

43rd European Congress of the Regional Science Association
University of Jyväskylä
Jyväskylä, Finland
27th-30th August 2003

**The effects of globalisation on industrial districts in Italy:
Evidence from the footwear sector.**

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Abstract

This paper is concerned with the effects of globalisation of production on the footwear sector in Italy. The aim is to investigate the position of footwear districts as actors in international fragmentation of production. The following questions will be tackled: which is the pattern of specialisation of footwear districts in Italy? Is there any common trend towards a reduction of activities carried out within the district? Or, instead, are different patterns emerging for districts according to their segment of the market and according to the value chains they belong to?

The paper will explore these issues by analysing the pattern of fragmentation of production in the footwear sector at a *provincia* level, using data on outward processing trade (OPT) collected by Associazione Nazionale Calzaturieri Italiani (ANCI). Furthermore, the study will explore two selected cases based on previous findings of field work by interviewing shoe manufacturing enterprises as well as fashion firms, retailers and other key informants.

We find evidence of differences in international delocalisation strategies of selected footwear districts and argue that these different patterns of specialisation are closely related with clusters' market position and linkages with the fashion industry. We suggest that the diverse patterns of specialisation condition the potential for industrial upgrading.

1. Introduction.

One of the most pervasive and disruptive effects of globalisation is international fragmentation of production processes, i.e. the splitting of production processes over production sites located in different countries as a cost-reducing strategy with respect to an integrated technology (where all production segments take place within the same location). Fragmentation allows producers to take advantage of differences in factor prices among countries, thereby obtaining a reduction in costs by setting up an international production network (Jones and Kierzkowski, 2000).

Many Italian industrial districts are deeply interested by this phenomenon, mainly those in traditional manufacturing sectors (such as textiles, clothing, apparel, furniture, leather and leather goods) where firms in industrialised countries have been facing increasing competitive pressures from low labour-cost producers in emerging economies. This paper will be focussed on footwear industrial districts. In the Italian footwear sector the increasing globalisation of production is imposing major changes on the organisation of production:

- on the one hand, evidence at a national level shows that increasing international competition is spurring a massive fragmentation of production processes through delocalisation of low value-added activities abroad (mainly towards Eastern European countries) (ANCI, 2001, 2003);
- on the other hand, evidence from a previous study on one of the most important footwear clusters – Riviera del Brenta – suggests that the overwhelming presence of fashion firms and increasing concentration in distribution is limiting producers' control on some crucial activities, i.e. design, branding, marketing and distribution (Rabellotti, 2001).

Overall, these trends are reducing the range of activities carried out within the districts. Consequently, as firms in industrial districts enter international production networks, they are altering their traditional sources of competitiveness, which has traditionally come from intra-cluster relationships.

This paper is concerned with the effect of globalisation of production on the footwear sector in Italy. The aim is to investigate the emerging role of footwear districts within international production networks. The following questions will be tackled: which is the pattern of specialisation of footwear districts in Italy? Is there any common

trend towards a reduction of activities carried out within the districts? Or, instead, are different patterns emerging for districts according to their segment of the market and according to the value chains (top brand, low brand, mass market) they belong to?

The paper will explore these issues by analysing the pattern of fragmentation of production in the footwear sector at a “*provincia*” level, using data on outward processing trade (OPT) collected by Associazione Nazionale Calzaturieri Italiani (ANCI). This will allow to understand differences in delocalisation strategies and to answer the question of whether different trends are emerging at a local level.

The paper will then explore two cases based on new and previous evidence (Riviera del Brenta in Veneto, and Barletta in Puglia) in order to understand the differences in delocalisation strategies followed by districts in different segments of the market and how such differences are related to local linkages with emerging big fashion firms in the luxury segment of the market.

The paper is organised as follows. Section 2 describes data and methodology and analyses the delocalisation strategies of different footwear districts in Italy. Section 3 discusses and compares two case studies – Riviera del Brenta in Veneto and Barletta in Puglia – which represent two opposite models of production as regards both their delocalisation strategies and the value chain they belong to. Section 4 concludes with some remarks on policy implications for industrial upgrading in the Italian footwear sector.

2. Fragmentation of production in the Italian footwear sector.

The footwear sector is one of the traditional manufacturing sectors in which Italy has a strong comparative advantage at the national level. Footwear production is highly concentrated in some regions where local industrial structures consolidated over time. The major footwear districts in Italy are located in Marche (Fermano-Maceratese), Toscana (Firenze-Prato), Veneto (Riviera del Brenta, Verona, Treviso), Puglia (Barletta, Salento).

In the last couple of decades the footwear sector – like other traditional labour-intensive sectors – has been undergoing major changes, as emerging economies have been gradually displacing industrialised countries as suppliers of labour-intensive goods. As a consequence, industrial countries are slowly but definitely losing their

comparative advantage in the production of such goods. In Italy, increasing competitive pressures from emerging low labour cost countries forced the footwear sector to diversify its production by supplying high quality goods (vertical product differentiation) which do not compete directly with low quality goods from emerging economies.¹ Such a strategy has led the country to widen the quality gap between her exports and other industrialised countries' exports in the same traditional sectors over time (Chiarlone, 2001).

In the last few years, the need to counter competitive pressures from low labour-cost producers also induced increasing outsourcing of low-value added activities on the part of several footwear firms in Italy. By so doing, footwear firms have established joint-ventures and other non-equity linkages with foreign firms, and have therefore become parts of international production systems. As a consequence, footwear production has become increasingly fragmented across different countries.

Fragmentation of production is only one of the different ways in which international delocalisation of production can take place. When all segments of a production process are delocalised, FDI and international subcontracting are the more convenient ways to delocalise². When instead firms find it technically and/or economically convenient to delocalise only some segments of a production process (pre-assembling/intermediate or assembling/final phases), this gives rise to fragmentation of production across countries, i.e. to outward processing (OP).³ This paper is focussed on the latter form of international delocalisation of production, i.e. on international outsourcing operations.⁴

This paper will explore the international fragmentation of production in the Italian footwear sector by focussing on the local – instead of national – level in order to see how this competitive strategy has been actually pursued by different shoe clusters, i.e. which pattern of delocalisation of production has been followed by different footwear districts. As outsourcing activities give rise to an increasing amount of trade flows

¹ Vertical product differentiation as a competitive strategy was originally modeled by Flam and Helpman (1987).

² For instance, this is what happens in the textile industry, which is characterised by high levels of production automation in most segments of the production process (Baldone et al, 2002).

³ In the clothing industry, pre-assembling have become entirely capital-intensive due to growing automation, whereas assembling phases are relatively labour-intensive, so that firms may find it both technically and economically convenient to delocalise the assembling segments of the production process only.

⁴ The other form of international delocalisation (FDI and international subcontracting involving all the segments of a production process) is also a cost-reducing strategy for Italian firms in traditional sectors (mainly clothing and textiles), but this does not seem to be case for the footwear sector.

which are registered as temporary exports or imports (outward processing trade, OPT), we analyse international delocalisation with data on OPT at the provincia level.

This section will focus on selected shoe clusters which resorted most of all to international outsourcing as a way to reduce production costs. These clusters are concentrated in Veneto (Riviera del Brenta, Verona, Treviso), Puglia (Barletta, Salento) and Marche (Fermano-Maceratese). Taken together, these regions account for the vast majority (almost 90%) of all international outsourcing activities carried out by the Italian footwear industry (respectively, 58.7% in Veneto, 23.2% in Puglia and 5.0% in Marche in 2002) (ANCI, 2003).

2.1 Overview on OPT data.

Data on flows of outward processing trade (OPT) for the Italian footwear sector have been collected since 1996 by ANCI (Associazione Nazionale Calzaturifici Italiani). Until the first half of 2001, the Italian Ministry of Foreign Trade (MINCOMES) was in charge of collecting applications for OPT operations by Italian firms. Since July 1st 2001, the Customs Agency (Agenzia delle Dogane) has been in charge of reporting on actual temporary trade flows under the special OPT regime. This switch has implied several changes in the available data as well as in the comparability of old with new data. The major positive change refer to the nature of the available data: the ‘old’ regime provided data on the amounts for which firms applied for OPT operations, whereas in the ‘new’ regime actual amounts are registered. The data collected in the old regime were the number of imported uppers and shoes, the value of exported production for processing, and the value of processing outsourced abroad; the data collected since July 1st 2001 are much more detailed as they include both export and import flows of both shoes and components (number of pairs, number of operations and total value). All the old and new data are available at the regional level and at the “*provincia*” level and provide information on bilateral flows to each partner country. Although this switch represents a major improvement as for data availability and reliability, the two data sets are not comparable. As a consequence, the following analysis will provide an overview of the major trends during the last half of the 1990s (based on the old data) and then discuss the new available evidence in greater detail.

