

Industrial clusters and the governance of the global value chain: the Romania-Veneto network in footwear and clothing

Tattara, Giuseppe; Crestanello, Paolo

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Industrial Clusters and the Governance of the Global Value Chain. The Romania- Veneto Network in Footwear and Clothing

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19 Paolo Crestanello, Crei, via Rattazzi 3, Vicenza, VICENZA 36100, Italy.

20
21 crespa@libero.it
22

23
24 Giuseppe Tattara, Dept. Economics, Univeristy of Venice, Cà Fosceri,

25
26 Cannaregio 873, 30121 Venice, Italy. tattara@unive.it
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Industrial Clusters and the Governance of the Global Value Chain. The Romania- Veneto
Network in Footwear and Clothingⁱ.

The aim of our paper is to analyze the governance of value chains operating in the traditional sectors of clothing and footwear, focusing particularly on production de-localization from the Italian region of Veneto to the nearby country of Romania. After describing and quantifying the internationalization process between Veneto and Romania, we discuss how networks in the two countries evolved through time.

This article draws on several case studies, posits three models of value chain governance, and discusses the implications of these models for territories with very different level of development and different industrial structures, and considers their implications for regional development and sustainability

Key words: Internationalization, Romania, Italy, Organization of Production

JEL classification: F23, L22, L23, L67

1. Introduction.

The global economy has significantly changed over recent decades. The development strategies of countries today are affected to an unprecedented degree by how industries are organized and transformed, with consequences not only for the flows of goods and services across national borders, but also for the processes by which countries move up (or down) in the international system (GEREFFI, 2005,160).

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Production de-localization towards low wage countries is a strategy being followed with growing intensity by industrial countries seeking to compete with one another. The erosion of competitive advantages in international markets is being responded to by an international fragmentation of production, resulting in product upgrading and productivity increases at home, while also making use of reduced labour costs abroad (FINGER, 1975, 1977). Through such means, industrial countries in continental Europe, such as Germany and Italy, have been able to maintain their world market shares, or at least prevent drastic falls. Today, Italy is the only high wage country that has a positive surplus in its clothing and footwear external trade.

Such developments suggest the need for a new conceptual framework to understand better the emerging patterns of international competition, the processes by which new competences are being formed, and the development prospects of countries that are trying to upgrade their position in diverse global industries. The topic of the global economy is inherently interdisciplinary. Scholars in this field have to master 'the art of trespassing' (HIRSCHMAN 1981) and frequently cross the frontiers of established academic disciplines.

The rise of intra-industry and intra-product trade in intermediate inputs (Kaminski and Ng, 2000) and the ability of producers to 'slice up the value chain', in Krugman's (1995) terminology, by breaking a production process into many geographically separated steps, are the starting point of our discussion. In our study we refer to the 'commodity chain' conceptual framework to explain how these emerging trends have altered the geographical and the relational structures in which firms operate (GEREFFI et al., 2005; DICKEN et al., 2001), have changed the structure and distribution of competences among actors, and have

