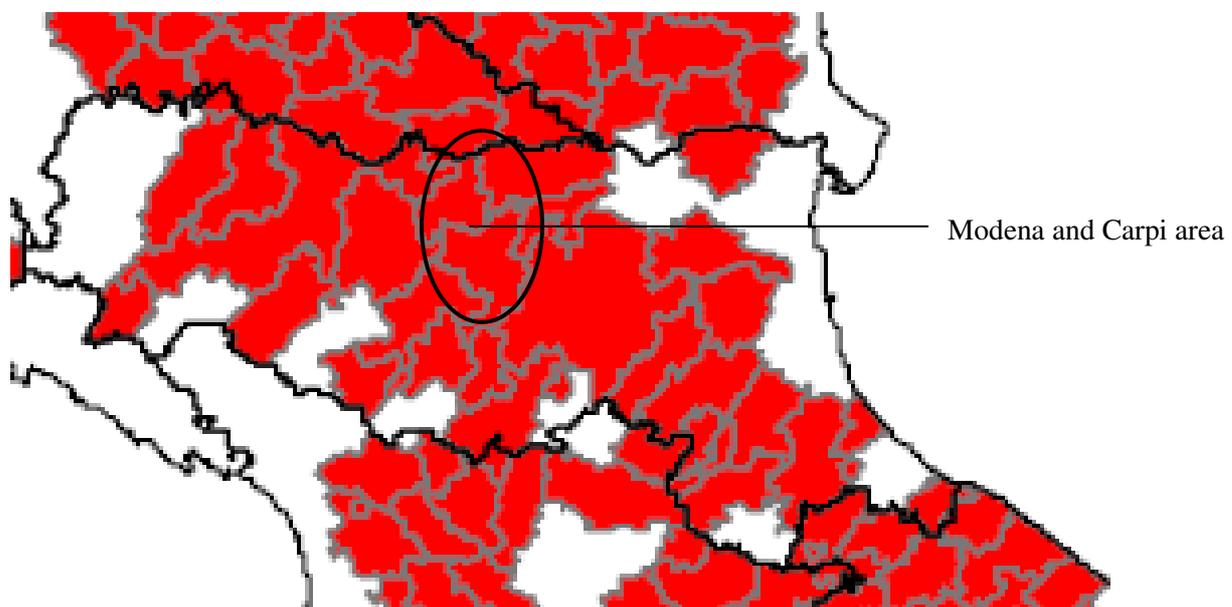
## Appendix

Figure 2.1: Local employment areas specialized in manufactory



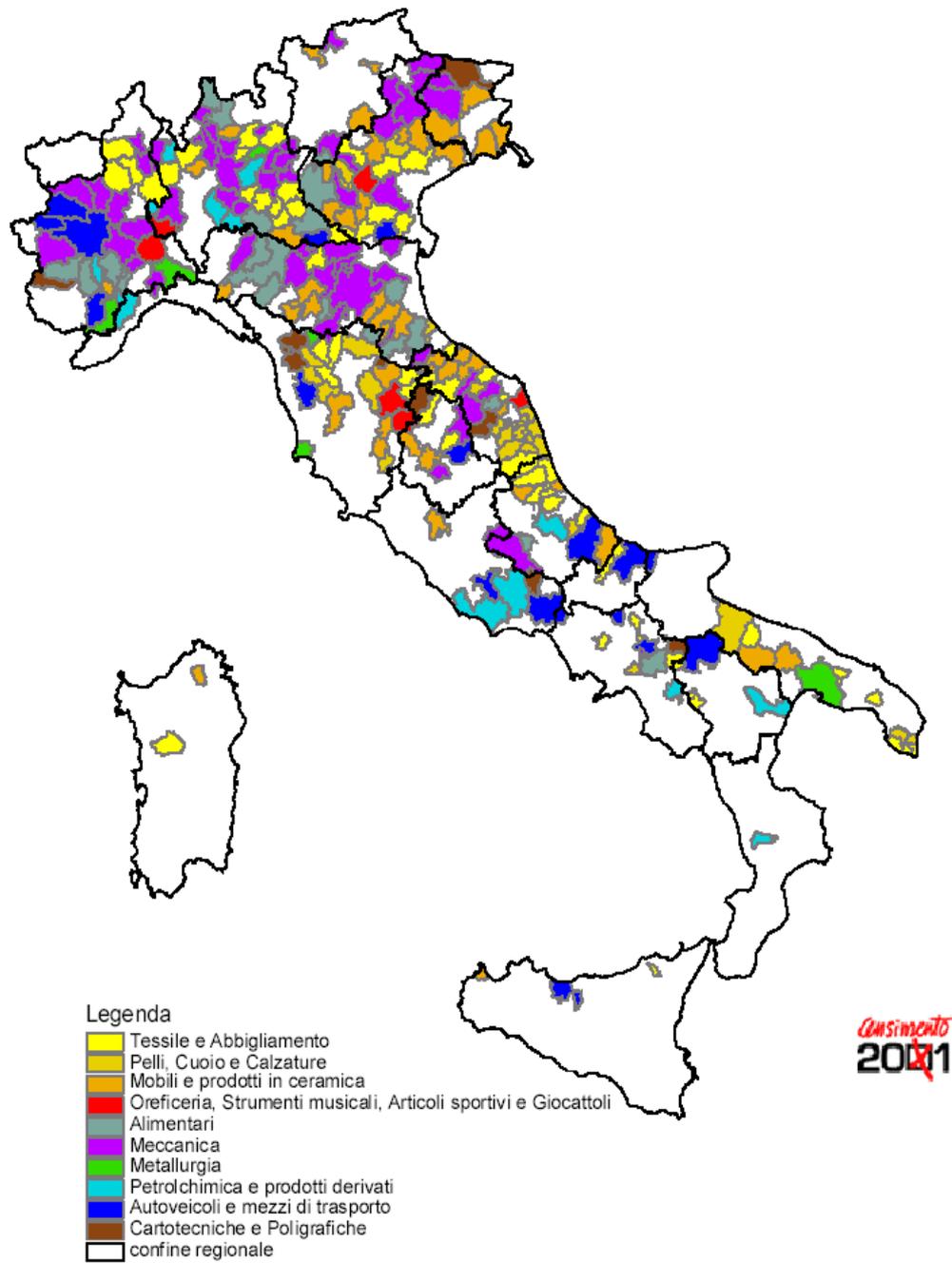
Source: ISTAT

**Figure 2.2: Local employment areas specialized in manufactory in Emilia-Romagna**



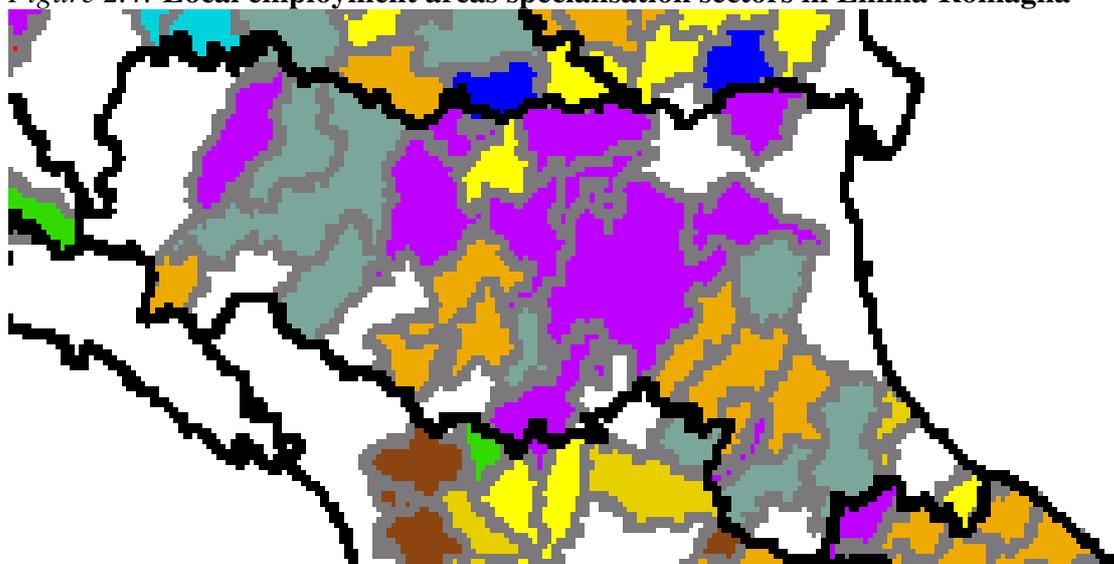
Source: ISTAT

Figure 2.3: Local employment areas specialisation sectors



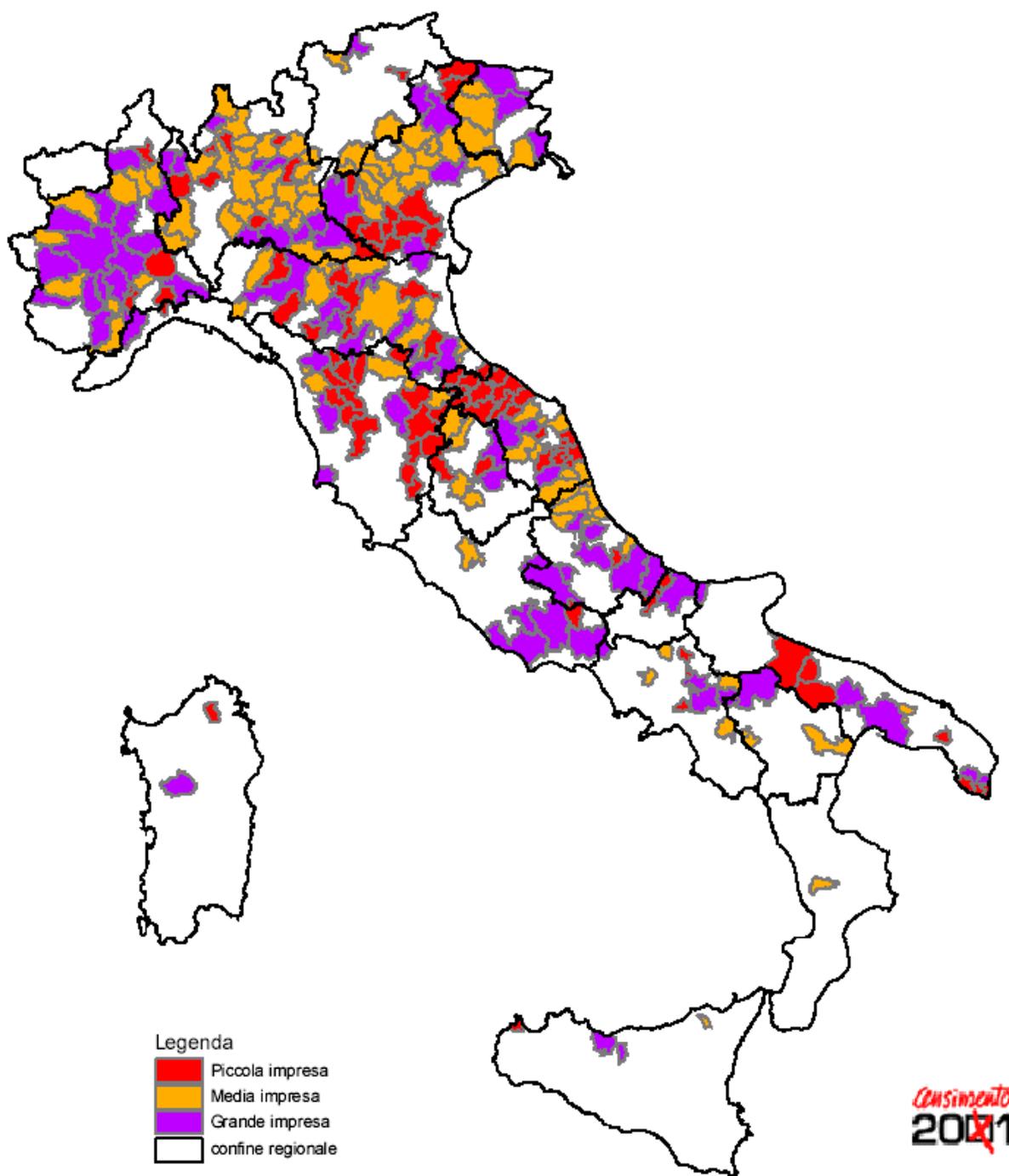
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*Figure 2.4: Local employment areas specialisation sectors in Emilia-Romagna*