2.2 An empirical analysis on selected Italian footwear districts

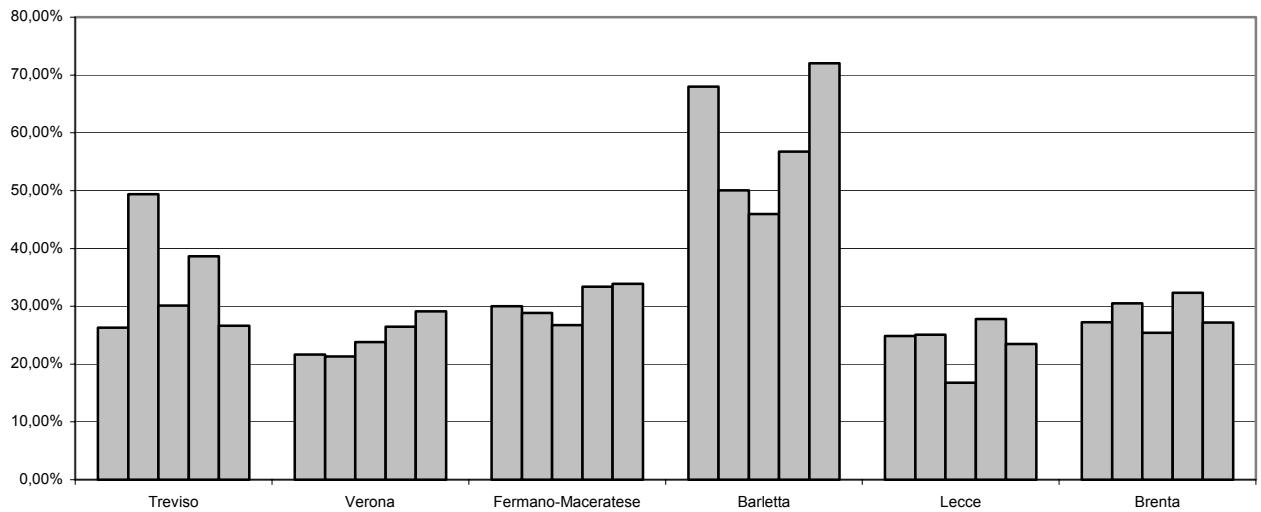
This section analyses the degree of international delocalisation (ID) of production of some main footwear districts in Italy. As explained in the previous section, our selected districts are the following: Riviera del Brenta, Verona and Treviso in Veneto; Fermano-Maceratese in Marche; Barletta and Lecce in Puglia. We compare different districts according to several indicators:

- the degree of ID, which we define as the percentage of outsourced production with respect to production carried out domestically;
- the pattern of ID, which we define as the segment of the production process outsourced by Italian firms to foreign subcontractors;
- the quality of outsourced goods with respect to the ones produced domestically, measured with a traditional quality index;
- the relationships between ID and export performance.

Degree of ID

The degree of ID is measured by the percentage of outward processing on the total value of goods exported for processing (Figure 1). A comparison among our selected districts shows that Barletta registered the highest percentage of production outsourced on the total value of production exported for processing during all the second half of the 1990s. As a result, Barletta outsourced more than 70% of its production abroad in 2000. Within the district, firms located in Foggia clearly delocalised a much higher percentage of production than those in Bari (over 100% and 70% respectively) (ANCI, 2001). The other districts show much lower percentages of outsourced production: all of them but Fermano-Maceratese outsourced less than 30% of production on the value of goods exported for processing in 2000. There does not seem to be any clear-cut trend towards an increase or decrease of the value of outsourced processing with respect to domestic production, except for the Verona district, which shows a light but steady increase during the second half of the 1990s.

**Figure 1 Value of required processing in third countries
(% on value of goods exported for processing), 1996-2000**



Source: elaborated on OPT data from ANCI (2001)

Pattern of ID

As regards the segments of production outsourced abroad, from the available data it is possible to distinguish between two types of delocalisation: delocalisation of pre-assembling or intermediate processing (measured by the relevance of OPT in parts), and delocalisation of assembling or final processing (measured by the relevance of OPT in finished goods, i.e. pairs of shoes). As regards intermediate processing, from 1996 until 2000 (when data on OPT in pairs of uppers are available), only 16 province out of 43 practised OPT continuously. Among these, Lecce ranked first (more than 115 million pairs of uppers), followed by Bari and Verona (80 million upper pairs each). Together, these three province accounted for over 53% of total OPT in uppers (ANCI, 2001). As regards final processing, only 10 province practised OPT continuously. Among these, firms in Marche and Veneto ranked among the first, whereas firms in Puglia had no significant levels of final processing outsourced abroad during the second half of the 1990s (ANCI, 2001).

We now compare the information above with new evidence for 2001, although differences in the unit of measurement of OPT in intermediate goods between 1996-

2000 and 2001 only allows qualitative comparisons.⁵ The data for 2001 confirm that Italian footwear clusters are following diverse delocalisation strategies, although some changes are occurring. Among the selected Italian footwear districts, the following trends emerge (Table 1):

Table 1 OPT flows by selected Italian footwear districts (2001, 2nd qr)

	Mi		Mf		Xi		Xf		NXi	NXf
	kgs	€/kg	pairs	€/pair	kgs	€/kg	pairs	€/pair	kgs	pairs
Barletta	2339567	6,64	24662	10,61	2076856	4,89	-	-	-262711	-
Lecce	1125462	21,52	714298	12,13	634917	6,57	-	-	-490545	-
Brenta	509158	24,00	464726	13,39	521697	12,98	1060	32,28	12539	-463666
Treviso	78818	30,07	686949	9,82	915161	9,17	6731	16,52	836343	-680218
Verona	703255	26,01	4403718	13,62	3694282	5,55	1400	14,01	2991027	-4402318
Fermano-Mac	425050	10,53	447803	15,33	366254	7,26	-	-	-58796	-

Legenda M: Imports; X: Exports; NX: Net Exports; i: intermediate goods; f: finished goods.

Source: elaborated on OPT data from ANCI (2003)

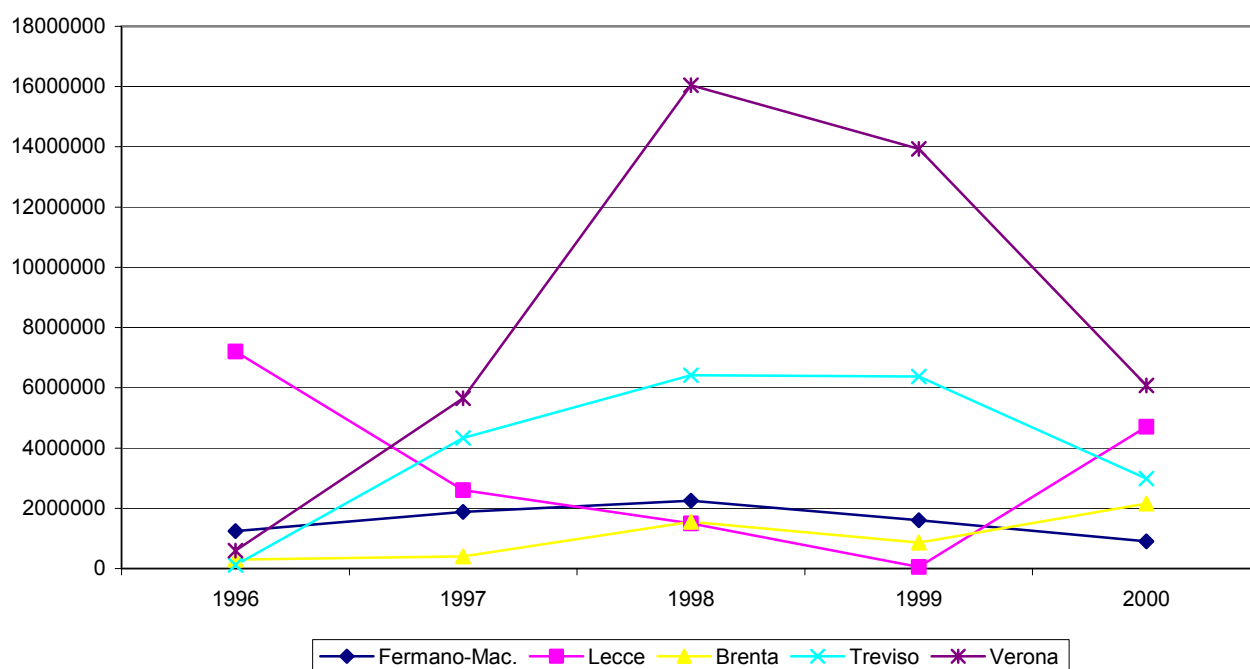
- In **Puglia**, Barletta and Lecce delocalised intermediate segments of production much more than the other districts. Moreover, they are strong net importer of parts, in contrast with all the other districts. **Barletta** ranked first by outsourcing of intermediate processing in 2001 (more than 2,300 thousand kilos of parts required), but the unit value of imported items by Barletta is the lowest in our sample (6.64 €/kg), which suggests that this district has been following a strategy of massive delocalisation of low quality intermediate goods. Accordingly, net exports of parts are negative, which confirms that intermediate segments of production are being displaced from domestic to foreign producers. On the contrary, outsourcing of finished goods is much lower with respect to the other districts considered. Barletta has started delocalising final processing only since 2001, although the volume of finished goods required are still modest (less than 25 thousand pairs). **Lecce** ranked