1
2 built new networks and upgraded existing ones in countries at different levels of
3
4 development (YEUNG, 2000).
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6 The focus of the study is on recent clothing and footwear de-localization flows, linking
7
8 Romania to the Veneto, a region in the Italian North East. Romania is highly specializedⁱⁱ in
9
10 the footwear and clothing industries, which for the purpose at hand are similar in many
11
12 respects. Both industries are labour intensive, both have widely outsourced abroad and both
13
14 share a similar tariff pattern, as far as trade with Eastern Europe is concerned (CHIRON,
15
16 2004). In Romania, these two industries employ a large share of manufacturing workers and
17
18 are strongly dependent on foreign subcontracting orders, mainly coming from Veneto firms
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20 (PHARE, 2005). For this reason, some Italian commentators speak of Timiș county in West
21
22 Romania, highly specialised in clothing and footwear production, as the 9th province of
23
24 Veneto (BERGER And LOCKE, 2001).
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26
27 The article begins with an outline of the research methodology used in this study. The
28
29 following sections 3,4 and 5 assess the importance of Italy in Romania's foreign trade in
30
31 clothing and footwear and provide a measure of the relevance of the de-localization process
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33 by Veneto firms in Romania. Section 6 discusses the structure of the commodity value chain
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35 and presents firm level case studies which identify, along with global value chain theory,
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37 three models of chain governance followed by firms involved in direct relations with Italian
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39 lead firms. Section 7 focuses on the governance of the value chains across space, in
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41 territories with very different level of development and different industrial structures. Section
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43 8 concludes by discussing how process and functional upgrading is likely to reshape regional
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45 development and sustainability in Romania and in Veneto.
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49 2. The methodological approach.
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2 In 2003 and 2005ⁱⁱⁱ, interviews were carried out with 13 firms in Romania engaged in
3 footwear or clothing production.
4

5
6 7 Romanian firms were directly owned and controlled by Veneto based companies. 4 of
7 these were Veneto manufacturing companies with strong brands and well developed links to
8 distribution: Benetton, Campagnolo, Geox and Incotex. Benetton has its own retail network
9 plus a large franchising network; Campagnolo is beginning a franchise network; Geox sells
10 through a network of independent stores, and Incotex is part of the high fashion Slowear
11 Group, with shops in various locations. These 4 Veneto firms were also supplied by other
12 Romanian firms in the sample, which also made products destined for other Italian and non-
13 Italian companies. 1 Romanian firm was directly owned by a Veneto manufacturer of
14 footwear components: F. Ili. Cunial. 2 more Romanian firms were directly owned by the
15 Veneto company Intex, which acts as a manufacturing sub-contractor to Benetton, Gas and
16 others. An eighth Romanian company produced products for its French parent company.
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19
20 The remaining 5 Romanian manufacturing firms interviewed were all sub-contractors for
21 foreign brand holders. One, L'Avventura was owned by two Italians who formerly had a
22 footwear firm in Italy, and was supplying Geox and others. The remaining 4 were ex-state
23 firms, now privately owned, of which two, Rapsodia and Filty, had Veneto firms among
24 their main customers (Table 1).
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26

27
28 In addition to the 13 Romanian firms, 4 Veneto lead firms were also interviewed, namely:
29 Geox, F.lli Cunial, F. Ili Campagnolo, and Benetton.
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33 The Romanian firms supplied Veneto enterprises which ranged in size from small local firms
34 to plants belonging to large international groups. The enterprises interviewed in Romania
35 also varied in size, from small to large, but the Romanian firms employed many times more
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2 workers for a given level of turnover than did those in Veneto, and as a consequence were
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4 much more labour intensive. The average turnover of Veneto firms was far higher than that
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6 of their Romanian suppliers.
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8 Each interview lasted 1-2 hours and was with a senior executive, and was accompanied by
9
10 a shop floor visit to see the plant in operation. The interviews were enriched with secondary
11
12 information collected from sector specific publications, company reports and web sites.
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14 The objective of the interviews was to explore the nature of inter-firm network relations
15
16 between different stages of the production process, and especially between the lead firms of
17
18 Veneto and their suppliers and sub-contractors in Romania. Table 1 provides details of the
19
20 interviews with the above-mentioned firms^{iv}.
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25 <Table 1. HERE>
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28 29 3. Veneto and Romania clothing and footwear enterprises