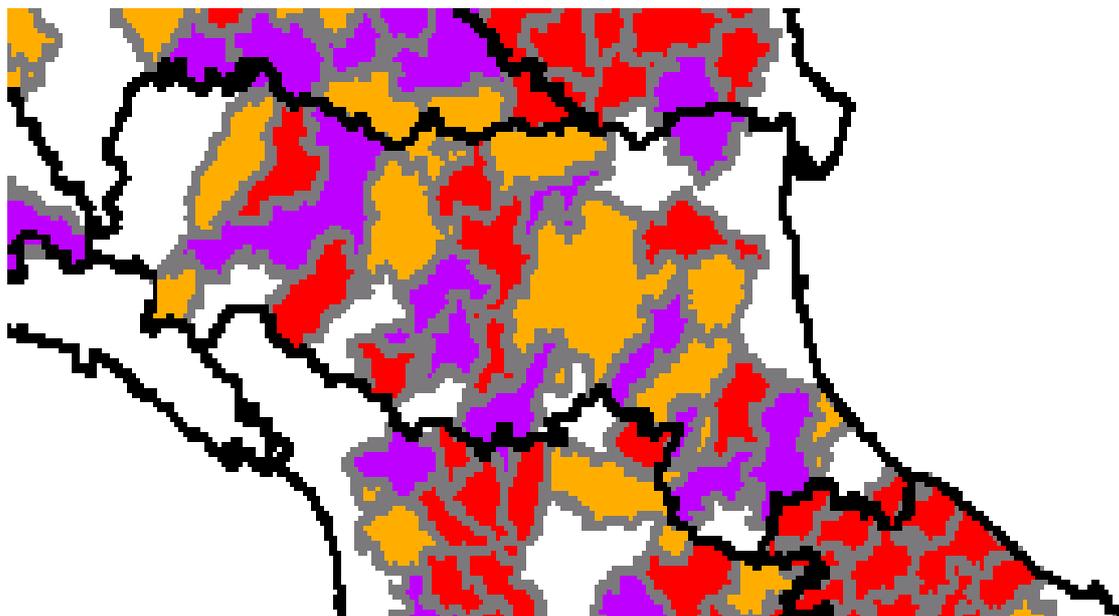


Yellow: Textiles  
Lila: Mechanics  
Grey: Food and agriculture  
Okra: Ceramics and furniture

Figure 2.5: Enterprises dimension in local employment areas



*Figure 2.6: Enterprises dimension in local employment areas in Emilia-Romagna*



Red: Small enterprises  
Okra: Medium enterprises  
Lila: Large enterprises

Figure 2.7: Microenterprises local employment areas in Italy

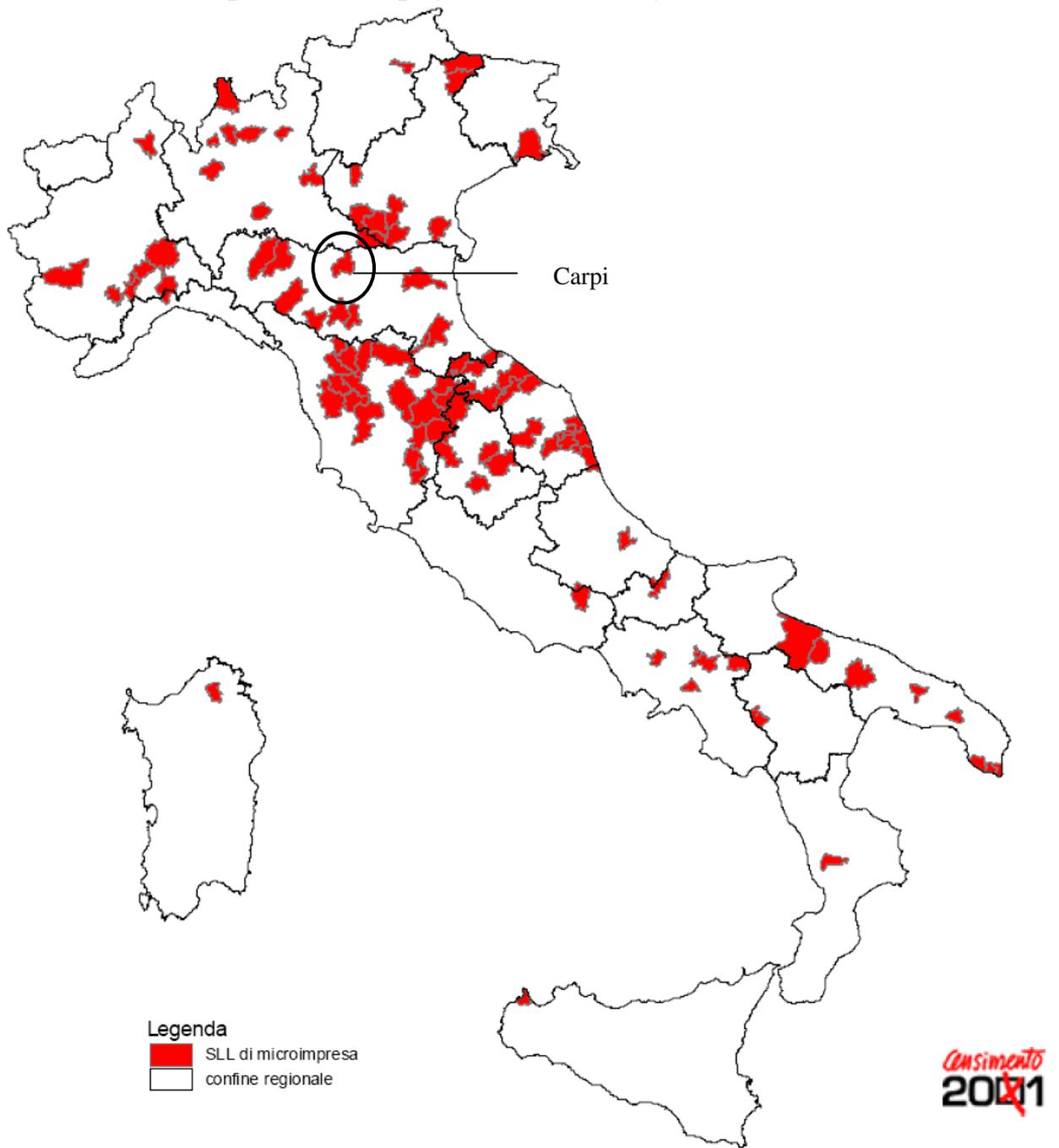
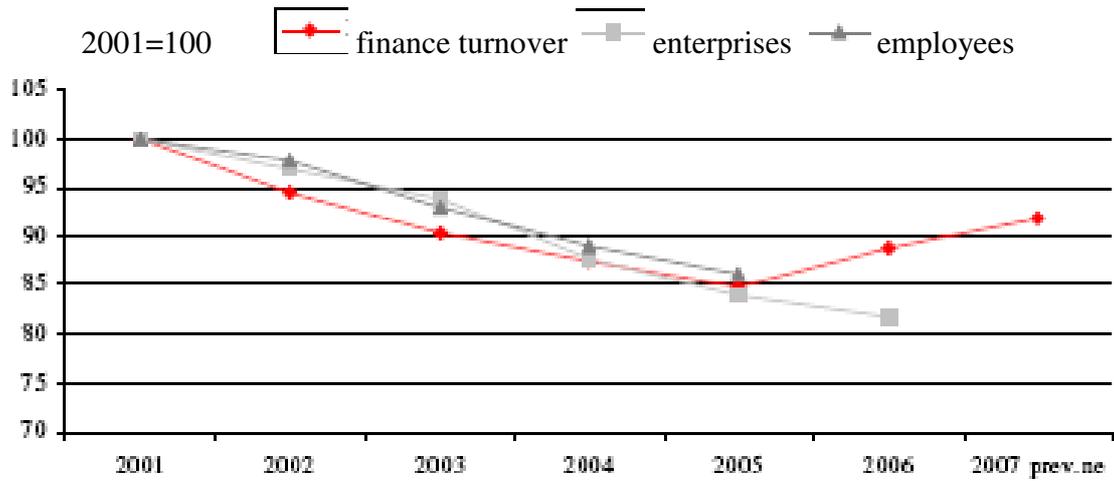
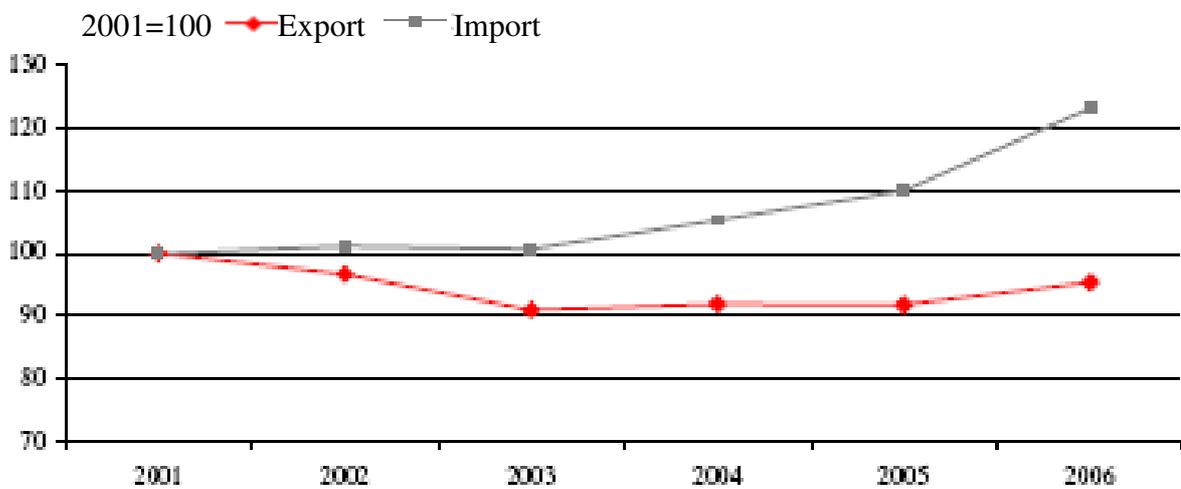


Figure 3.1: Textile and clothing industry dynamics, 2001-2007.