⁵ In 1996-2000 OPT in intermediate goods was measured as the number of pairs of uppers required by domestic firms from abroad, whereas the new data include trade flows (imports and exports) of parts (both in kgs and in total value). There has been no change in the measurement of OPT in final goods: the unit of measurement is always the number of pairs of shoes required from foreign subcontractors. Moreover, the new data also provide information on the total value of finished goods required from abroad. Finally, all the new data also provide information on OPT flows in both directions (imports and exports), whereas the old data only included imports. This allows for much more detailed analysis on the pattern of delocalisation, as we will suggest in the following of this section.

second as regards the volume of parts outsourced abroad in 2001. However, the quality of imported parts is much higher than in Barletta (21.52 €/kg). As in the case of Barletta, Lecce is also a net importer of intermediate goods. As regards finished goods, Lecce has strongly increased outsourcing of final processing since 1999 (over 700 thousand pairs of shoes outsourced).

- In **Veneto**, the footwear districts considered delocalised much less volume of parts but more finished goods than the ones in Puglia. As a result, these districts are all net exporters of parts and net importers of finished goods. **Verona** – which already delocalised a great volume of intermediate production abroad in the second part of the 1990s – in 2001 still delocalised a relevant volume of production of parts abroad (more than 700 thousand kilos), with a relatively high unit value with respect to the other districts (26.01€/kg). Moreover, Verona stands out as being the first district by number of final goods required from foreign subcontractors in 2001 (almost 4500 thousand pairs), with a strong increase in her ranking since 2000. However, Verona has reduced dramatically its delocalisation of final processing abroad since 1998 (Figure 2). The footwear district in **Treviso** (Montebelluna) notably delocalises a great volume of assembling operations abroad (and indeed ranked third with almost 700 thousand pairs required in 2001), but tends to carry out the bulk of intermediate processing domestically. As in the case of Verona, Treviso has also reduced outsourcing of final processing since 1999 (Figure 2), but the quality of imported parts is the highest of all (30.07€/kg). The **Brenta** district ranked fourth in both intermediate and final processing in 2001, which confirms that it does not rely as strongly as the previous ones on international delocalisation as a competitive strategy. However, in contrast with Verona and Treviso, delocalisation of final processing has been increasing since 1999.
- Finally, in **Marche**, the **Fermano-Maceratese** district stands out as relying relatively less on international outsourcing than districts in Puglia and some others in Veneto, as regards both intermediate and finished goods. In particular, here there is also a tendency towards decreasing outsourcing of final processing since 1998. However, as in the case of footwear districts in Puglia, Fermano-Maceratese is also a net importer of intermediate items.

Figure 2 Number of pairs of shoes required as OPT, selected districts (1996-2000)



Note: Barletta has no significant outsourcing of final processing in any of the years considered.
Source: elaborated on OPT data by ANCI (2001)

As regards partner countries for intermediate processing, there appears to be a rather high concentration of imported intermediate items from a bunch of Eastern European countries (Table 2). In Veneto, the preferred partner country for intermediate processing is Romania. The composition of partner countries for intermediate processing is much less concentrated for footwear firms located in Marche, who share their outsourcing of parts between Romania and Bulgaria. The opposite occurs for footwear firms located in Puglia, who almost exclusively outsource intermediate processing to Albania (Table 2).

As regards partner countries for final processing, Romania is by far the preferred location for final processing required by footwear firms in Veneto: Treviso has been outsourcing mainly to Romania during all the years considered, and also partly but not continuously to Albania and Croazia, and only recently has started to delocalise to Asian countries. Riviera del Brenta used to delocalise towards Ucraina in the mid-1990s, and then switched to Romania since 1999, from where more than 75% of pairs of shoes were imported as OPT in 2000. Verona has delocalised final processing mostly to Romania except in 1997 and 2000, when it started to diversify its partner countries

mainly in favour of Ucraina. In Marche too, the preferred partner country for final processing is Romania, but recently there have been growing imports of finished goods from Ungary, who now accounts for more than 55% of pairs of shoes imported by Fermano-Maceratese (Table 3). In Puglia, where outsourcing of final processing is less relevant with respect to intermediate processing, the favorite partner country for imports of finished goods is Albania (Table 3).

Relative quality of OPT

The literature on international trade points out that the main effects of globalisation include a greater international competition through quality upgrading of exports. Accordingly, countries would upgrade by supplying high-quality items, which do not directly compete with those exported by developing countries. This type of functional upgrading can be pursued by either leaving low-quality goods to other countries or by delocalising low value added segments of production abroad, while carrying out high-value added ones at home. A hypothesis that has been made to explain the long-standing Italian specialisation in traditional manufacturing sectors – including the footwear sector – is that the country has coped with increasing competition by emerging economies by upgrading the quality of her exports⁶ and by delocalising some stages of production abroad. This would imply a great share of vertical intra-industry OP trade, in particular a higher quality of temporary exports with respect to the quality of temporary imports.

⁶ Italy exports items of a relatively higher quality in many sectors, including the footwear sector, and the quality of her exports has been increasing over time (Chiarlone, 2001).

Table 2 Number of upper pairs required as OPT, 1996-2000 (% by partner country)

		Albania	Romania	Bulgaria	Ungheria	Polonia	Jugoslavia	Croazia	Ucraina	Slovacchia	Bosnia Erz.	Others	Total % on Italy
Barletta	1996	96,90%					3,10%						100% 8,27%
	1997	86,05%	7,40%				6,55%						100% 19,10%
	1998	92,65%	7,31%						0,04%				100% 22,60%
	1999	100,00%	0,00%										100% 10,94%
	2000	93,56%	5,73%						0,72%				100% 20,03%
Lecce	1996	66,10%	14,36%	17,65%			0,16%		1,72%				100% 45,43%
	1997	80,55%					7,29%		12,15%				100% 21,80%
	1998	73,44%		2,95%					23,61%				100% 8,75%
	1999	90,81%	4,60%	4,60%									100% 15,55%
	2000	86,19%	7,44%	6,37%									100% 20,25%
Brenta	1996		58,23%		9,94%		13,18%		14,92%			3,73%	100% 3,75%
	1997		64,64%		13,76%		7,93%	0,79%	11,89%			0,99%	100% 8,91%
	1998		69,75%				14,53%	1,18%	14,53%				100% 5,69%
	1999		87,19%		11,59%				1,22%				100% 7,30%
	2000		92,88%				0,19%	1,04%	4,72%			1,18%	100% 7,61%
Treviso	1996	1,55%	12,31%		36,92%			36,92%		1,48%		10,83%	100% 3,79%
	1997		18,18%					56,25%		25,57%			100% 0,31%
	1998		86,73%				2,03%	10,66%		0,58%			100% 7,13%
	1999		71,55%				6,01%	22,27%		0,17%			100% 10,23%
	2000		38,54%				29,34%	5,14%		14,39%		12,59%	100% 1,40%
Verona	1996		77,34%		15,63%			3,25%			0,84%	2,94%	100% 1,49%
	1997		75,46%	10,61%	6,13%			3,55%		1,28%		2,96%	100% 9,65%
	1998		62,43%	12,59%	6,71%		1,31%	5,82%			10,61%	0,52%	100% 19,69%
	1999		81,81%	0,59%	5,54%			3,27%			3,27%	5,52%	100% 15,04%
	2000		74,57%	3,99%	2,55%	2,22%	3,05%	3,21%		4,16%		6,26%	100% 25,89%
Fermano	1996	10,43%	21,34%	37,17%	13,32%	5,04%			1,20%	5,16%		6,35%	100% 7,78%
Maceratese	1997	14,95%	34,79%	11,07%	17,97%	5,21%	4,30%	3,91%	4,17%	1,69%		1,95%	100% 13,57%
	1998	3,77%	37,02%	38,85%	13,54%		0,88%			1,82%	1,77%	2,35%	100% 17,55%
	1999	22,75%	54,37%	6,93%	9,71%				4,85%	1,39%			100% 6,44%
	2000	7,14%	29,49%	54,52%	8,85%								100% 7,30%