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31 Production delocalisation of Veneto firms to Romania reached its maximum over the
32
33 period 1997-2003. The drive for many Veneto small and medium firms towards Romania can
34
35 be explained by the availability of low cost labour, the geographical proximity of the two
36
37 territories, and by the particular structure of the Veneto region's clothing and footwear
38
39 industry. In Romania the cost of labour at that time was only 8% of the EU-15 average, the
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41 lowest, after Bulgaria, amongst East European countries (Table 2).
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44 <Table 2 HERE>.
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46 At first, Veneto firms were attracted to Timișoara and Arad (in the West Development
47
48 Region) and to Cluji in the North West Region, but then, later, several firms located in the
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1
2 North East Region. The North East, although much poorer and with bad transport
3 connections, had a relatively good tradition in the footwear and clothing industry, low wages
4 (in 2000 the West Region had an average wage that was double that in the North East
5 Region), and the presence of large ex-state clothing firms, skilled workers and engineers^v.
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10 Veneto has a larger presence than other Italian clothing producing regions of firms
11 producing standardized products in large batches (such as jeans and sports garments). In the
12 region of Emilia Romagna, in contrast, the focus there is on producing female fashion items
13 and high quality garments, which makes de-localization abroad more difficult. Such different
14 product mixes explain the different historical patterns in the way production has been
15 organised in the two regions (Crestanello 1999), although, under the pressure of demand for
16 more fashionable and customized products, Veneto also is now rapidly moving towards
17 producing less standard items and the differences with Emilia Romagna are lessening.
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26 The production de-localization process can be measured according to three indicators: the
27 amount of foreign direct investments, the number of firms owned by foreign entrepreneurs,
28 and the trade flows of finished and semi-finished products under the coordination and control
29 of multinational firms. The direct investment strategy has been adopted by some of the
30 largest enterprises that have acquired or established factories abroad, thereby moving away
31 from participation in subcontracting relationships, mainly in Veneto, to direct international
32 hierarchical relationships. This is the case, for example, of Geox, an important Veneto
33 footwear producer, which in 1998 established its own large factory in Timișoara, Romania,
34 after changing from a previous strategy of using sub-contractors located in its home Italian
35 region (see Table 1).
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2 Romania in 2006^{vi} was the most important country in Eastern Europe for Italian direct
3 investments (Table 3), but in the clothing and footwear industries in fact the strategy to
4 outsource through international subcontracting relationships is quantitatively more relevant,
5 and has been especially adopted by small and medium sized firms^{vii} that have replaced
6 Italian sub-contractors with foreign ones. Since the mid nineties some large firms have
7 encouraged their local sub-contractors to move abroad in order to continue, at lower labour
8 cost, the previous business relationships that they had in their country, and today there are
9 many small firms managed by Italian entrepreneurs living in Romania that work as
10 subcontractors for Italian and foreign firms^{viii}. Out of 18,000 Italian firms registered in 2005
11 in Romania, 3,900 have a 'Veneto origin', i.e. 22% of the total (this had risen from
12 respectively 12,000 and 2,000 in 2002: REGIONE VENETO, 2006^{ix}).
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26 <Table 3. HERE>
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29 During the nineties, Italian clothing and footwear imports came mainly from Romania, but
30 by 2004 China had become the most important supplier for Italy in clothing, and the second,
31 after Romania, in footwear. Nevertheless, Veneto remains highly dependent on imports from
32 Romania. Out of the total amount of Italian imports from Romania in clothing and footwear
33 in 2006, Veneto accounted for respectively 33% and 52% (for footwear: AMIGHINI and
34 RABELLOTTI, 2003)^x.
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42 4. Romania in the international market.