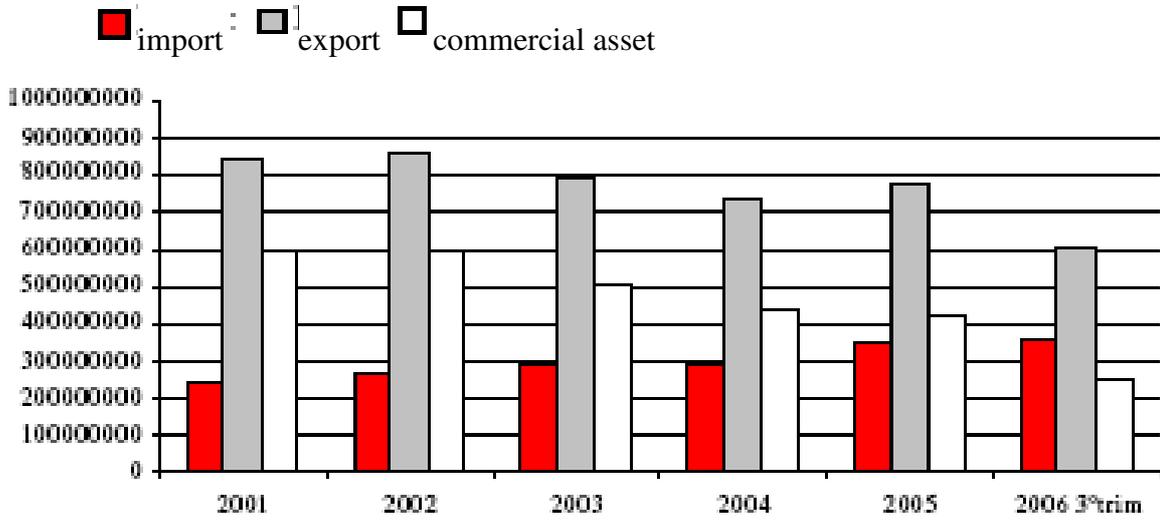
Source: R &I s.r.l elaborations based on SMI-ATI and ISTAT data

Figure 3.2: Export and Import dynamics of the textile and clothing Italian industry, 2001-2006.



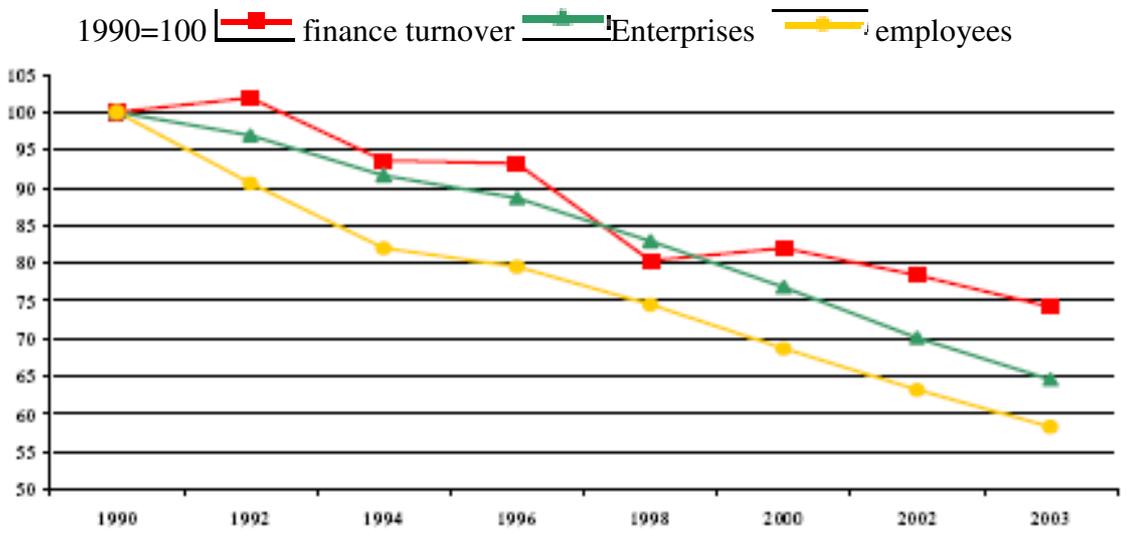
Source: R &I s.r.l elaborations based on SMI-ATI and ISTAT data

**Figure 3.3: Import, export and commercial asset of textile products and clothing industry in Modena province (in euro)**



Source: R &I s.r.l elaborations based on SMI-ATI and ISTAT data

**Figure 3.4: Textile and clothing industry dynamics in the Carpi industrial district, 1990-2003**



Source; R&I srl, Osservatorio del settore tessile abbigliamento nel distretto di Carpi

Tab 1: The knitwear and clothing sector in the Carpi district:1990-2006

	1990	1992	1994	1996	1998	2000	2002	2005	2006 (Preliminary)
Turnover (millions of Euro)									
Current prices	1042	1110	1047	1094	981	1027	1023	1170	1273
Constant prices (2000=100)						1027	982	1070	1151
Constant prices (1996=100)	1173	1196	1099	1094	943	962	920	1003	1079
Export share (%)	22,4	25,6	36	38,4	36,7	37,5	36,8	30,6	30,3
Enterprises	2258	2188	2068	2000	1871	1735	1583	1255	1158
Employees	14005	12692	11491	11137	10430	9627	8960	7841*	7278*
- By establishments in the district	13509	12152	10971	10665	10027	9340	8642	7497	
- By establishments outside the district	496	540	520	472	403	287	271	344	
Employees in controlled foreign firms**								2750	

\*It includes employment by establishments owned by firms outside the districts.

\*\* Foreign firms that controlled by firms located in the district.

Source: R&I srl Osservatorio del settore tessile abbigliamento nel distretto di Carpi

# **The impact of globalisation and increased trade liberalisation on European regions: the Prato textile industrial district in Tuscany**

## **1. Introduction**

The purpose of this report is to investigate how the Prato industrial district in Italy has been facing the recent threats (but opportunities as well), linked to the globalization of markets. The report is organized as follows. In Section 2, we provide a short description of the economic and social evolution of Tuscany, the Italian region where Prato is located. Section 3 focuses on the Prato industrial district. After a short review of its historical and cultural background, the section describes the recent changes and the present situation of the district (then following the increased international competition), both in quantitative and qualitative terms. Section 4 describes regional and local policies in recent years, and their connections with changes occurring in the industrial sectors. Finally, Section 5 concludes, summarizing the lessons that, we believe, can be learnt from the Prato case.

## **2. General economic and social evolution of Tuscany**

Tuscany has a long tradition in superior craft and architectural skills, dating back to the pre-roman civilisation. For example, Etruscan archaeological findings, potteries, jewels, paintings and architecture show the high level of the fine works that has been carried out in this territory since at least 3000 years.

Such historical socio-economic ground has been very fertile also in the High Middle Age in the period of the Communes, first, and the Signory, later, when the flourishing municipalities of Tuscany, often competing and fighting each other, could count on powerful *Guilds* (*Corporazioni delle arti e mestieri*), associations of craftsmen in a particular trade (textile, masons, carpenters, carvers, etc.) trading outside their boundaries.

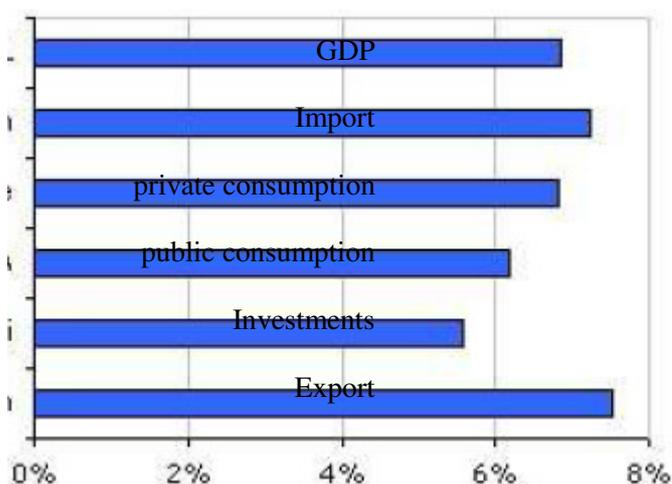
Moreover, not to be forgotten, Tuscany has been the cradle of Renaissance, a period where art, crafts, banks and trade incredibly flourished under the influential and enlighten government of the Medici's dynasty.

After the 15<sup>th</sup> century Tuscany was a relatively stable independent state, called the Grand Duchy of Tuscany, until the late 19<sup>th</sup> Century when Italy was unified. This was composed of several cities, a part Florence: Pisa, Arezzo, Lucca, Siena, Prato, etc. that were able to find their characterised roles, specialised crafts and agriculture production famous internationally.

Today Tuscany corresponds to an administrative region in the central part of Italy, accounting for 6.8.% of Italian GDP. Similar percentages, with respect to the Italian economy, are observed for private and public consumption, import and export and investments (see table 1).

In 2005, the GDP per capita was 28,049 Euro, which corresponds to the 8th position among the Italian regions (ISTAT, 2007). The relatively lower GDP per capita, compared to Northern regions, can be explained by the specialisation of relatively low value added industry ("Made in Italy") per employee of the Tuscan product activities.

**Table 1: Percentage of the main macroeconomic elements of Tuscany within the Italian economy**



Source: IRPET, 2007

## 2. The economic system

*(Industries)* The economic system in Tuscany is characterised by two main elements. First, there is a strong specialisation of certain industrial manufacture sectors and secondly the determinant role of small and medium sized enterprises (SMEs).

Specialisation is above all in textile and clothing (T/C) and in leather and footwear (L/F) industries, but all “Made in Italy” productions<sup>8</sup> are generally relevant and represented above the Italian average (table 3). However, it has to be said that the specialisation is not homogenously distributed in the territory, actually several agglomeration can be observed. This lead Tuscany to be one of the most worldwide studied case of agglomeration economies, thanks to seminal works of Bagnasco (1977), who explained the reasons behind the industrial and socio-economic growth of the “Third Italy” – relatively medium sized dispersed industrialised economies composed of aggregation of SMEs, external to the traditional polarised industrial areas in the northern west part of the country – and Becattini (1987, 1990, 1991), with his model of the industrial district<sup>9</sup>.

<sup>8</sup> Generally these includes: textile, clothing, leather and footwear (fashion in broad sense), ceramic & marble, furniture and home appliances and machinery.

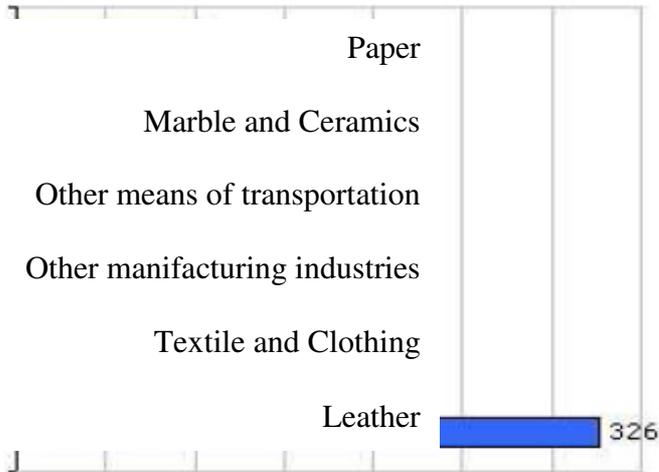
<sup>9</sup> BAGNASCO A. (1977), *Tre Italie: la problematica territoriale dello sviluppo economico italiano*, Il Mulino, Bologna