Source: elaborated on OPT data from ANCI (2001)

Table 3 Number of shoe pairs required as OPT, 1996-2000 (% by partner country)

		Romania	Albania	Croazia	Jugoslavia	Bulgaria	Ungheria	Ucraina	Bosnia E.	Slovacchia	Polonia	Others	Total	% on Italy
Brenta	1996							100,00%					100%	2,39%
	1997				25,00%			75,00%					100%	2,26%
	1998	16,13%			32,26%			51,61%					100%	3,96%
	1999	100,00%											100%	2,22%
	2000	75,67%			5,79%			18,54%					100%	8,24%
Treviso	1996	73,56%					26,44%						100%	0,91%
	1997	60,45%	23,05%	14,54%						1,96%			100%	24,50%
	1998	78,83%		14,71%	1,56%				1,87%	3,04%			100%	16,39%
	1999	63,15%		24,39%	4,86%				3,20%	1,88%		2,51%	100%	16,41%
	2000	78,93%		1,67%	8,36%			3,34%		1,00%		6,69%	100%	11,42%
Verona	1996	100,00%											100%	4,79%
	1997	41,67%		9,00%	5,31%	8,49%	25,44%		10,10%				100%	31,93%
	1998	77,51%		9,72%	1,68%	4,49%	3,93%		2,68%				100%	40,98%
	1999	51,34%	1,44%	8,26%			13,81%		12,21%	1,62%	2,51%	8,83%	100%	35,86%
	2000	47,70%		30,59%	0,82%	11,84%	8,22%					0,82%	100%	23,22%
Fermano	1996	10,43%				32,10%	12,04%			21,67%		23,75%	100%	9,94%
Maceratese	1997	69,15%					7,98%			13,30%	9,57%		100%	10,62%
	1998	53,42%	13,31%		6,65%		11,09%			11,09%		4,44%	100%	5,76%
	1999	93,75%						6,25%					100%	4,12%
	2000	38,72%				5,97%	55,31%						100%	3,45%
Bari	1996													
	1997													
	1998													
	1999		100%										100%	0,39%
	2000													
Lecce	1996		83,33%			16,67%							100%	57,46%
	1997	26,92%	59,62%					13,46%					100%	14,68%
	1998		66,67%					33,33%					100%	3,83%
	1999		100%										100%	0,13%
	2000		68,15%			31,85%							100%	17,98%

Source: elaborated on OPT data from ANCI (2001)

This section addresses this issue by measuring the relative quality of OPT flows carried out by the footwear districts selected for this study. In sectors characterised by high intra-industry trade (IIT), i.e. by trade of similar but differentiated items, it is interesting to explore the relative quality of exports with respect to imports, in order to see if a country is exporting higher or lower quality items than the ones it is importing. We perform this exercise on OPT trade in the Italian footwear sector.⁷ A traditional index used to measure the relative quality of exports and imports is the Quality Index (QI) computed as the share between unit value of exports and unit value of imports (Fontagné and Freudenberg, 1997). Quality differences are bigger as much as QI is far from 1. Flows are usually classified as vertically differentiated (i.e. with relevant differences in quality) if QI is significantly different from 1, i.e. is external of an exogenous interval, the most commonly used being (0.85-1.15). If QI is greater than 1.15 trade is VIIT⁺ (i.e. the quality of exports is relatively higher than the quality of imports), whereas if QI is smaller than 0.85 trade is VIIT⁻ (i.e. the quality of imports is relatively higher than the quality of exports).

Not surprisingly, the evidence shows that for all the districts considered the unit value of imported parts is higher than the unit value of exported parts (and it is likely that imported items had originally been exported from domestic producers at a lower level of processing and therefore with a lower unit value) (Table 4, column 1). What makes the differences among different districts is the percentage of unit value added abroad with respect to the one produced domestically. The spread is much higher for districts in Veneto and Lecce, whereas it is hardly significant for Barletta and Fermano-Maceratese, i.e. the percentage of unit value added abroad (on intermediate production) is much higher for Verona (368%), Lecce and Treviso (228%) than for Barletta (36%) and Fermano-Maceratese (45%). As regards finished goods (Table 4, column 2), the opposite occurs: the unit value of imported finished goods (which unfortunately is available only for districts in Veneto) is lower than the unit value of exported goods (in this case, the difference is much higher for Brenta). This suggests – again, not surprisingly – that the finished goods produced domestically and exported for further processing have a higher quality than the finished items imported by the country.

We investigate further on the relative quality of OPT flows by comparing the QI on intermediate and final goods (Table 4, columns 3 and 4). As QI for intermediate goods

⁷ This is possible only since 2001, when OPT data on both imports and exports were firstly collected.

is lower than 0.85 for all the districts considered, the relative quality of imported intermediate items is higher than the quality of exported intermediate items. QI for finished goods is higher than 1.15 for Brenta and Treviso (i.e. the quality of finished goods exported is higher than the quality of the ones imported), whereas QI indicates no significant differences in quality on OPT of finished goods from Verona.

Table 4 Relative quality of OPT flows, selected Italian footwear districts, 2001 (2nd qr)

	1	2	3	4
	NXi	NXf	QI*	
	€/kg	€/pair	i	f
Barletta	-1,75	-	0,74	-
Lecce	-14,95	-	0,31	-
Brenta	-11,02	18,89	0,54	2,41
Treviso	-20,90	6,70	0,30	1,68
Verona	-20,46	0,39	0,21	1,03
Fermano-Maceratese	-3,27	-	0,69	-

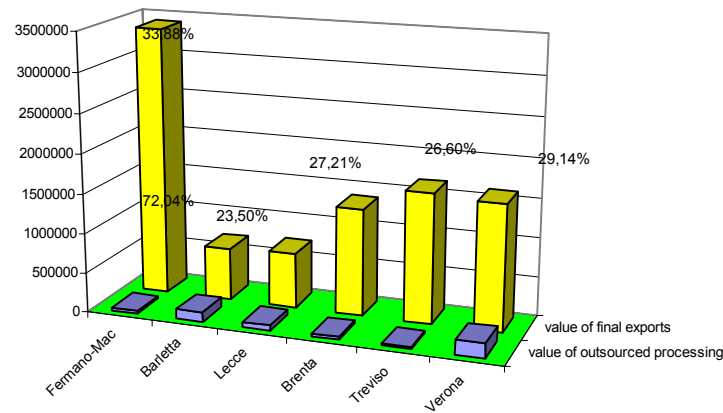
* QI = unit value of exports/unit value of imports

Source: elaborated on OPT data from ANCI (2003)

Relationship between ID and export performance

As regards the relationship between international delocalisation and export performance, there does not seem to be any clear trend at the *provincia* level during the second half of the 1990s. However, a tentative distinction can be made at regional level. Shoe districts located in Puglia are traditionally less export oriented than those in Veneto and Marche, probably because their production is mainly represented by down market products for the domestic market (Figure 3). This does not seem to be related to the percentage of foreign processing, which is very high in Barletta (more than 72% in 2000) with respect to Lecce (only 23.50%). The Fermano-Maceratese district in Marche has a higher value of final exports than those in Veneto and Puglia, and outsources a very low percentage of production for processing. Footwear districts in Veneto are more export oriented than those in Puglia, and tend to delocalise a percentage of production lower than 30% (i.e. lower than Barletta and Fermano-maceratese).