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44 In a transitional country like Romania, that has emerged 15 years after the fall of
45 Ceaușescu and the associated Communist regime, at the time of our first visit, in 2003, in
46 many places – apart from the Bucharest-Iflow and the West Development Region – many
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2 markets were at an initial stage, and were not regularly utilised, particularly in the
3
4 countryside. Knowledge about technology and the international market was scarce and
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6 incomplete. The legacy of a planned economy, together with a long-lasting period of
7
8 economic uncertainty and slow growth, occurring between 1990 and 1996, and a still partial
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10 privatisation process, had not allowed markets to fully work. Furthermore, managerial
11
12 competences were still scarce and there was a culture of inertia resulting from a lack of
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14 tradition of autonomous action and from a strong aversion to risk^{xi}.
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17 <Table 4. HERE>
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20 Table 4 shows that within a few years after the fall of Ceaușescu, Romania had almost
21
22 completely lost the Soviet market for textiles, clothing, tanned leather and footwear. Over the
23
24 same period, subsequent to the start of a process of German and Italian delocalisation of
25
26 those industries, Romanian imports of raw materials from those countries and exports of
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28 finished or semi-finished products to the same countries soared. Today, a large part of the
29
30 Romanian clothing and footwear industry is dedicated to the transformation of raw materials
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32 and semi-finished goods, mostly imported from Western Europe and re-exported towards
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34 those same countries at a more advanced level of manufacturing. This phenomenon is
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36 reflected, on the one hand, in the high levels of Romanian clothing and footwear exports
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38 going to certain Western countries, and, on the other hand, in high quantities of imports of
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40 textiles and leather from these same countries (table 4, in bold).
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43 The trade data also show the growing importance of Italy as a trading partner for Romania
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45 in those industries (BALDONE et a. 2001, 2002; GRAZIANI, 1998, 2001;
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47 SCHIATTARELLA, 1999), having replaced Germany as its most important partner.
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Germany, however, has strengthened its own presence in Romania in higher capital-intensive industries, such as chemicals, electro-mechanics, optical instruments and transport^{xii}.

In Romania, before the '90s clothing and footwear were important industries, well connected to local upstream textiles and leather industries. However, the latter, in the early 90s, were largely abandoned because of the rapid technological obsolescence of plants and the difficulty of producing the high quality yarns, fabrics and leather required by the sophisticated Western market^{xiii}. Many Romanian textile firms closed down and some converted to clothing production; the same happened to the tannery firms^{xiv} and to the chemical treatment plants for leather waste^{xv}.

Their closure was hastened by the fact that not only did these industries need large investments to renew machinery and production, but foreign investors could import into Romania, without delay and at no additional cost, all the raw materials they required, enjoying low tariffs^{xvi}. The EU, moreover, promoted a customs agreement that made it easy to import into Romania raw materials and semi-finished products. In the nineties, imports from the EU were subject to OPT (outward processing trade) provision, and then in 2000 were completely liberalized. Further, finished products were exported to the EFTA countries without duties. Through such means, the EU countries have protected their textiles industries from the competition of important producers, such as Turkey, whose exports to Romania were penalised by import tariffs^{xvii}.

Employment in manufacturing in Romania totalled 3.452 million in 1990 and declined continuously until 2000. It then rose again to peak in 2002 at 1.594 millions, only to fall again to 1.409 millions in 2006.

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Between 1990 and 2002 the textiles industry lost 323 thousand jobs. Clothing and footwear lost jobs until the 1997 crisis falling by 45% (-122.000), then increased employment by 54% during the following 6 years (+142.000), when many foreign investments entered the country. Table 5 shows that the share of clothing and footwear production as percentages of Romanian manufacturing totals declined after 2002; employment declined in clothing.

<Table 5. HERE>

The decline of the Romanian textiles and leather industries in the 90s had consequences in the form of a decline in skills linked to machine maintenance and the broader mechanical industry. A director of the Romanian textile firm Samtex said:

[During the Communist era] the maintenance of textiles plants was regularly carried out by well-equipped internal teams. However, by the time of Ceaușescu's fall, the demand for textiles yarns had drastically diminished, ex-state firms had not been investing in new plants because of both a lack of demand and of finance, and when there was a breakdown the looms were not repaired but were substituted by other looms set aside that were not in use. Consequently, the maintenance teams were not needed and were the first to be dismantled, and many mechanical workers were fired and emigrated.

Of course, a lack of demand for maintenance does not fully explain the backwardness of the Romanian mechanical industry, that lost in the five years after the fall of Ceaușescu 50% of its employees, around 300.000 workers, but this story highlights the role played by the impoverishment of the country's manufacturing base in the early 90s, and the path-disruptive effects generated by the heavy industrial restructuring and large emigration flows of skilled workers that continues to-day.