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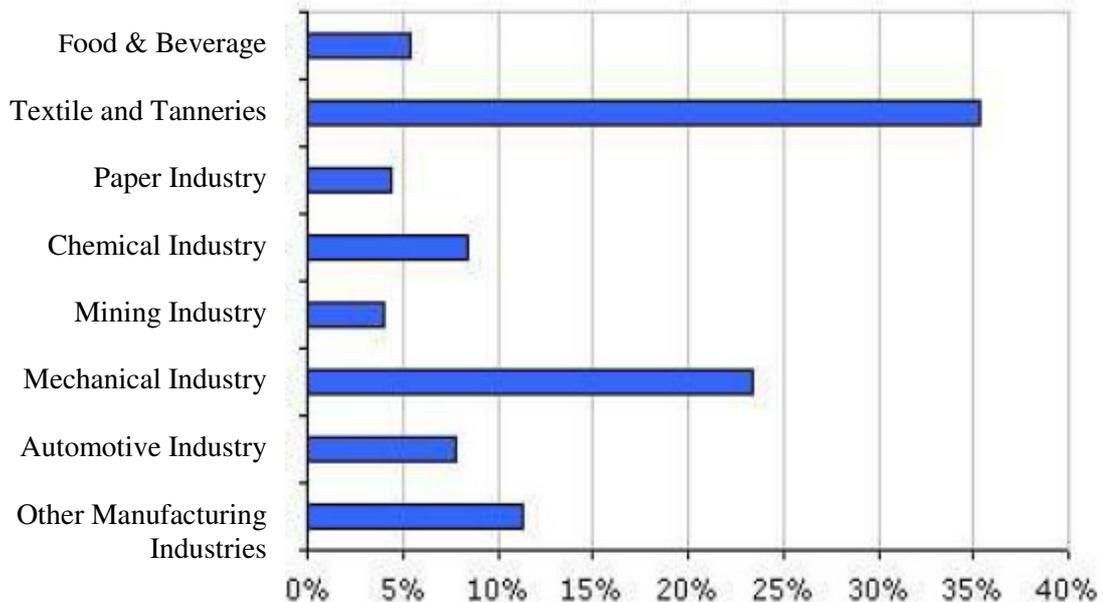
**Table 2: Specialisation indexes of Tuscany industries (Italy = 100, year 2001)**



Source: IRPET, 2007

(Exports) Tuscany shows an high degree of internationalisation in terms of exports, accounting for more than 7,5% of the whole Italian export. Fashion (namely all the enterprises in the value chain of textile, clothing, leather, shoes and accessories), mechanics and machineries and jewellery are the most important sectors that contribute to the high level of export of the region (Table 2) as well as services in the field of tourism is strongly represented in this region (23% of the whole Italian values). Tuscany is one of the most important Italian regions in fashion goods production, counting more than 35% of the country’s export (in value), in a sector where Italy has a worldwide leading position. This is due to the presence of highly productive specialised areas, among which we find Prato, the province of this case study.

**Table 3: Percentage of exports of Tuscany in the main industry within the Italian export value**

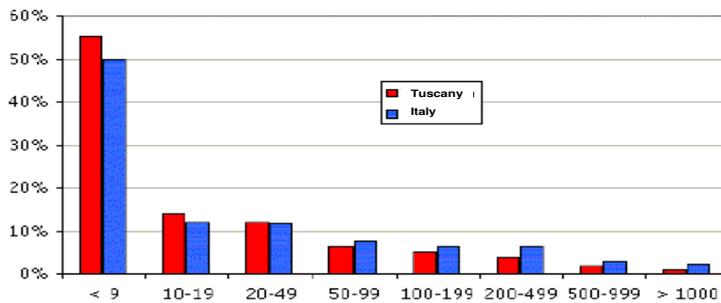


Source: IRPET, 2007

Exports of Tuscany are generally towards European countries (mainly Germany, France, UK and Eastern Europe), though less than the Italian averages (only 47.1% vs 53.6%). Exports go beyond the European boundaries: more than the 17% of the exports are towards North America as well as NICS (newly industrialised countries) are also a significant target area for Tuscany goods.

*(Enterprise System Structure)* As mentioned before, the industrialisation process has been characterised by the existence of an incredibly rich systems of micro enterprises and SMEs, which created a localised productive system through mechanisms of collaboration and competition. Every main centre is specialised in a particular sector: for example, textile in Prato, tanneries in Valdarno, furniture in Poggibonsi, Cascina and Quarrata, clothing and leather in Empoli and Florence, footwear in Val di Nievole and Lucca, jewellery in Arezzo, marble in Carrara. Together with local productive system composed of SMEs, some traditional craft local systems are still alive, for example alabaster manufacture in Volterra, Glassware in Colle Valdelsa, as well as some industrial hubs lead by large firms in the automotive (Pontedera) and mechanics sector (Florence and Pistoia).

**Table 4: Distribution of local units of enterprises according to the number of employees**



**Source: IRPET, 2007**

*(Employment)* Employment data shows a composition aligned to the Italian average. In 2003, Tuscany counted about 1.483.000 workers allocated in agriculture (4%), industry (32%), trade (17%) and services (47%). In the last 10 year the number of employees raised by more than 110000 units, all in the service sector, while manufacturing industries lost more than 40000 employees (about 9.5%). The rate of job losses in industry is the second highest in Italy, where the average rate is around 1%.

Unemployment is lower than 5%, even if there is still a gender gap (the rate is 7,3% for women and 2,8% is the male one). Less stable jobs are mainly localised in the weakest areas of the region. explaining that forms of flexible type of job are rather following activities more precarious and unstable.

*(Territory)* Tuscany is one of the Italian region with the highest balanced relationship between urban and and natural environments. The variety of the territory granted several advantages, such as differentiate tourist supply and productive activities. Moreover, this variety granted the

reduction of the effects of economic shocks and on these plus, Tuscany focuses most of its tourist activities.

Environmental resources, therefore, guarantee significant economic returns, but they are also a source of infra-regional income redistribution of in Tuscany, in favour of areas that are industrialised areas, but with are characterized by beautiful landscapes. For this reason, regional and local authorities recently extended the total surfaces of land that are considered natural or national parks (now accounting for more than 8% of the region). In addition, in these areas, local traditions, fine food and wine, arts and crafts are preserved and became a fundamental driver for tourists.

*(Latest trend and forecasts)* After four years of modest growth rates (on average 0.2% in 2001-2005), regional GDP growth rates raised in 2006 (+1,7%). However, the mechanisms that determined growth are more interesting than its magnitude. The main drivers have been goods and services export, services, and tourism. The machineries sector is still the most dynamic industry, whilst the difficulties of textile and clothing are visible.

**Table 5 - Added value in the industrial district of the Region. Average rate of variation per year.**

	Manufacturing		Whole economy	
	1995-2001	2001-2005	1995-2001	2001-2005
<b>Carrara</b>	1,3	-3,5	1,3	-0,6
<b>Capannori</b>	2,4	-3,8	3,0	-0,7
<b>Valdinievole</b>	0,6	-4,0	1,7	-1,4
<b>Prato</b>	2,3	-3,4	2,1	-0,5
<b>Empoli</b>	0,4	-1,9	1,8	0,6
<b>Castelfiorentino</b>	0,7	-1,4	1,9	0,8
<b>S.Croce sull'Arno</b>	-1,8	-1,5	0,0	0,4
<b>Poggibonsi</b>	-0,1	-0,4	1,0	1,9
<b>Valdarno Superiore</b>	1,6	-2,9	2,3	-1,0
<b>Casentino-Val Tiberina</b>	2,0	-2,9	2,3	-1,0
<b>Arezzo</b>	1,2	-2,8	2,2	-0,7
<b>Sinalunga</b>	1,8	-0,3	2,1	0,7
<b>Total industrial districts</b>	1,1	-2,7	1,8	-0,3
<b>The rest of Tuscany</b>	1,0	-1,4	2,2	0,7
<b>Total (Tuscany)</b>	1,0	-2,0	2,1	0,3

*Source: IRPET, 2007*

**Table 6: Main indexes for the Italian region and the Provinces of Tuscany (year 2003)**

	Added value over unit of labour	Added value of over population	Added value over population 2003*	2000
<b>Piemonte</b>	<b>49855</b>	<b>45,6%</b>	<b>22758</b>	<b>20928</b>
<b>Valle d'Aosta</b>	<b>51178</b>	<b>50,3%</b>	<b>25738</b>	<b>22070</b>
<b>Lombardia</b>	<b>52851</b>	<b>48,9%</b>	<b>25825</b>	<b>23378</b>
<b>Trentino Alto Adige</b>	<b>51345</b>	<b>52,9%</b>	<b>27139</b>	<b>23990</b>
<b>Veneto</b>	<b>47460</b>	<b>48,6%</b>	<b>23044</b>	<b>21025</b>
<b>Friuli-Venezia Giulia</b>	<b>50629</b>	<b>46,6%</b>	<b>23615</b>	<b>20490</b>
<b>Liguria</b>	<b>51872</b>	<b>42,0%</b>	<b>21772</b>	<b>19235</b>
<b>Emilia-Romagna</b>	<b>49421</b>	<b>51,6%</b>	<b>25491</b>	<b>22840</b>
<b>Toscana</b>	<b>46957</b>	<b>47,0%</b>	<b>22071</b>	<b>19895</b>
<i>Massa Carrara</i>	<i>46111</i>	<i>35,0%</i>	<i>16156</i>	<i>14940</i>
<i>Lucca</i>	<i>47692</i>	<i>42,5%</i>	<i>20251</i>	<i>19061</i>
<i>Pistoia</i>	<i>42996</i>	<i>47,7%</i>	<i>20527</i>	<i>18411</i>
<i>Firenze</i>	<i>50927</i>	<i>52,0%</i>	<i>26461</i>	<i>23088</i>
<i>Prato</i>	<i>45095</i>	<i>52,8%</i>	<i>23807</i>	<i>21836</i>
<i>Livorno</i>	<i>48177</i>	<i>41,5%</i>	<i>20015</i>	<i>19192</i>
<i>Pisa</i>	<i>48808</i>	<i>46,6%</i>	<i>22752</i>	<i>19234</i>
<i>Arezzo</i>	<i>42164</i>	<i>47,8%</i>	<i>20174</i>	<i>18437</i>
<i>Siena</i>	<i>42795</i>	<i>50,3%</i>	<i>21516</i>	<i>19905</i>
<i>Grosseto</i>	<i>41001</i>	<i>41,0%</i>	<i>16800</i>	<i>16016</i>
<b>Umbria</b>	<b>44938</b>	<b>43,0%</b>	<b>19327</b>	<b>17525</b>
<b>Marche</b>	<b>44619</b>	<b>45,9%</b>	<b>20478</b>	<b>18141</b>
<b>Lazio</b>	<b>51662</b>	<b>44,2%</b>	<b>22838</b>	<b>19729</b>
<b>Abruzzo</b>	<b>43396</b>	<b>39,4%</b>	<b>17098</b>	<b>15155</b>
<b>Molise</b>	<b>44161</b>	<b>35,4%</b>	<b>15624</b>	<b>13945</b>
<b>Italy</b>	<b>48133</b>	<b>42,0%</b>	<b>20198</b>	<b>17982</b>

*Source ISTAT; \*estimation by IRPET*

This new wave of growth is also the results of a restructuring process. The number of firms decreased sharply, due to a selection process that was particularly strong for micro and Unlimited enterprises. However, the number of productive unit did not decrease. This means that a process of consolidation occurred, lead by medium and large companies, in search of the required scale and resources to be active in international markets. In addition, a shift from lower value added “Made in Italy” production activities to technologically intensive ones can be observed.