Figure 3 Value of outsourced processing, value of final exports and percentage of outsourced production, selected Italian footwear districts, 2000



Source: elaborated on OPT data from ANCI (2001)

Overall, it seems that producers of relatively high quality items exhibit a better export performance, as in the case of Fermano-Maceratese, and to a lesser extent Treviso, Verona and Brenta. The need to maintain high quality standards is likely to have limited international delocalisation of some stage of production to foreign subcontractors. On the other hand, producers of lower quality items (such as Barletta and Lecce) do have a worse export performance and tend to delocalise a higher percentage of production. This is also due to the fact they suffer more from foreign competition and therefore had to follow stronger delocalisation strategies.

2.3 The emergence of different patterns of international delocalisation.

This section summarises the empirical results presented in Section 2.2 and discusses different patterns of international delocalisation in a comparative perspective. We find evidence of relevant differences in the delocalisation strategies followed by major Italian footwear districts. The main differences refer to the degree and pattern of delocalisation, and to the relative quality of exports relative to imports of items in OPT regime. We will argue that such differences are related to the market position of each district (up, down or mass market).

Overall, the evidence shows that Italian footwear districts are following diverse competitive strategies. High-quality producers – who tend to exhibit a relatively good

export performance – tend to delocalise less intermediate items than the ones produced domestically, so that they remain net exporters of intermediate goods. Accordingly, the quality of imported items is higher than the quality of items imported by other districts. On the other hand, high-quality districts tend to remain net importers of finished items. Moreover, the quality of finished items produced domestically and exported for further processing is higher than the quality of finished items assembled abroad. This confirms that high-quality producers are actually upgrading their production by delocalising low-value added stages of production abroad as a strategy to reduce production costs. At the same, they continue to perform high-value added operations domestically (which are likely to be either capital- or skilled labour-intensive and could not be successfully carried out by foreign subcontractors). Footwear districts in Veneto fit in this case. In particular, Verona is a strong net exporter of parts (to be assembled abroad) and accordingly a strong net importer of finished goods. On the contrary, Brenta relies much less on outsourcing of assembling operations, possibly because the higher quality of its final goods does not allow for a massive delocalisation of operations which can be better performed domestically. The case of Treviso cannot be directly compared to the other ones, as it is specialised in sporting footwear with high technological content. As in the other districts in Veneto, outsourcing as a competitive strategy refers more to final assembling than to production of intermediate goods.

An opposite scenario emerges for low-quality producers – who have to cope with price competition from emerging economies – who instead tend to delocalise a higher percentage of production abroad (mainly intermediate processing), and to become net importers of parts from foreign subcontractors. At the same time, low quality producers also tend to be less export oriented, e.g. to serve mainly the low price segments of the domestic market. These characteristics suggest that districts in industrial countries, operating in a relatively low segment of the market in traditional sectors such as footwear, do face very strong competitive pressures from low-cost producers which force them to adopt massive delocalisation strategies. As a result, they are likely to be induced to displace a relevant part of production processes in other countries. Footwear districts in Puglia fit in this case. Upgrading strategies are urgently needed to increase their competitiveness on both domestic and foreign markets, and to counter the trend towards employment reduction at the local level.

Districts producing on different segments of the market also differ as regards the relationship between delocalisation strategies and export orientation. Strongly outward-oriented districts tend to show a relatively low percentage of outsourced production, i.e. they still produce with a high local content of input, as in the case of Fermano-Maceratese and Brenta. On the other hand, relatively inward-oriented districts tend to outsource a higher percentage of production abroad, i.e. to produce with a lower local content of input, as in the case of Barletta.

3. Italian footwear districts in global value chains: the cases of Brenta and Barletta.

In the previous section we argued that differences in delocalisation strategies by Italian footwear districts are likely to be related to their market positions and the value chains they belong to (high versus low quality). In this section we explore two selected cases which make a strong case in favour of such an argument. These cases represent two opposite models of production: a top brand districts such as Riviera del Brenta, and a district producing low quality goods such as Barletta. The previous analysis on OPT showed that these two districts has sofar followed opposite patterns of delocalisation: Brenta relies relatively less on international delocalisation (it is still a net exporter of intermediate items), whereas Barletta has gradually displaced intermediate processing abroad and is progressively outsourcing also assembling operations (which suggests that the overall production process is likely to be dismantled to be transferred completely to low labour cost countries). In this section we suggest that these opposite models are likely to affect opportunities for industrial upgrading of different footwear clusters.

Our discussion of upgrading opportunities will draw upon the major results of the research on global value chains, which has significantly expanded the research agenda on industrial districts. The literature on industrial districts in advanced and less developed countries has shown that clustering helps local enterprises overcome growth constraints and compete in distant markets⁸. The general argument is that competitiveness of producers mainly comes from intra-cluster vertical and horizontal relationships generating collective efficiency, namely increasing returns from incidental

⁸ For a summary of the argument and evidence see Schmitz (1995).

economies of agglomeration and active co-operation (Rabellotti 1997; Schmitz 1995 and 1999).

Nevertheless, recent changes in production systems, distribution channels and financial markets, accelerated by the globalisation of product markets and the spread of information technologies, suggest that more attention needs to be paid to external linkages⁹.

Furthermore, industrial boundaries are blurring and the shape of industries is no longer conforming to the standard industrial classification (Mytelka 2000). This is the case for instance of the footwear sector, analysed in this paper, which is increasingly integrated in the fashion industry, dominated by a few multi-product oligopolies, exploiting economies of scale and scope in activities such as distribution, marketing and branding across traditionally separated industrial sectors such as shoes, clothing, glasses, perfumes and leather accessories. Accordingly, to understand the effect of these changes on a district it becomes necessary to adopt an analysis which pays attention to linkages with actors external to the district. The research on global value chain seeks to understand the nature of these relationships and their implications for upgrading, mainly with reference to producers in less developed countries.

An important aspect stressed in the literature on value chains is that the various activities in the chain are subject to some degree of governance or co-ordination (Gereffi 1994). At any point in the chain, activities are defined by three key parameters: what is to be produced (design of products); how it is to be produced (definition of production process: technology, quality standards) and how much has to be produced (Kaplinisky and Readman, 2001). Co-ordination may take place through arm's-length market relations or non-market relationships. In the latter case, following Humphrey and Schmitz (2000), we distinguish between three types of governance: (i) the network implying co-operation between firms of more or less equal power which share their competencies within the chain; (ii) a quasi-hierarchy involving relationships between legally independent firms in which one is subordinated to the other and where the leader in the chain defines the rules that the rest of the actors have to comply with; and, (iii) hierarchy governance when the local firm is owned by an external firm.

⁹ Markusen (1996) broadening the definition of industrial district discusses four types of districts. In the "satellite platform" type, consisting of a congregation of branch facilities of externally based multi-plant firms, she acknowledges the importance of external linkages.

Among the different forms of governance, the literature on value chains, which is mainly concerned with developing countries, stresses the importance of the quasi-hierarchy type, distinguishing between those cases when co-ordination is undertaken by buyers ('buyer-driven chains') and those in which producers play the key role ('producer-driven chains') (Gereffi 1994). Moreover, several authors conclude that the increasing concentration of retailing in developed countries makes buyer-driven chains a growing phenomenon (Dolan and Humphrey 2000; Gereffi 1999). In this section we aim to contribute to this debate by broadening the analysis to include developed countries, showing that globalisation is also exerting a strong impact on the organisation of production in industrial clusters in those countries.

Furthermore, we would like to address the following question: how the insertion into global value chains affects local upgrading strategies? The concept of upgrading is used here in the sense proposed by Humphrey and Schmitz (2002). Process upgrading means transforming inputs into outputs more efficiently by re-organising the production system or introducing superior technology; product upgrading can be defined as moving into more sophisticated product lines; and, functional upgrading is acquiring new, superior functions in the chain, such as design or marketing. Besides, a different possible form of functional upgrading has come to the fore from the empirical analysis in Section 2, i.e. the externalisation of low value added functions combined with a focus on more advanced activities or higher value added segments of market.