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2 After the 1997 economic crisis, however, profit opportunities in textiles production in
3 Romania started to grow, clearly as a consequence of downstream demand increases, and the
4 effect of foreign investors starting up textiles production at the local level. For example, in
5 Jibou was established Samtex (Table 1), owned by the Italian F.lli Campagnolo, now
6 producing and dyeing good quality jersey, partially used directly by the company itself, but
7 mainly sold to Italian firms that subcontract sports clothing in Romania. Since fabric supply
8 is the most important input into the clothing production process, a country that wants to
9 reinforce its position in the value chain, and rise from assembly to original equipment
10 manufacturing (OEM), needs to develop an adequate textiles industry (BAIR and GEREFFI,
11 2001; GEREFFI, 2005, 171). In Romania, the process – if a process will develop – is just in
12 its infancy, and currently the greater part of textiles is imported from abroad. Recently the
13 EU has financed the ICPI, National Research and Development Institute for Textile and
14 Leather in Bucharest, and, given the good level of technical education, there are positive
15 prospects that Romania might develop its textiles and leather domestic production^{xviii}.

32 5. The importance of the process of production de-localization from Veneto to Romania.

33 A picture of the magnitude of de-localization from Veneto to Romania is provided by
34 figures showing the value of Veneto clothing and footwear imports from Romania.

35 According to the Romanian customs office, 98% of total clothing, and 95% of footwear,
36 exported from Romania to all countries in the early 2000s were produced as a result of OPT
37 trade. Let us assume that Veneto imports from Romania in clothing and footwear were totally
38 under the control of Veneto manufacturing firms, which is a very plausible assumption^{xix}. In
39 2005, the production value of clothing and footwear exports to Veneto was respectively
40 439 and 464 million euros, including raw materials and value added. From interviews we
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1
2 estimate that in clothing firms, in Romania, raw materials constitute on average 75% of the
3 value of the final product so that the value added produced in Romania (the remaining 25%
4 of the total) is 110 million euros. This corresponds to 31,400 jobs, assuming an average value
5 added per employee of 3,500 euros. In footwear factories, raw materials represent a larger
6 quota of the final value and the corresponding estimated jobs totals 26,500 (table 6).
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13 <Table 6 HERE>
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16 If the finished clothing and footwear, were manufactured directly in Veneto by local
17 subcontractors, the number of jobs in this region would be different because of the different
18 levels of productivity in the two countries. Raw materials represent roughly 50% of the
19 production value in Veneto subcontracting firms. The average value added for a Veneto
20 subcontractor is around 20,000 € (CRESTANELLO, 1999) and the corresponding jobs in
21 Veneto needed to make the same amount of production that has been moved to Romania,
22 would be 16,462 for clothing and 18,560 for footwear. In 2004, employment in
23 subcontracting clothing firms in Veneto is estimated to number around 31,000
24 (CRESTANELLO, 2006) and so the additional number of jobs that could be in Veneto, in the
25 absence of any de-localization process, is more than 50% of the present subcontracting
26 workers. There is of course no guarantee whatsoever that without the advantages deriving
27 from de-localization in terms of lower prices, the same products and the related jobs would
28 have occurred in Veneto. But the estimate provides an idea of the impact of the delocalisation
29 phenomenon on employment, both in Veneto and Romania^{xx}.
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47 6. Commodity Value Chain Analysis: Three Cases-studies.
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Global commodity chains analysis has three main dimensions. First, an input-output structure which links various nodes of production, consumption and distribution into a chain of economic activity in which value added is produced. Second, a territoriality in the sense that the various activities in the chain are geographically situated (SMITH et al. 2002). Third a governance structure. A well known typology of commodity chain governance is provided by GEREFFI (1994), who distinguishes between “buyer driven” and “producer driven” forms . In producer driven chains very large (usually multinational) corporations undertake the most capital-intensive part of the production process and play the central role in chain coordination. These chains are present in such industries as automobiles, aircraft, heavy machinery and computers. Buyer driven chains are generally found in sectors where production is much more labour intensive, but where large retailers and brand name merchandisers play a central role in establishing and controlling production systems, usually located in low cost countries. The clothing and footwear industries are the most obvious examples. The buyer retains little, if any, direct control over the manufacturing process.