**Table 7 : Specialisation Indexes in Tuscany**

	Entrepreneurship Specialisation Index		Export Specialisation Index	
	2000	2006	2000	2006
<i>Based on product technology context</i>				
<b>High-tech</b>	<b>0,62</b>	<b>0,65</b>	<b>0,34</b>	<b>0,63</b>
<b>Medium-high tech</b>	<b>0,63</b>	<b>0,65</b>	<b>0,58</b>	<b>0,68</b>
<b>Medium-low tech</b>	<b>0,71</b>	<b>0,75</b>	<b>0,73</b>	<b>0,74</b>
<b>Low-tech</b>	<b>1,25</b>	<b>1,24</b>	<b>1,95</b>	<b>1,87</b>
<b>Total</b>	<b>1,00</b>	<b>1,00</b>	<b>1,00</b>	<b>1,00</b>
<i>According to typologies of goods</i>				
<b>Durable consumer goods</b>	<b>1,15</b>	<b>1,20</b>	<b>1,48</b>	<b>1,39</b>
<b>Non-durable consumer goods</b>	<b>1,13</b>	<b>1,13</b>	<b>1,50</b>	<b>1,50</b>
<b>Assets</b>	<b>0,67</b>	<b>0,70</b>	<b>0,53</b>	<b>0,72</b>
<b>Intermediates</b>	<b>0,97</b>	<b>0,94</b>	<b>1,03</b>	<b>0,93</b>
<b>Energy</b>	<b>0,45</b>	<b>0,49</b>	<b>0,20</b>	<b>0,30</b>
<b>Total</b>	<b>1,00</b>	<b>1,00</b>	<b>1,00</b>	<b>1,00</b>

Notes: Indexes calculated over Italy

Source: Infocamere (StockView) and ISTAT (Coeweb)

## 2 Qualitative analysis of the restructuring process in the vulnerable sector

### 2.1 Historical and cultural background

The textile industrial district of Prato represents the major agglomeration of this kind of production in Italy. The area of the district is about 700 km<sup>2</sup> with 325000 inhabitants and, in addition to the of Prato itself, it includes the Councils of Cantagallo, Carmignano, Montemurlo, Poggio a Caiano, Vaiano and Vernio in the Province of Prato; Calenzano and Campi Bisenzio in the Province of Florence; Agliana, Montale and Quarrata in the Province of Pistoia.

The specialisation of Prato in the textile manufacturing can be dated back to the 1200 A.D. when the wool processing was facilitated by several favourable environmental conditions (a flourishing sheep farming, good climate and the presence of a good amount of water that, in addition, was naturally characterised by a chemical composition helping the softening process) and by the specialisation in the so called “Art of Calimala”, i.e the ability to process wool cloths to soften them. This type of specialisation will be maintained until the end of the Twentieth Century.

Since its origins the textile industry in Prato was characterised by a strong tendency towards fragmentation of the productive cycle among small and medium sized firms. Furthermore, the coordination of activities was done by one entrepreneur with specific skills to be an effective market interface. Something similar is still present today to organise the international trade.

In the second half of the 19th century, the productive organisation changed, from a craft-type manufacturing to a more industrial production specialised into the regeneration of fabric rugs

(waste from dressmaking atelier, old knitwear works, etc). For this reason, Prato was known as “the capital of rugs”, as it was able to produce regenerated wool that was placed in the market at very competitive prices.

These peculiarities have characterised the district up to the first years of the 20th Century, whilst during the period between WW I and WW II vertically integrated firms (i.e. firms that internalized all the steps in the productive process) including all the unit processes) appeared and gained prominence. However, this phenomenon last only to the end of the beginning of the 50's, when a deep market crisis shocked the textile production in Prato. After this crisis, a new fragmentation of production in specialized SMEs was observed, and large enterprises disappeared.

The highest growth rates in the Prato district were observed in 50's and 60's, lasting until the 80's: in these years the number of enterprises grew from 20,000 to 60,000. This was due to several factors that created virtuous growth cycles: a wide entrepreneurial attitude, the substantial lack of entry barriers and the need of large plant to recover flexibility. In fact, a productive system based on SMEs has the advantage of flexibility and fast production and response-to-market times. In the 90's, Prato has been widely cited by industrial and regional economists to explain how the traditional and labour intensive production could still be competitive in advanced economies (see as seminal work Becattini, 1987).

From the 80's, however, a new crises overwhelmed Prato: employment dropped by 25%, going from 60000 to 45000 units and enterprises decreased from a number of 16000 to 10000. The reason of this change was recognised in a radical change in patterns of consumption of textile and clothing products, due to a vast diffusion of comfort (mass motorisation and heating) in consumers' lifestyle and choices. The result was an average lightening of fabrics and the larger use of fiber other than wool. The carded wool, the successful production insofar- dropped dramatically excluding from the market several companies that were specialised in this product with a world leadership.

The answer to this shock by the district was relatively fast to appear, with a progressive repositioning of the production both towards new type of products (in term of material composition: cotton, linen, silk, artificial fibres, non-woven textile, and mixtures) and in higher value market segments or higher value added production phases.

During this shock smaller enterprises suffered more. Aggressive price competition lead to a strong selection process, and pushed some of them towards lower value added activities. This resulted in a change of the division of labor among district and external enterprises: firms in the district started buying unfinished goods from firms located in low labour cost areas. . The shift was then towards higher specialisation activities (i.e. finishing): in these fields the number of SMEs exceeded the number of "traditional" firms.

In parallel, this diversification induced also a requalification of the productive system. So that some enterprises acquired a role also in the design function. The increase of the span of its textile products opened them to new frontiers, in addition to traditional fashion marketplace.

In the last decade a new process of mergers, acquisitions and formal creation of business groups was observed, together with informal relationship based on trust and on sharing experiences, as the result of the new quality-oriented and customer care strategies.

## ***2.2 The Agreement on Textile and Clothing as a sectoral shock***

In this paragraph we briefly summarize the salient features of the Agreement on Textiles and Clothing (ATC), the trade agreements for the textile sector that, signed in 1995, constituted a crucial step towards free trade in the industry. Despite the gradualism of its application, from the point of view of Prato it produced a true shock, since it increased sharply international competition.

The agreement scheduled four phases: the first one lasted from January 1 1995 to December 31 1997, when all the countries were expected to integrate into the GATT products from the specific list in the Agreement which accounted for not less than 16 per cent of its total volume of imports in 1990 (integration means here that trade in these products became governed by the general rules of GATT). The second phase (1 January 1998 – 31 December 2001) expected every country to integrate products accounting for at least 17% of the imports in 1990. The third phase (1 January 2002 – 31 December 2004) expected the integration of products accounting for at least 18% of imports in 1990. Finally, all remaining products were integrated at the end of the transition period on 1 January 2005. At each of the first three stages, products were to be chosen from each of the following categories: tops and yarns, fabrics, made-up textile products, and clothing.

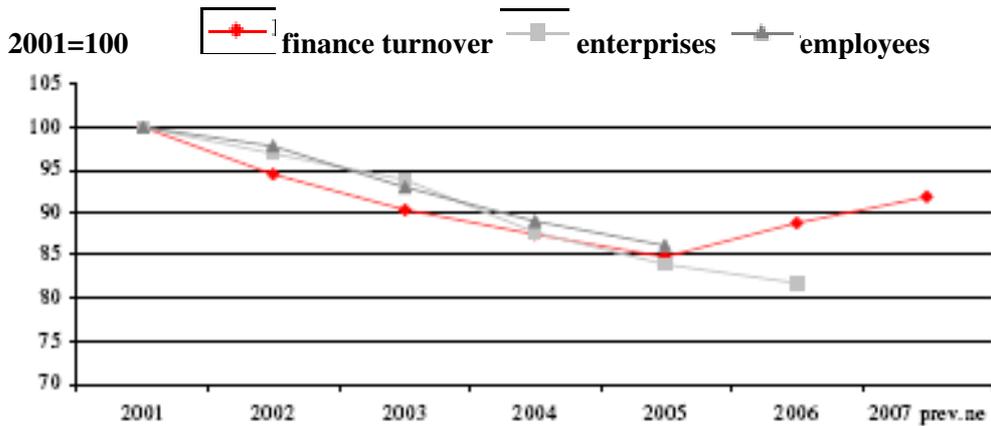
All the Multifibre Arrangement (MFA) in place on 31 December 1994 were carried over into the new agreement and maintained until the restrictions are removed or the products integrated into GATT. For products remaining under restraint, ATC laid down a formula for increasing the existing growth rates. During the first phase, and for each restriction previously under MFA bilateral agreements in force for 1994, annual growth were not less than 16 per cent higher than the growth rate established for the previous MFA restriction. For the second phase (1998 to 2001), annual growth rates were 25 per cent higher than the rates in the first phase. For the third phase (2002 to 2004 inclusive), annual growth rates were 27 per cent higher than those in the second phase.

### ***2.3 The evolution of textile and clothing in the ATC era***

*(The sector at the national level).* In the period 2001-2005, the Italian textile and clothing industry showed a constant reduction in turnover, due to a negative tendency both in the in domestic and foreign markets. SMI-ATI (which is the Federation of the Italian Textile, Clothing and Fashion industries) estimated in the period a 15% decrease in turnover and a 8,2% decrease in exports (at current prices). Also the number of firms and employees decreased (respectively -16% and -14%), while the importations maintained a positive trend of growth (+10%) (Table 8).

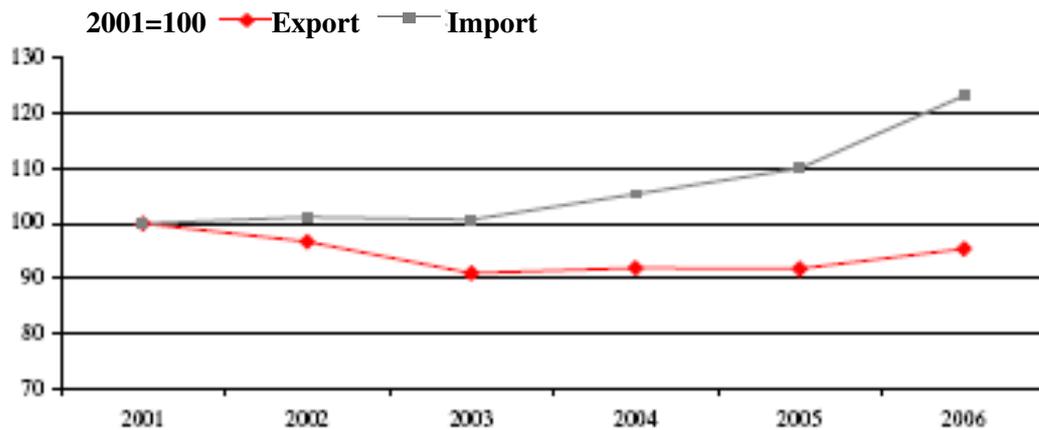
The state of textile industry, however, changed in 2006. In this year, the turnover started again to grow, thanks to internal consumption and exports, and this trend has been confirmed in 2007, even if at a lower pace. The recovery of the Italian textile industry during 2006 lead also to growth of imports related to delocalization. This has a negative effect on trade balance, whose positive value remains nevertheless very high (Table 9). Forecasts on the future evolution of the Italian textile industry appear to be positive, even if the effects on employment are not easily predictable: given firms delocalization strategies, as growth in turnover does not correspond anymore to a proportional increase of the production realized in Italy.

**Table 8 - Textile and clothing industry dynamics, 2001-2007.**



*Source: R &I s.r.l elaborations based on SMI-ATI and ISTAT data*

**Table 9 -Export and Import dynamics of the textile and clothing Italian industry, 2001-2006.**



*Source: R &I s.r.l elaborations based on SMI-ATI and ISTAT data*

*(The sector at the district level).* One of the main characteristic of the Prato industrial district is the form of organisation, based on a dense pattern of mostly micro and small enterprises, specialised in a specific phase of the productive process phase (spinning, waving, finishing, etc.). Fundamentals features are:

- 1) the channels of diffusion of information, either formal or informal;
- 2) the sense of trust among entrepreneurs that feed the independents bonds and reciprocal influence;
- 3) the equilibrium between collaboration and competition among local actors.