3.1 The Brenta shoe district

In Brenta the origins of the footwear industry date back to the beginning of last century. During the footwear industry boom after World War II, the sector progressively absorbed most of the rural workforce available in the area. In the 1960s, the local enterprises expanded and increased their exports, specialising in the upper segments of the market. In 2001, 88 per cent of the shoes produced in the area were medium-high and high priced women's shoes with an average ex-factory price of 58 Euro.

Since the second-half of the 1980s, the area has suffered from increasing competition in the international market and sales have stagnated, fluctuating between 7.9 and 8.8 million pairs (mainly due to exchange rate fluctuations). In value terms, however, sales continued to increase in most years (ANCI, 2001). It may be useful to add that Brenta's performance is in line with that of the rest of the Italian footwear

industry, which suffered from stagnating European demand and from increasing international competition (ANCI 2001).

What follows is based on the findings of a questionnaire survey presented in Rabellotti (2001). In *Riviera del Brenta* the main market has traditionally been Europe, particularly Germany, and to a more limited extent France, Great Britain and the rest of the EU. Among sample firms, 35 per cent sell between 50 and 90 per cent and 17.5 per cent more than 90 per cent of their production to Europe. Sales to Italy are less than 10 per cent for the majority of the sample (53 per cent of firms) and less than 50 per cent for another 23 per cent of firms.

In the European market, Brenta's companies are selling to a variety of customers. In the UK they typically sell to large buyers or department stores, in France and Italy they supply mainly to independent retailers and in Germany to buying groups¹⁰.

Regarding the rest of the world, Brenta's market penetration is more difficult due to the small size of local enterprises, geographical distances and the large investments involved. Only nine firms (23 per cent of the sample) export between 10 and 50 per cent of their production to the USA and 12 (30 per cent) to other countries, mainly in the Far East, Russia and the Middle East. It should be added that exports to the USA have increased considerably in the past years, boosted by the weakness of the Euro.

Recently, many firms in Brenta have recently begun to work as subcontractors to some leading global fashion firms, which have become a category of increasingly important customers for the district - the high fashion companies.

The top brand value chain can be regarded as a sub-type of the 'buyer-driven' chain because the lead firms are the owners of top global brands, controlling activities connected with intangible characteristics of the products such as design, brand name, marketing and distribution. Gereffi's work is more focused on 'buyer-driven' chains 'in which large retailers, branded marketers, and branded manufacturers play the pivotal roles in setting up decentralised production networks in a variety of exporting countries, typically located in the Third World' (Gereffi 1999: 41-42). Although he discusses the importance of the creation of brands, he is more concerned with global brands in mass markets, such as Liz Claiborne, Nike and Reebok. In the luxury market, barriers to entry

¹⁰ In another paper (Rabellotti, 2001), we present an analysis of the main characteristics of the German chain. A key feature of this is that independent retailers are organised in large, powerful buying groups. These groups are network organisations supplying credit and information to their members, helping them to reduce transaction costs and risks.

are supposed to be higher and returns from branding and marketing very high. Therefore, following Kaplinsky (1998 and 2000), economic rents in this chain are assumed to be higher than in other types of chains.

Recently, the high and medium-high segments of the footwear industry have increasingly attracted the interest and the financial capital of well-known top brands and luxury multi-product oligopolies from outside the shoe world.¹¹ Some world top luxury companies, looking for highly skilled manufacturing capabilities to begin footwear production, identified the *Riviera del Brenta* as a preferred area in which to find subcontractors. The beginning of this trend corresponded with a difficult time in Brenta because local firms were facing the end of the positive impact on exports of the 1992 devaluation of the Lira.

According to Rabellotti (2001), 17 enterprises (corresponding to 42.5 per cent of the sample) work as subcontractors to high fashion companies, producing shoes sold with globally known top brands. In five cases (12.5 per cent), they work exclusively as subcontractors, while four of them (10 per cent) make between 50 and 89 per cent of their total production for high fashion companies and the remaining eight (20 per cent of the sample) make less than 50 per cent (Table 5).¹²

Table 5: Production for high fashion companies among sample firms (%)

% of total production	No. of enterprises	% of total sample
0	23	57.5
1-49	8	20.0
50-89	4	10.0
≥90	5	12.5
Total	40	100.0

Source: Rabellotti (2001)

¹¹In Italy among the top ten companies in the luxury industry there is only one footwear firm - Tod's, ranking at 9th position with a sales value of US\$ 202 million. It originated in Marche, the largest Italian footwear cluster, and was recently listed at the Milan Stock Exchange.

¹²According to the local entrepreneurial association, in 2000 the amount of production made by Brenta's enterprises as subcontractors to high fashion companies has reached 50 per cent of total production in the area (personal communication with the director of ACRIB). If these estimates are correct, subcontractors are underrepresented in our sample.

In most of the cases investigated, fashion companies provide the design and Brenta manufacturers take care of all production phases, including product development¹³ and purchase of raw materials and components. After that, shoes are sold by fashion companies with their brand names. In the sample, design is totally controlled by fashion companies in 65 per cent of the firms working as subcontractors, while 35 per cent of them contribute to design. This often means that fashion companies give producers some ideas and sketches to be transformed into a shoe.¹⁴ Sales are undertaken by fashion companies in 82 per cent of the cases (Table 6), while product development and purchase of inputs are carried out in most of the cases by the subcontracting firms. Nevertheless, fashion companies are increasingly becoming involved in these activities by directly selecting suppliers, sometimes even through acquisitions of firms, and extending their control on quality and delivery conditions backwards along the chain.

According to Rabellotti (2001), it appears that Brenta has been undergoing a process of functional downgrading. Traditionally the design and acquisition of inputs were controlled locally, and carried out inside the firms or inside the district. More recently, with the advent of the luxury fashion companies, local enterprises are moving out of design and sale. There are also signs of luxury fashion companies extending their control backwards along the chain.

Table 6: Internal functions in sample firms working as subcontractors to high fashion companies

No. of sample firms*	Not undertaken	Partially undertaken	Totally internal
Design	11 (65 %)	4 (23 %)	2 (12 %)
Product development	2 (12 %)	2 (12 %)	13 (76 %)
Purchase of components	1 (6 %)	3 (18 %)	13 (76 %)
Sale	14 (82 %)	2 (12 %)	1 (6 %)

*The total number of sample firms working as subcontractors is 17. In parenthesis there is the ratio on the total number of subcontracting enterprises in the sample.

Source: Rabellotti (2001)

¹³ There is a distinction between creative and technical design; in the paper the former is simply called design while technical design, including size developing, is named product development.

¹⁴In the rest of this section, the proportion of sample firms is intended as a ratio of the 17 enterprises which work as subcontractors to high fashion companies.

Integration in the luxury fashion value chain is thus causing a process of functional downgrading at district level in those activities that are the typical core cross-sector competencies of luxury fashion companies, namely design, branding and sales.

Nevertheless, although Brenta is showing a trajectory of functional downgrading resulting from the integration in top brand chains, it has to be underlined that many of the leading companies in those chains are Italian. Therefore, by moving from a narrow district perspective to take into consideration the evolution of the Italian fashion system as a whole, our conclusions may be very different. The Italian luxury goods industry is definitely undergoing a process of functional upgrading and concentration in rent-rich activities by exploiting cross-sector its core competencies in design, branding, marketing. This is very different from what is often occurring in developing countries. Small Brenta producers are abandoning some key activities which have moved to the headquarters of the chains' leaders in Milan. In the case of producers taking part in global chains in the developing world, these activities are never carried out within the country, instead they are fixed in New York, London or other cities in the developed world.

Apart from design, the functional downgrading that is occurring in Brenta concerns activities in which local enterprises, probably including the majority of small Italian footwear firms, have traditionally been rather weak, i.e. branding, marketing and sales strategy. In our sample, 60 per cent of firms do not perform any marketing at all and the existing brand names are sometimes recognised at national level (mainly in Germany) but never globally. A reason for the very limited local investments in these activities is the average company size. Firms are too small to afford very expensive strategies in marketing or advertising and to impose a brand name in the global market.

Local entrepreneurs are aware of their weaknesses and are beginning to accept that in the global market high production skills are no longer enough to sell their products; brand names and aggressive marketing strategies have become unavoidable competitive factors. Therefore, many of them agree that becoming subcontractors to luxury fashion companies is a way to face the challenge of globalisation despite the cost of functional downgrading.