In this section we analyse the structure of commodity chains in the footwear and clothing industries by presenting several case studies of firms in Romania that sold their production (mainly) to Veneto firms. Our study contrasts three types of governance, based on the complexity of transactions, the ability to codify transactions, and the capabilities of the supplier. The captive supplier that is dependent on a large buyer to whom it provides standard products under direct control, the relational supplier that makes products to a customer's specifications, which are sketchy and require complementary competences, and the relational supplier that provides key services to the buyer that involve high levels of asset

1
2 specificity. The three cases range from high to low levels of explicit coordination and power
3
4 asymmetry (GEREFFI et al., 2005).
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7 8 6.1. Foreign direct investment and a relational network of suppliers: Geox 9

10 Geox is a large international footwear producer^{xxi}, whose head office is located in the
11 district of Montebelluna in Veneto. Today, Geox's production is almost completely made
12 abroad. In 2003 all sports shoes were produced in the Far East. 80% of leather 'classic' shoes
13 (the main product of Geox) were manufactured in Slovenia, in a Geox factory employing 300
14 workers, and since 2000 in a plant in Timișoara, Technic Development srl, that in 2003
15 housed 2.800 workers^{xxii} (Table 1). All the production made abroad was imported into Italy.
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18 Before the fall of the Ceaușescu regime, going back to the Austro-Hungarian empire,
19 Romania had a flourishing footwear production, mainly concentrated in large firms such as
20 Filty and Gubam, that until the eighties employed several thousand workers. After the regime
21 breakdown many plants closed and production fell (as shown earlier in Table 5), and at the
22 time of our first visit Gubam no longer existed and Filty, although surviving, had halved its
23 employment to 1400 workers. Technic Development plant therefore was established in a rich
24 context of footwear skills where qualified workers could be easily found or trained. At the
25 time of the interview, only 12 Italian technicians worked in the Technic Development plant
26 (4% of the total labour force), and all of them had high technical ability. All the other
27 workers were Romanian. Geox was interested in increasing the professional skill of its
28 workers by using wage incentives tied to productivity. The most skilled workers belonging to
29 a first selected group (20-25% of the total) received more than double the average salary of
30 all the workers.
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2 The Romanian plant was vertically integrated with the Italian head office, in Montebelluna,
3 Veneto, which was responsible for making prototypes and producing technical schedules.
4 The prototypes were the result of the work of a high-qualified staff (the Montebelluna plant
5 employed 400 employees, divided between designers and staff engaged in quality control and
6 organization, as well as providing outsourced work to other local external qualified
7 technicians and designers). The home company suffers from the lack of skilled workers
8 available in the district and part of the staff working on classic shoes prototypes had been
9 recruited in the Marche, which is one of the most important Italian footwear districts,
10 specialised in the production of classic shoes^{xxiii}. The Geox head office supplied the tanned
11 leathers (coming mainly from the two main Italian tanning districts of Arzignano and Santa
12 Croce), the polyurethane necessary for the soles production, all the accessories (including the
13 boxes for packing), the sole aluminium moulds and equipments and machinery (mainly
14 Italian). The import of these materials into Romania was absolutely necessary as there were
15 not yet local firms capable of satisfying this particular demand for production inputs. As
16 mentioned earlier, almost all trade in this sector was OPT trade (table 4). According to our
17 interviews, only shape cutters for trimming machines were produced by local mechanical
18 firms.