Within the Prato district ones can distinguish the following typologies of firms:

1. Final firms whose activity is mainly cantered in product design, creation of collections, costumer managemen, market watch, coordination of various

- production phases, among which some are often outsourced (spinning, waving, knitting, finishing, etc.);
2. Subcontracting firms, which focus on one highly specialised production phase.

Few final firms are the core engine of a network of outsourcing firms (about 90%), which are not in direct contact with the final market. Until the come into practice of ATC, the full value chain was kept inside the Prato district, and local SMEs acted in a collaboration and competition atmosphere that induced a good degree of innovation.

**Table 10 - Enterprises according to class of number of workers (end of 90's)**

N. of workers	End enterprises		Subcontractor		Total	
	Added value	%	Added value	%	v.a	%
Up to 3	283	32,7	3063	65,1	3346	60,0
4-9	194	22,4	889	18,9	1083	19,4
10-19	209	24,2	562	11,9	771	13,8
20-49	137	15,8	163	3,5	300	5,4
40-99	36	4,1	23	0,4	58	1,1
100<	7	0,8	9	0,2	16	0,3
<b>Total</b>	<b>866</b>	<b>100</b>	<b>4708</b>	<b>100</b>	<b>5574</b>	<b>100</b>

*Source: IRIS/ R&I*

An interesting feature is the substantial absence of large firms, which constituted a point of weakness in the global competition. In addition, most of the companies are concentrated in spinning and weaving, while about 270 out of 4700 are in the finishing phases, though producing half of the value added. The latter, due to the higher technological intensity, are generally of medium size. Furthermore, an analysis of the enterprise birth rate shows the decreasing number of individual and unlimited companies versus a general invariance of the limited ones (compensating over the years across sectors and through the transformation of unlimited forms to limited forms).

In the Prato district there is also a subset of firms working in the clothing industry that are either specialised in knitware or in prêt-a-porter, in both cases characterised by high creativity and research in design and yarn selection. In this perspective, Prato clothing productive system becomes a cognitive-production laboratory to continuously improve, select and experiment know-how, thanks to the integration among economics, society and tacit/codified knowledge.

Yet, the existence of a critical mass of production creates the condition of the existence of a specialised job market and dedicated network and service structures also supported by regional and local public policies. Exemples are Tecnotessile, a technical support centre, or the trade exhibition Prato Expo, that, however, was integrated with all other main Italian textile trade fairs and moved in 2005 to Milan, in order to keep the pace of the international competition.

In 2007 the Prato province registered about 28,000 active enterprises, among which 30% are in manufacturing. Their average number of employees is very low (4.8), as already explained. The vast majority of firms are in the textile and clothing sector (7395 against a total of 8338). Their distribution is now equally distributed among textile (3711) and clothing (3684).

**Table 11 – Enterprise structure according to main sectors in 2007**

	N. of enterprises	active	% of industrial enterprises	Export (M Euro)
<b>Manufacturing (including fashion sector)</b>	<b>8338</b>		<b>43%</b>	<b>2193</b>
<b>Construction</b>	<b>4650</b>		<b>24%</b>	<b>0,0</b>
<b>Commerce, services to private and companies</b>	<b>13710</b>			<b>0,5</b>
<b>Agriculture &amp; Fisheries</b>	<b>626</b>			<b>2,9</b>
<b>Other</b>	<b>969</b>			<b>2,4</b>
<b>Total</b>	<b>28293</b>		<b>67%</b>	<b>2198</b>

*Source:* Elaboration of data by Bureau Van Dijk ISTAT, SMI, Unionocamere Tagliacarte e UPI, 2008

**Table 12 – Overview of the textile and clothing industry in Prato in 2007**

	Textile	Clothing (incl. Knitware)	Prato District	Industrial
<b>Enterprise</b>	<b>3711</b>	<b>3684</b>	<b>7395</b>	
<i>Of which industrial (%)</i>	<i>39,5%</i>	<i>49,5%</i>	<i>44,5%</i>	
<b>Employees<sup>°</sup></b>	<b>26650</b>	<b>13930</b>	<b>40580</b>	
<i>Of which in industrial enterprises (% in 2006)</i>	<i>73%</i>	<i>43%</i>	<i>66%</i>	
<b>Turn over (M Euro)</b>	<b>3661</b>	<b>1192,4</b>	<b>4853</b>	
<b>Export (M Euro)</b>	<b>1894</b>	<b>523</b>	<b>2417</b>	
<i>% export over Turn over</i>	<i>52%</i>	<i>44%</i>	<i>50%</i>	

<sup>°</sup> estimate

*Source:* Elaboration of data by Bureau Van Dijk ISTAT, SMI, Unionocamere Tagliacarte e UPI, 2008

**Table 13- Estimate of the turnover in the Prato district**

	(M Euro)			Differentials %	
	2005	2006	2007 *	2006/2005	2007/2006
1.Yarn	662.0	680.0	663.0	+2.7%	-2.5%
2. Orthogonal Fabric	2180.0	2205.0	2127.8	+1.1%	-3.5%
3. Knitted fabric	350.0	395.0	379.2	+12.9%	-4.0%
4. Other textile	415.0	425.0	442.0	+2.4	+4.0%
5_Textile Industries (1+2+3+4)	3607.0	3705.0	3612.0	+2.7%	-2.5%
6.Knitware	350.0	320.0	339.2	-8.6%	+6%
7.Clothing	700.0	790.0	853.0	+12.9%	+8.0%
8.Pret-a-Porter	50.0	50.0	48.5	+0.0%	-3.0%
9_Textile & Clothing (5+6+7+8)	4707.0	4865.0	4852.9	+3.4%	-0.2%

\* forecast

Source: Elaboration of data by Bureau Van Dijk ISTAT, SMI, Unionocamere Tagliacarte e UPI, 2008

**Table 14 - Estimate of the export in the Prato district**

	M Euro			Differentials %	
	2005	2006	2007 *	2006/2005	
1.Yarn	291.8	289.5	277.8	-0.8%	-4.1%
2. Orthogonal Fabric	1342.9	1267.2	1205.2	-5.6%	-4.9%
3. Knitted fabric	176.2	196.3	186.3	+11.4%	-5.1%
4. Other textile	199.4	190.0	208.7	-4.7%	+9.8%
5_Textile Industries (1+2+3+4)	2010.3	1943.1	1878.1	-3.3%	-3.3%
6.Knitware	210.8	195.6	210.9	-7.2%	+7.8%
7.Clothing	264.1	291.8	311.9	+10.5%	+6.9%
8.Pret-a-Porter	15.4	16.7	16.0	+8.3%	-3.9%
9_Textile & Clothing (5+6+7+8)	2500.6	2447.2	2416.9	-2.1%	-1.2%

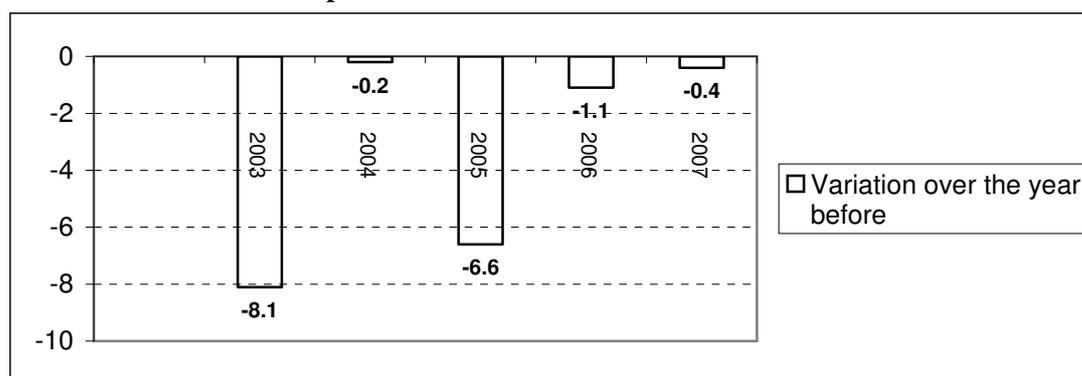
\* forecast

Source: Elaboration of data by Bureau Van Dijk ISTAT, SMI, Unionocamere Tagliacarte e UPI, 2008

Turnover over the last three years shows a certain degree of stability, while export significantly risen in clothing and knitwear as well as in the class “other textile”. This shows that Prato is moving along the value chain towards higher technological production and consumer market, commerce and higher value added activities.

Exports of the Prato district are significant and generally directed towards European or developed countries. However, according to the data of the Ministry of International Commerce (2007), the overall value of the exports of goods in the Province of Prato is decreasing since 2002, with two main shocks in 2003 and 2005.

**Table 15 – Variation of export value in the Province of Prato**



*Source: Ministry of International Commerce (2007)*

### 2.3 Employment and labour market in Prato

(Demography) Prato is the highest populated Italian industrial district; since years, however, its growth is due to a high rate of immigration. This created, in such a small area, one of the most multicultural areas in Italy, with the largest Chinese community in Italy (the Chinese account for 40% of the foreigners). This has to be mentioned, in order to point out one of the latest evolution of the district, i.e. the creation of a sub-district (a district nested in the district), quite well integrated with the Italian companies and composed by Chinese workers and owners. The following table summarises the main demographic information.

**Table 16– Population in the Province of Prato (2002)**

<b>Residents</b>	<b>234919</b>
<b>- foreign</b>	<b>14139</b>
<b>- chinese</b>	<b>5769</b>
<b>Foreign over residents (%)</b>	<b>6,0</b>
<b>Class of age</b>	
<b>0-14</b>	<b>12,8</b>
<b>15-24</b>	<b>10,5</b>
<b>25-34</b>	<b>16,1</b>
<b>35-44</b>	<b>15,8</b>
<b>45-54</b>	<b>14,0</b>
<b>55-64</b>	<b>12,3</b>
<b>65&lt;</b>	<b>18,5</b>
<b>Total</b>	<b>100,0</b>

*Source: ASEL elaboration on data of the Ufficio Statistica of the Municipality of Prato*

(Employment) As indicated in Table 12, in 2007, district employees in the textile and clothing sector were 40.580 i.e 66% of the total workers in the industrial enterprises. Despite a significant reduction, the textile and clothing plays still an extremely relevant role in the area. In particular, analysing the data provided by the Industrial Association branch of Prato, it emerges that 33% of the employees in the textile sector operates in micro enterprises (<10 employees), 48% in firms between 10 and 50 employees, while larger firms account only the

15% of the workers. The effect the "tertiarisation" that is currently ongoing in Prato can be found in the input and output fluxes in enterprises at Province level (INAIL, 2002): the textile industry lost about 700 jobs only in 2002, compensated by an increase in other sectors (real estate, tourism and Ho.Re.Ca, commercial activities).

#### **4. Industrial policies at the regional level**

In this section we describe recent industrial policies (broadly intended) at the regional and at the local (i.e. district) level. These policies have an impact on social welfare in two ways: through their direct effect on the vulnerable sector and through their effect on other sectors competitiveness, and then their ability of absorbing the job losses in textile and clothing.

*(Italian Overview)* In recent years, an important institutional change in Italy was given by the so-called "federalist reforms", with the (partial) transfer of industrial policies to the administrative regions. The first changes are associated to the so-called "Bassanini decrees" in 1997 and 1998; a change in Part Five of the Italian Constitution followed, assigning exclusive or shared areas of intervention, and the corresponding resources, to the regional administrations. The national level still manages the main laws for supporting internationalization, scientific research and technological innovation (with few exceptions), depressed areas and women entrepreneurs, while the regional level managed, among the others, all the laws concerning small and medium-sized firms. At the same time, the 112/98 national law assigned to local governments and Chambers of Commerce a number of other administrative functions, among which are of considerable importance those attributed to communes and related to the creation, enlargement and closing of production plants.