Furthermore and quite unexpectedly, according to Rabellotti (2001) this choice is not an impoverishing strategy. There is evidence of a statistically significant positive

relationship between performance and the share of production sold to high fashion companies. Indeed, according to the economic theory of rent¹⁵, the extent of subcontracting shoes is derived from the demand of luxury shoes and given that final consumers are prepared to pay a high price then top brand companies are also willing to pay a relatively high price to their high quality subcontractors, sharing with them (a small) proportion of their rent. In other words, we argue that top brand companies are exploiting final consumers' willingness to pay very high prices for luxury goods, earning a rent or a super-normal profit above production costs. This rent, it seems, is to some extent shared within the chain in order to guarantee high and consistent quality and respect of delivery conditions.

The high rents earned in the top brand value chain explain also why Brenta enterprises are increasingly using their internal production capacity to make shoes as subcontractors to high fashion companies and outsourcing abroad the lower value added stages of their production. Decentralisation to Romania and other Eastern European countries is a necessity for reducing costs, given that price competition is severe even in high quality markets. As we discussed in Section 2, outsourcing is a strategy of functional upgrading of Brenta firms: moving low value added activities abroad and focusing on production for the rent-rich luxury market at home.

Once more with respect to upgrading, there is evidence of a positive and statistically significant relationship between the amount of production made for high fashion companies and the degree of product upgrading. The role played by top brand companies in product innovation is confirmed by the fact that 60 per cent of sample firms stress the importance of their assistance in this field.

Sample firms identified a number of advantages coming from their activity as subcontractors. The most important are: the size of orders (all firms except one); their regularity (all firms except two); and, for 70 per cent of them the prestige of working for a world known top brand. A further advantage, very much emphasised by the interviewed firms, is the reduction of costs because they no longer have to produce a sample set. Among the disadvantages, imposition of delivery conditions and timing, lack of direct market access and the loss of independence were stressed by 75 per cent of sample firms.

¹⁵A summary of rent theory in the history of economic thought, with a particular focus on land, is presented in Camagni (1992).

These disadvantages are strongly related to the issue of governance within the chain. Co-ordination of the value chain is clearly in the hands of top brand companies who keep their control on rent-rich activities such as design, branding, marketing. They are also increasingly becoming more directly involved in shoe and component production. Nevertheless, only two sample firms have clearly defined their relationship with high fashion companies as quasi-hierarchical, while the remaining ones reported that there is some degree of co-operation.

A clear assessment of how hierarchical these relationships are is a difficult task. There are mixed signs: in many cases firms are not fully dependent on the top brand value chain, producing less than 50 per cent of total production as subcontractors. In some cases they even contribute to design but, on the other hand, most of them suffer from functional downgrading and are losing their direct link with the market. Furthermore 75 per cent complain about dependence on high fashion companies.

We may conclude that the most common type of governance within this chain is somewhere in between network and quasi-hierarchy. The clear leaders in the chain are the top brand companies. They are definitely setting the parameters that the rest of the actors have to comply with but in many cases they are also co-operating with their highly qualified partners to obtain top quality products and besides, very importantly, they are willing to share with them part of their rent in order to acquire their production skills.

To conclude, it is useful to summarise our main empirical findings in connection with our reference point on value chains (Gereffi 1999). The top brand value chain confirms Gereffi's trend toward 'buyer-driven' chains. However, producers from developed countries are involved in the chain and, their participation, far from having an upgrading effect (much stressed in Gereffi's work), has a functional downgrading effect instead. Nevertheless, although firms have abandoned some key functions, their performance is still very positive because they have the prospect of sharing with the chain's leaders (most of which are Italian) the high rents of the luxury industry.

3.2 The Barletta shoe district

Barletta is the second largest footwear district in the south of Italy and the seventh largest in Italy (ISTAT, 1996). The origins of the district date back to the years before

the Second world war, but only after the war did footwear production on an industrial scale start to grow.¹⁶ The first producers started their own business in the area around 1925, after a working experience in Vigevano to learn the major aspects of footwear production.

Until the 1930s, production was still hand-made and consisted of leather goods. It was only after the war that producers in Barletta started to introduce innovations in the production process, thereby abandoning craftsmanship in favour of industrial production: these innovations were the partial mechanisation of production and the use of rubber together with leather. A major reason for such a change in production techniques is the severe lack of leather as an input in the aftermath of the war. Until the mid 1950s the use of rubber as a raw material prevailed over plastic, which will be adopted since then together with new production techniques. This change in inputs paralleled the one occurred in the Montebelluna district (Treviso), for ski footwear. In both cases, the new material implied a radical change in production techniques as well as in the linkages between producers in the district and actors outside the district (specialised suppliers of machinery).

The insertion of Barletta in this new value chain – low market plastic shoes – very different from the traditional leather shoes market, allowed local firms to become the major producers of this new product lines at the international level. Since the 1960s international buyers visited Barletta to explore the ability of local firms to meet with consumers' demand. German buyers were the first to get to know Barletta from their previous suppliers in Marche – who already produced up market items.

Among the major competitive factors, Barletta could take advantage of relatively low production costs, but also on the ability to rapidly adapt their production structure to market changes and to introduce new machinery. Indeed, since the mid 1960s, local producers started to invest in machinery for input production, whose suppliers were mainly located in Veneto (Padova) and Tuscany. The introduction of these new machines for input production allowed to take advantage of the great increase in productivity of new production techniques.

Since the early 1970s, these new machines allow local firms to specialise in sporting shoes with plastic soles. The district followed a particular model of production based on

¹⁶ This section draws heavily on information reported in a previous case study by D'Ercole (?).

highly standardised products and huge volume of production to meet market demand. As the European market demanded an increasing quantity of low cost shoes, international buyers required their suppliers to provide huge quantities of standardised goods. As a consequence, each firm had to meet the same quantity and quality standards, and its profitability depended on the production capacity of the whole district. In this respect, network externalities (Katz and Shapiro, 1986) were very strong as the incentive for firms to invest in new production capacity depended on the other firms doing the same. Although there was no explicit cooperation among firms in the district, each firm's performance depended on the ability to reach high levels of production at the district level. This model of production allowed Barletta to be the leader in this market segment until the end of the 1980s. However, during the 1990s consumers' preferences and market demand have undergone radical changes, and the Barletta model of production entered a severe crisis.

During the 1990s, Barletta started to face increasing international competition in its segment of the market. The major change in international competition was due to the insertion of Southeast Asian countries and China in traditional manufacturing sectors. The huge differential in wage costs between Italian and Chinese producers forced the former to find ways to cope with increasing competitive pressures. In 1994-95 and in 1999 Barletta producers succeeded in lobbying for a greater market protection from 'unfair' imports from Asian countries: the European Commission introduced quotas on imports from China in March 1994, and minimum price levels of imported goods of 5.7 ECU together with tariffs between 2 and 20.3% on imports from China, Indonesia and Thailand in March 1998.

Notwithstanding the protection of the domestic market, the Barletta model started showing severe vulnerabilities with respect to international competitors. Barletta faced a structural problem of progressive loss of competitiveness which should have been solved with radical re-organisation of production, including investment in different segments of the markets. Unfortunately, the district did not succeed in introducing any relevant changes and therefore started to reduce production and employment.

An opposite evolution occurred in the major sporting footwear district in Italy, Montebelluna (Treviso). The district moved to very high quality goods and established linkages with leader firms in the sport system, such as Diadora, Lotto, Tecnica. Montebelluna started to delocalise some segments of the production process abroad and

took advantage of differences in production costs at the international level, instead of considering them a threat for future competitiveness.

A further change in the 1990s was a shift in the international demand for sporting shoes, in favour of high quality goods with high technological content on the one hand, and of low quality fashionable goods on the other hand. The former were the domain of big multinational groups (such as Nike, Reebok, Adidas, Diadora, Lotto), who had and still have the ability and the financial capacity to invest in product innovation and to organise international production systems at a global level. The latter forced local producers to rapidly change marginal features of the product, and more importantly to supply lower amounts of production to buyers (as big retailers required lower quantity of goods in order to reduce the amount of their stocks) with the consequence that Barletta producers faced increasing overproduction capacity.

The 1990s have been characterised by a radical re-organisation of production in the district, including the displacement of some firms and a massive delocalisation of production in Albania. In a sense, Barletta has been replicating its own model of production by displacing – as Vigevano did in the past – part of its production capacity on the eastern side of the Adriatic Sea. As a consequence, there has been a significant reduction in employment and in the average firm size. This delocalisation can be interpreted as a functional upgrading for Barletta, as lower value added operations are externalised. However, there are doubts whether this strategy alone will be enough to cope with international competition.

Nowadays, the transition to a new model of production has not yet been completed. Some firms have decided to move to different value chains (such as technical footwear) which do not face price competition from low cost producers. The majority of producers delocalised a relevant part of production to Albania, but this does not seem to be a sustainable competitive strategy, because Eastern European producers still face the same competitive pressures from Asia.

In the light of the argument above – that low quality producers in industrial countries face severe competitive pressures and do need urgent strategies for upgrading, much more than high quality producers – we here present a recent development which we believe will be positive both for industrial districts and for the Italian footwear sector as a whole. Recently, a further option for upgrading was followed by local

producers in Barletta, i.e. production agreements with high quality producers in Italy. In particular, there have been interesting agreements between Brenta producers and Barletta producers as regards the possibility to start to cooperate by specialising in different stages of production (Il Sole 24 Ore, April 4th and May 27th 2003). On the one hand, Brenta producers do find it more and more difficult to require high quality standards from foreign subcontractors (who have no previous skills in footwear production), whereas producers in Barletta have at least a tradition in footwear production, although they specialised in a particular segment of the market. On the other hand, for Barletta producers these business development could be an opportunity to enter a different value chain, to reposition in new segments of the market, although they will be downgraded to subcontractors. As in the case of Brenta, this form of functional downgrading could be profitable for Barletta, as it represents a way to escape from international delocalisation. In this sense, a functional downgrading as described above would be a better upgrading opportunity for low quality producers in industrial countries, to the extent that it allows for a repositioning into different – higher quality – value chains.

The evolution of the Barletta district shows that the reasons for its decline are closely related to the origins of its success. Although as late as in the 1950s there was no significant footwear production in Barletta, in the following thirty years the district became one of the most competitive areas in the production of sporting shoes. The same happened with the newly industrialised countries in Southeast Asia, where there are no skills and know-how inherited from craftsmanship, but simply the ability to sustain strong investment in production capacity over time, to learn from the leaders, to meet quality standards and quantity requirements and to establish linkages with global buyers. In this respect, Barletta shows how this kind of leap-frogging towards industrialisation is an option even for developing areas or regions, provided that producers establish linkages with final markets. This argument applies mostly to low quality producers who face increasing price competition from foreign producers, and to a lesser extent for high quality producers with a strong knowledge in core production operations.

4. Conclusions

This paper studied the impact of global transformations on some industrial districts in the Italian footwear sector. This was done by analysing the pattern of international delocalisation of production in relation with their positions in global value chains. Data on OPT were used to address the following questions: which is the pattern of specialisation of footwear districts in Italy? Is there any common trend towards a reduction of activities carried out within the district? Or, instead, are different patterns emerging for districts according to their segments of the market and according to the value chains they belong to? Furthermore, previous evidence on two selected case studies was used to address the following questions: is globalisation pushing footwear districts into new value chains? What types of governance characterise the relationships between local and outside actors? Do the chains' leaders come from inside or outside the districts? Does the integration of industrial clusters in global value chains enhance or weaken local upgrading strategies? This section presents the main conclusions.

We find evidence of differences in delocalisation strategies by clusters depending on their market position. In particular, clusters of firms which have been traditionally producing higher quality goods are intensifying their linkages with lead fashion firms. As the latter are governing the value chain, a quasi-hierarchy may be a relevant form of governance in linkages existing between producers and the lead fashion firms. To be part of this chain, Brenta's shoe producers accept a functional 'downgrading' by abandoning design and sales, which are the key competencies of the leaders of the chain, and focusing on production. Their relationships with top brand companies can be defined as somewhere in between network and quasi-hierarchy, but it is clear that the leaders of the chain are not located in Brenta. This story draws attention to at least two new insights, i.e. not only upgrading but also downgrading can occur within global value chains and this may happen even to leading producers of developed countries.

These firms, which have given up their design function and have become subcontractors, perform better than the other local producers in terms of sales and profits as well as process and product upgrading. It appears that the luxury brand companies share some of their high rents with their skilful subcontractors.

In Brenta most of the shoe enterprises feed into a variety of chains. If we exclude from our sample firms producing more than 50 per cent of their production as

subcontractors of high fashion companies (22.5 per cent of the sample) and enterprises which sell more than 50 per cent of their production to large buyers (17.5 per cent) we are left with 60 per cent of firms combining several different chains. Therefore, Brenta shoe enterprises often face several exit options, dependence on one value chain is limited to a reduced number of cases.

At the same time, most producers resorted to international delocalisation of production as a cost-reducing strategy. The decentralisation of low value added activities to foreign subcontractors can be interpreted as a form of functional upgrading, as lower value added activities are externalised while keeping high value added activities at home. The participation in the top brand chain, however, affects the pattern of delocalisation: Brenta still maintain the bulk of intermediate processing at home while delocalising a larger volume of assembling operations. This might be interpreted as a way to reduce production costs on assembling operations (which are usually labour intensive), while maintaining high quality standards on intermediate inputs.

On the other hand, clusters of firms which have usually positioned on lower quality goods, on the one hand do face much more severe competitive pressures from producers in emerging economies and on the other hand, do not take advantage of linkages with the fashion industry. This implies a need for urgent repositioning in new value chains or new segment of the markets. In fact, the international delocalisation strategy as a way to reduce production costs is not likely to be enough to counter competition from low cost producers in other countries.

Besides delocalisation, low cost producers would need to enter new value chains by establishing linkages with other producers in higher quality segments of the market. This is actually what is happening nowadays with production agreements between Brenta and Barletta. According to these agreements, the two districts will cooperate by integrating vertically. Brenta will partly delocalise its production in Barletta, for two main reasons: firstly, the need to maintain quality standards prevents producers to rely massively on foreign subcontractors; secondly, producers in Brenta find it increasingly difficult to find skilled labour force for their high quality production, and considered the possibility to cooperate with producers in Barletta as regards training. For Barletta too this could bring several advantages, first of all the insertion into a new higher quality value chain.

To conclude, some general remarks on the footwear sector in Italy can be drawn. Although a process of functional downgrading is occurring at district level by taking a more systemic perspective our conclusions are different. The Italian high fashion luxury industry is generally undergoing a process of functional upgrading and concentrating investments in rent-rich activities linked with intangible characteristics of the products. The global leaders in the chain exploit cross-industry economies of scale and scope in branding, marketing and advertising. Most of the global leaders of this value chain are Italian companies. Therefore, if the Brenta district is experiencing functional downgrading the Italian fashion system, in contrast, is experiencing functional upgrading.

The conclusion that can be drawn is that intangible activities are increasingly becoming the major assets in the top brand industry. In the past, Italian industrial districts, such as Brenta, have built their excellence on a mix of skills in design, fashion and production but the small size of firms has limited their capability to face the massive investments required to control intangibles in the global market. These intangible activities have become the core competencies of a few large cross-industry companies dominating the top brand value chain, which is assuming a leading role in Brenta. Its expansion allows local footwear firms to continue exploiting their traditional comparative advantage of highly skilled producers, maintaining a good performance. Nevertheless, the top brand oligopolies, with their huge profits and large financial capital availability, are the global leaders of this segment of market.

The recent agreements between Brenta and Barletta as regards the delocalisation of some stages of production and the cooperation on training of new labour force is highly positive for the whole Italian footwear sector, as a district such as Barletta which was suffering from international competition and was running the risk of de-industrialisation, will be rescued from the recent crisis through insertion into new value chains, which are very competitive at the national level.

Finally, it is not clear what this will mean for the future of Brenta. Local firms are winning a place in the rent-rich global top brand market but by focusing only on their production skills they offer capabilities which can increasingly be found in other clusters in the world and this may slowly erode their competitiveness and independence. To date, a mix of factors prevent luxury companies searching for alternative subcontractors in countries such as Romania or Brazil. They include the size of rents

which downplays the cost factor and their lack of experience in the shoe sector. These factors induce them to search for very skilful subcontractors that are already able to produce for the top quality market, and, of course, the higher transaction costs involved in the relationships with more distant and less qualified subcontractors. Nevertheless, these conditions may change and the dynamic comparative advantage of high quality producers may one day vanish.

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