Furthermore, in the latest year the state/regional public aid system has been strongly regulated by the EU, therefore financial incentives policies have been redirected or reduced.

*(The regional industrial strategy)* Tuscany has been very active in structuring its policy supporting regional factor of development as well as infrastructure and education. The model of competitiveness evolved in the last decades from a focus on labour cost (60's and 70's), to efficiency, flexibility and fast productive process (80s), to product competitiveness (the keyword in the 90's was "quality") and, finally, in the 2000s to innovation and internationalisation. Already in the 90's we find some very interesting and successful policy examples in the Prato district. One of the most widely known was the experience of the "export consortia". In addition, subsidies were given to SMEs that organizes and shared common services for export. Similar policies to support the district, also using the ESF funds, pushed in the 90's the creation of subsidised specialised education. In the late 80's and 90's projects supported by the public system sustained more ICT integration. Example of projects were SPRINT, a platform for information exchange between contractor and subcontracts; PRATEL, a prototype of a tele-market place for subcontractors; VIATEL, a platform to acquire logistic services and technological innovation (leading for instance to investment on applied research in textile machinery carried out by Tecnotessile).

Since 2007 a new wave of policy planning has been implemented, following the unified planning strategy adopted by the state in accordance with European Structural Funds Programme (2007-2013). The policy scheme at regional level is based on the *Piano regionale dello sviluppo economico* (PRSE – Regional Economic Development Plan), now active in years 2007-2010. The PRSE programmes and carry out (based on the Regional Law n. 35/2000) economic development policies, including tourism and services, and it is strongly influenced by the EU addresses resulting from the Lisbon and Goteborg Processes. The main strategic lines are:

- The regional space of research and innovation

- Internationalisation, cooperation, promotion and territorial marketing
- Integrated regional district
- Innovation and sustainability of the tourist supply and local trade.

In particular the most important strategies included in the Plan are related to:

- mobility and logistic, in order to create a platform to integrate the maritime transport with the other transport networks, also as a step towards Transeuropean networks;
- the quality of the urban area, valuing identity factors as architecture and landscape, but services for the citizens as well;
- applied research and innovation reinforcing the relationship among universities and industry, including tourism and distribution;
- ecological networks and green corridors in order to reinforce the environmental protection and its tourism value, especially in the Apennine area.

Plans and Programmes in Tuscany are generally the result of a shared exercise done with the stakeholders and they are financially supported by national, regional and EU Structural funds, as it is the case of the Regional Operative Programme “POR – Regional Competitiveness and employment” that integrates with the axes of the PRSE and the other regional programmes (PIR; PRS).

In term of industrial policies, regional strategies focus on reorganising and improve the quality of the manufacturing system, with particular attention to the value chains, fostering cooperation among firms to reach better economies of scale and innovation at the technological, organisational and commercial level.

Actions includes favouring mergers and acquisition processes and the creation of enterprises networks (including cooperatives), supporting precompetitive research and other technological change processes, improving the capacity to find new markets through the support of promotional and internationalisation, both with financial aids and reinforcing the public-private intermediary structures linking research to business.

Actions aim also at supporting certifications to improve the adoption of more energy saving and environmentally sound manufacturing processes, as well as social responsibility activities.

Finally, particular attention is given to the banking and financial system; actions are done to reinforce the guarantee funds (“consorzi fidi”) to improve access to financial support of SMEs. Basilea 2 agreements and the fundamental changes in the banking system in Italy, in fact, makes crucial the capacity of SMEs to find investment capital in the market.

*(The local scale)* The Prato district has always been a laboratory of entrepreneurial experiences and of local development policy, both because of the highly capacity of system actors to collaborate and compete and because of its archetype role in the industrial district theoretical approach.

In the current difficult phase of the local productive system, business associations, trade unions, research centre, local administration, bank foundations, are reacting and collaborating to reposition strategically and contrast the effect of the loss of production and employment in the manufacturing sector, especially in the textile and clothing.

This lively system has also been very active at national and European level to request a period of mercy or some protective action to smooth the effect of the textile and clothing liberalisation after the end of the Multi-Fibre Agreement.

Locally promoted activities are mostly focused in the acceleration of the diffusion of ICT and of the collaboration actions among enterprises to consolidate the local productive structure and increase the enterprise dimension.

In particular the Prato business association promoted an internet marketplace B2B to exchange information on commodities and yarns. It also promoted PRATOFUTURA, a think tank for local development, composed of entrepreneurs, academics and other stakeholders.

The local authorities also promoted the creation of a new research centre, as a physical space to cluster research, technology transfer and advanced education organisation. Business Associations of SMEs (CNA and Confartigianato), Larger Company Business Association (Unione Industriale) and the Chamber of Commerce, have also organised internal services to support their associates in internationalisation activities, quality and commercial promotion as well as promoting processes of merging and networking in order to create more competitive cluster of enterprises.

Against the loss of marginal enterprises, the main entrepreneurship diversification strategies observed were three:

- 1) Production shift to higher level production (i.e finishing or technological textiles) and integrate import of basic yarns or fabrics from lower cost countries (Asia, North Africa or East Europe)
- 2) Exploitation of niches through strong product innovation strategies (especially in design and collections)
- 3) Move along the value chain, leaving the production and focus only on trade and services
- 4) Vertical integration and increase in size.

The reallocation of labour and capital in different industries (real estate, tourism and commerce mainly) smoothed the social cost of this shock. However, it has to be noted that in these years of crisis several SME entrepreneurs invested in real estate or did not invested at all (this results on the study of bank accounts). On the contrary, medium size companies made significant investment either in innovation, commercial brands or in international trade are highly competitive.

Interestingly, some activities (and labour) shifted from production to manufacturing of machinery and lately, due to the demand of international technology transfer, to the transfer of know-how to developing countries (India, China, Turkey, Morocco, etc.). This created an internal debate, but from a scientific point of view this phenomenon show that Prato reached the third level of development for a district, softening (i.e. immaterialising) its specialised production.

Delocalisation as well has been pursued by some companies, but less than in other area. This is probably due to the social connections to the territory that characterise Prato's people.

## **5. Conclusions**

The district of Prato surely deserves the name of "vulnerable region", since its specialization in a traditional sector like textile makes particular the threat from foreign competition particularly strong. The district, however, seems to have partially absorbed this shock, repositioning its production and changing business strategies.

In that respect, two factors appear fundamental. The first one is flexibility and relative quick capacity to react to exogenous shocks. Prato in the years has always been able to find "a new way" repositioning its product activities. This process preserved competitiveness lead however to a significant selection of enterprises, to a reduction of employment in the sector, with its unavoidable social costs.

The second factor is collaboration capacity among institutions at local level, resulting in effective public-private partnerships (despite this overall positive process in the result quite strong contrapositional discussions).and a positive role for business associations, rooting back to the power of the guilds.

A question is still open: will Prato remain an industrial district? What is or will be the main characteristics of Prato in the future? The city of Rugs, like it was named in the past, now still

miss such a clear identity. Would the tertiarisation process dilute the agglomeration economics and disperse the district? It seems too early to evaluate this now, despite it seems that the district still exists and it is finding again “a new way” or, better, “new ways” to operate.

For sure, some critical points are still to be solved: the issue of the impact of banking sector evolution; the capacity to absorb quickly the results of research and innovation and fully exploit ICT; the incorporation of a knowledge economy approach; the adoption of stronger marketing strategies (i.e. branding) and strategic managerial skills to integrate and up-grade “family management”; the issue of succession in the lead of the SMEs.

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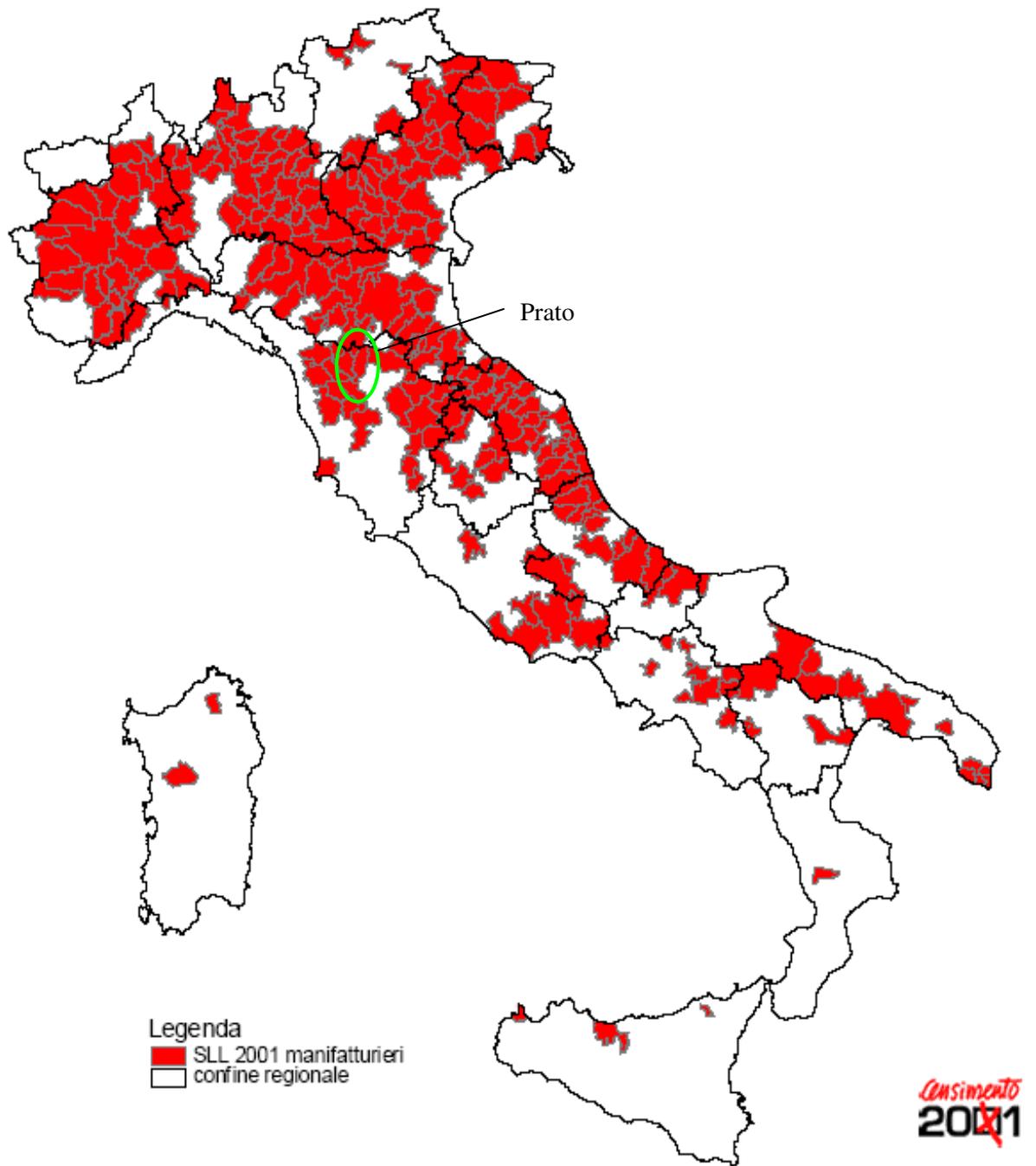
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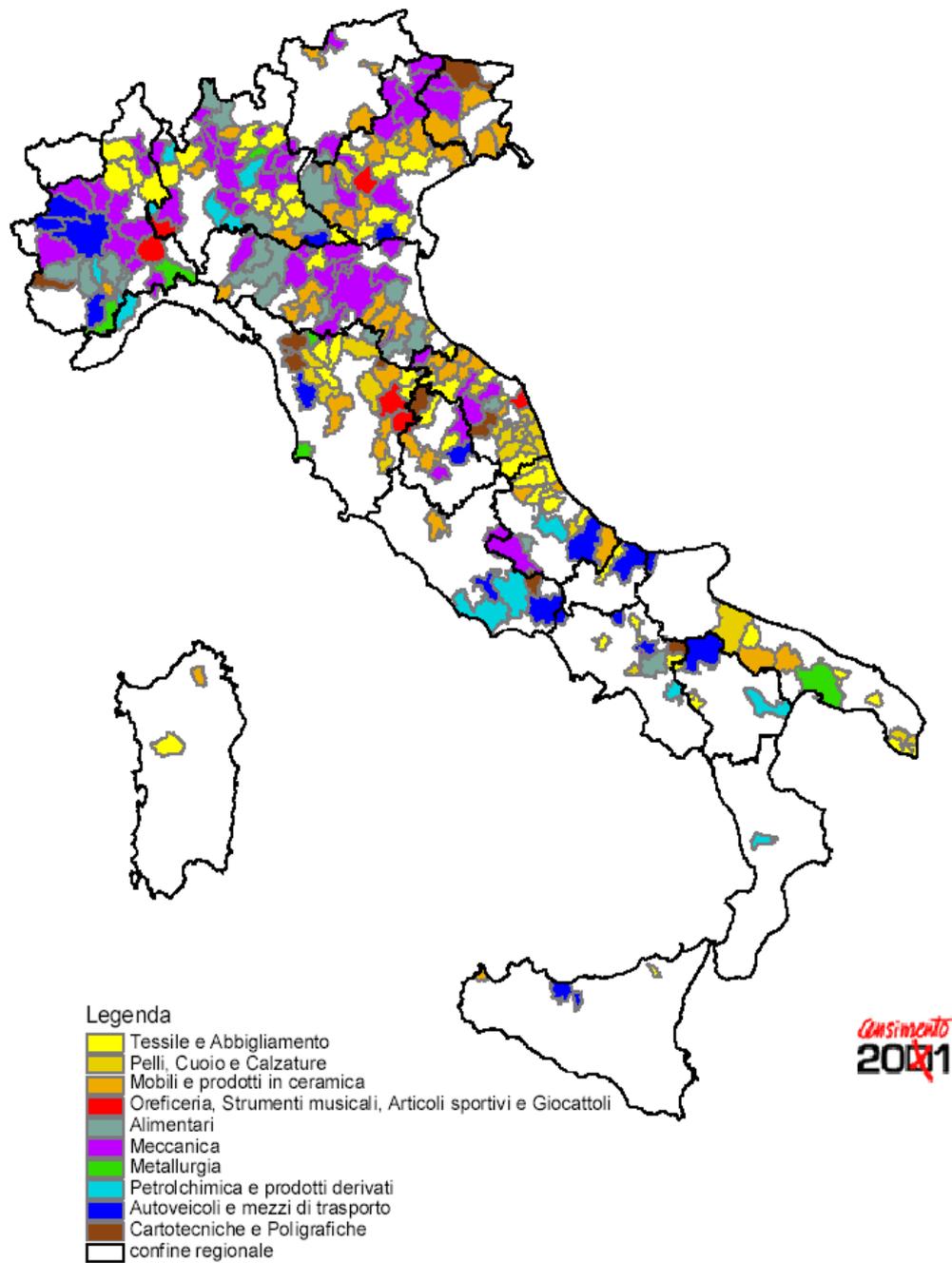
Appendix

Figure 1: Local employment areas specialized in manufactory



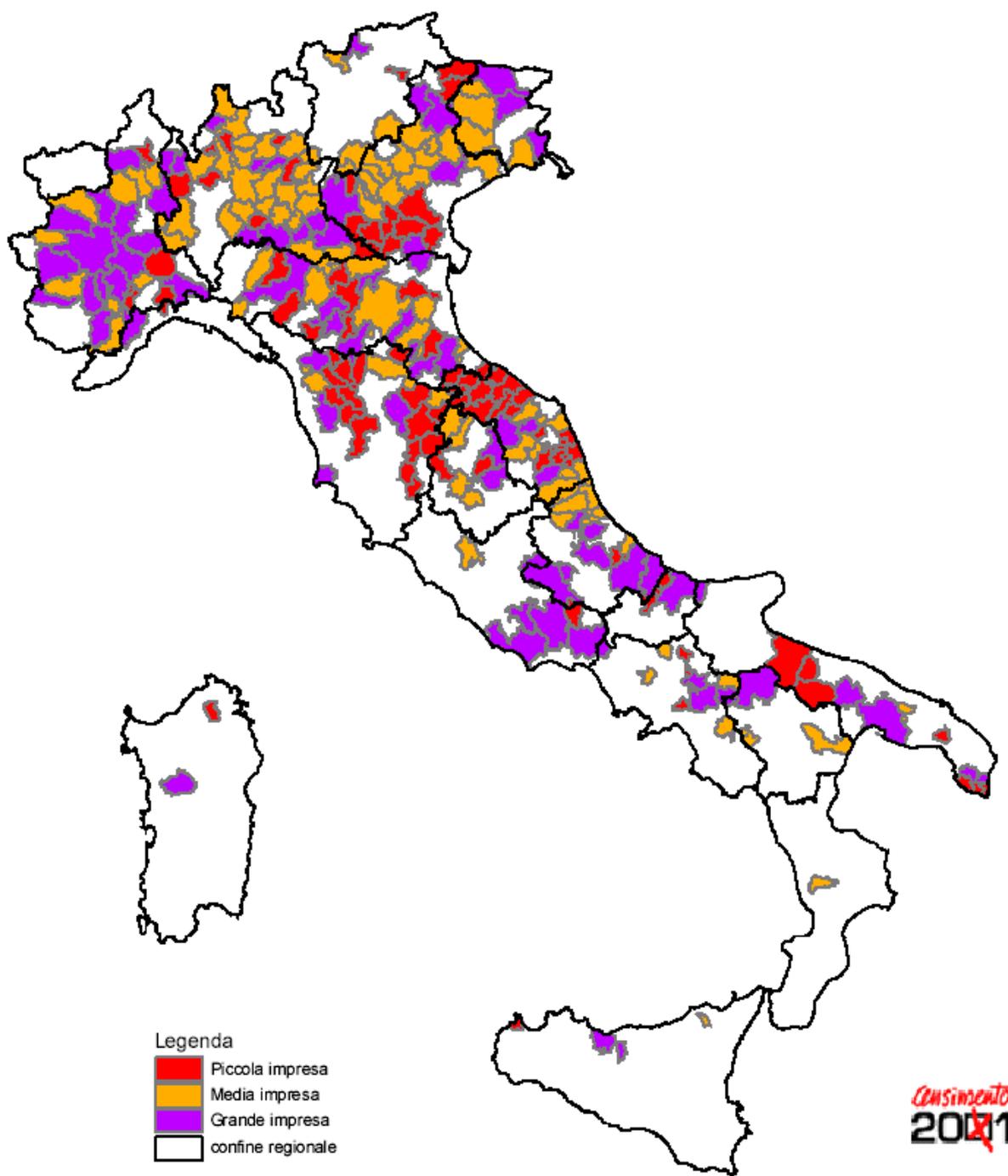
Source: ISTAT

Figure 2: Local employment areas specialisation sectors



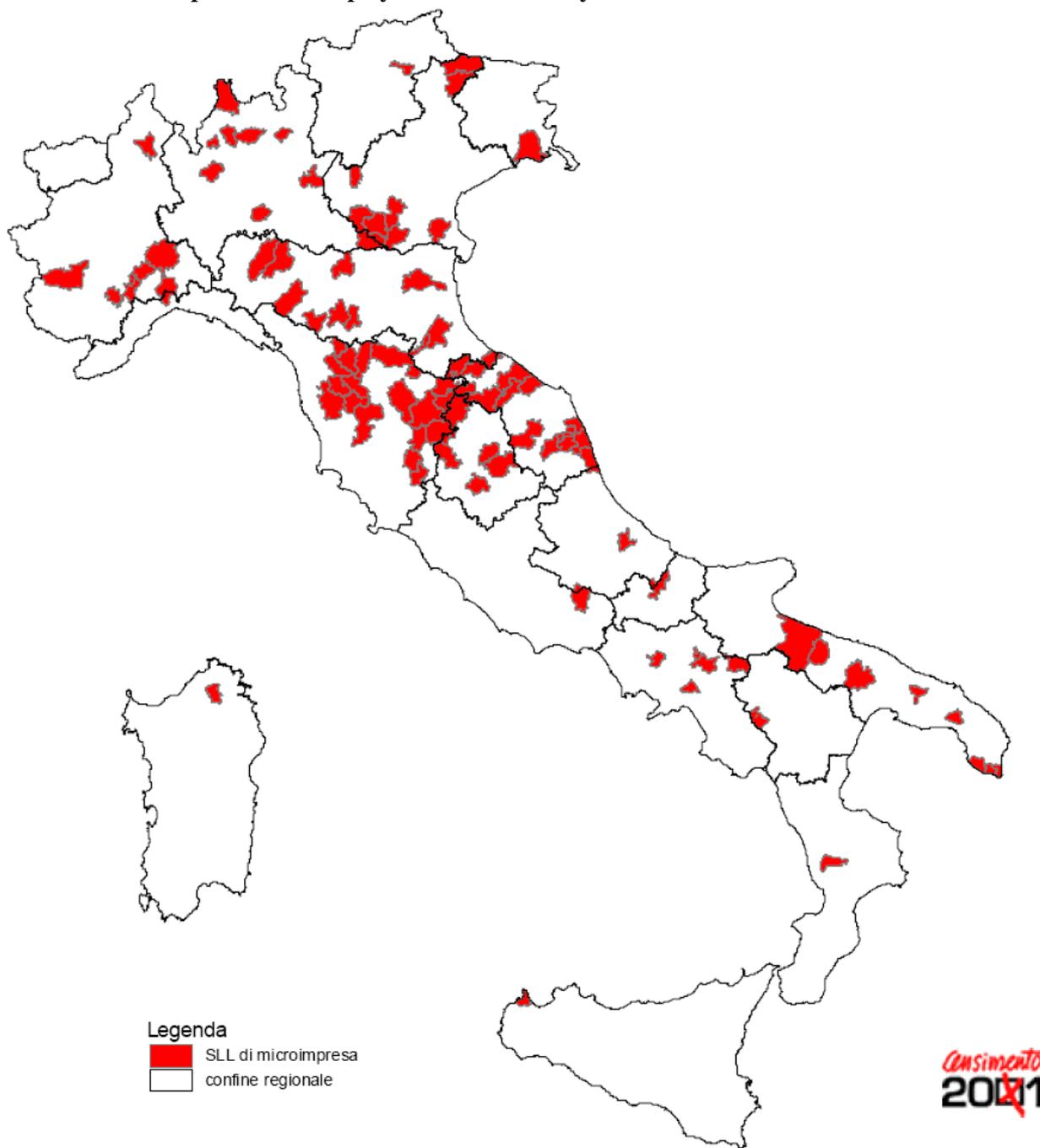
Source: ISTAT

Figure 3: Enterprises dimension in local employment areas



Source: ISTAT

**Figure 4: Microenterprises local employment areas in Italy**



*Source: ISTAT*