19 Although the high level of vertical integration based on hierarchical relationships made the
20 exchange of information and the transfer of semi-finished products between Italy and
21 Romania easier, Geox management acknowledged the existence of problems and
22 inefficiencies arising from managing a design process that was split from production. To
23 overcome the lack of feedback information from the production process, the Italian
24 management planned to establish a small design department in Romania employing local
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2 technicians coordinated by an Italian product manager. The Timișoara plant director during a
3 first interview in 2003 asserted that:
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6 *Being far away, the information that is generated in the production cycle is lost, there is a*
7 *break between shoe conception, design and its production realization and the attempt to*
8 *establish an industrial design centre in Romania is a rational decision to reduce such a*
9 *break in the tacit knowledge transmission process.*
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14 The department opened in 2008 and has been working since. Nearly all knowledge linkages
15 (relating to aspects such as technical information and raw material supplies) with external
16 enterprises (including advisers and designers) were concentrated around the Montebelluna
17 headquarters. Footwear machinery and raw material suppliers were almost all Italians. At the
18 time of the first interview in Romania, in 2003, Technic Development used 6-7 footwear
19 subcontractors. These firms were used as extra capacity for satisfying peak demands (usually
20 in May-July), and for producing more fashionable products in shorter runs (most lady's
21 shoes). Half of the production outsourced to Romania by Technic Development went to firms
22 managed by Romanian entrepreneurs and the other half to enterprises managed by Italians.
23 Technic Development supplied its own subcontractors with raw materials, accessories and
24 machinery. It also allowed another Veneto company, F.lli Cunial – a manufacturer of
25 footwear parts and components -, to use the warehouse of Technic Development for storing
26 its products sent from Italy. Obviously, Italian firms operating in Romania would find it more
27 profitable to source locally the materials and services they needed, and this explains the
28 decision of some Italian producers of parts and components to follow their clients and
29 establish their production in Romania, in order to ensure continuity of supply.
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2 With the exception of Filty, a footwear firm managed by Romanian entrepreneurs that works
3 also on behalf of other foreign multinational firms, all the Technic Development
4 subcontractors in Romania were of small size. They could not sell directly on final markets
5 because of distribution costs and lack of knowledge and, moreover, were excluded from the
6 domestic market because it provided too low a demand for the high standard of their
7 production.
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10
11 The Geox global value chain was organised such that administrative, design, marketing and
12 distribution activities were carried out in Italy; the largest part of production was
13 subcontracted to East Asia (mainly sport shoes and garments); and mainly leather shoes
14 were produced in its own plants in Romania and Slovenia. Gereffly would describe this chain
15 as a “mixed chain”. The lead firm carried out production directly in its own plants or through
16 subcontracting under its close control. At the same time, however, Geox acted as a buyer and
17 the largest part of production was bought from full package firms, making products
18 according to the leader’s design.
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31 De-localization in Romania was managed through a hierarchical value chain. The
32 Romanian subsidiary, Technic Development, produced a great part of the production of
33 Geox’s leather shoes, while the Romanian subcontractors provided a flexible source of extra
34 capacity and worked under Geox’s tight control (in a quasi vertical integration fashion).
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40 6.2. High asset specificity: Intercolor and Mare Blu.

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42 Bruno Maule is an Italian entrepreneur who lives in Romania, in Timișoara, and who
43 owned two firms: Intercolor, which is a laundry; and Mare Blu which produces garments on
44 behalf of some Veneto firms. Maule was a Benetton employee from 1976 to 1982 and then
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1
2 he was employed by Marzotto and Zanella, two well known Veneto firms. In 1985 Maule
3
4 opened a factory in Treviso, in Veneto, producing clothing, casual trousers and shirts and had
5
6 among its customers the Benetton Group. In 1993, only a few years after the fall of the
7
8 Ceaușescu regime, Maule decided to outsource a part of his production to Romania. At the
9
10 beginning, he subcontracted to Romanian enterprises, using an Italian intermediary who
11
12 stayed in that country two days a week to co-ordinate the local subcontractors and explain to
13
14 them the technical details in making the products. Then he decided to move to Romania to
15
16 establish and manage his own firm; as he explained:

17
18 *Italian buyers are very strict and if the subcontractor does not stick to the standards, they*
19
20 *send back the entire truck without too many compliments. In 1998, I gave an order to a*
21
22 *Romanian subcontractor that did not deliver the merchandise on time. I risked a complete*
23
24 *failure. Then I decided to come here, to Romania, and control and carry out the production*
25
26 *by myself. I loaded a truck in Italy with my firm's machinery and moved to Romania where I*
27
28 *rented an abandoned shed, hired 12 workers, and started to produce. I realised that I would*
29
30 *have to stay in Romania and work hard. At the beginning, my workers were not able to sew*
31
32 *properly. Here, people are accustomed to having trousers with legs of different length and*
33
34 *out of shape – acceptable for Romanian consumers but not for the sophisticated European*
35
36 *market. I explained to my workers the importance of details. At first, they did not understand*
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38 *my stubbornness, but after a time I was able to respect the standards requested by my*
39
40 *clients.*

41
42
43 In Romania, Maule started to produce 200 pairs of trousers daily for Benetton, at that time
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45 his only client. In 2003, he produced, in a flexible way, 5000 items a day with 5 production
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47 lines and around 150 employees. Part of the production was outsourced to two Romanian
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2 subcontractors. An average production run consisted of 4000-5000 items per model. Bigger
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4 runs were an exception, such as when Maule produced in 5 months 100,000 pieces of the
5
6 same model for Benetton^{xxiv}.
7

8 Today, 80% of Benetton's production^{xxv} is manufactured abroad, whereas in the mid
9
10 nineties the quota going abroad was less than 20%^{xxvi} (Crestanello and Tattara, 2009). At the
11
12 beginning, Benetton sub-contracted to Maule only the sewing phase; by 2005, however,
13
14 Mare Blu was making a finished product from cutting to packaging which was then sent for
15
16 checking to a Benetton plant in Sibiu that deals with Benetton's subcontracting in Central
17
18 and Eastern Europe^{xxvii}.
19

20
21 Maule pointed out that competences in clothing were not lacking as far as his employees
22
23 were concerned. His Romanian labour force was generally well trained and knowledgeable
24
25 and the presence of Italian technicians was limited to just two. According to the Veneto
26
27 entrepreneur it was not profitable in Romania to use electronic sophisticated machines
28
29 because of the high cost of their maintenance. Local workers were not able to repair them
30
31 and in the case of a breakdown the firm needed the intervention of specialists from Italy,
32
33 resulting in a long delay. In addition, the higher productivity of these machines did not
34
35 compensate for their cost when comparison is made with the cheap cost of Romanian labour.
36
37 In the same vein, in Botosani, the French manager of Formen's^{xxviii} – a man classic suits
38
39 producer -- confirmed that the availability of low cost labour meant there was no need to use
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41 sophisticated sewing machinery. The investment in modern CAD placement and cutting
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43 stations by Formen's was justified in order to avoid the possible waste of the high quality
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45 fabrics (cashmire).
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But more interesting, and more relevant at present, was the second direct investment by Maule, Intercolor SA, a company specialized in dyeing clothes made of cotton, wool as well as in denim treatments. More than ten years ago Gas, a large clothing Veneto firm convinced Maule, which still has a laundry in Vicenza, to establish a new one in Romania. Gas, has a factory in Resi \square a, in the West Development Region of Romania, with 1200 employees and it was in need to complete the entire production cycle of jeans in that country in order to import to Italy finished and packaged products. A washing treatment in Romania costs not much different from in Italy, but after washing there are some labour intensive production stages that it is not profitable to make in Italy. For example, jeans decolouration made using an airbrush technique (a treatment utilising abrasive materials) is carried out piece by piece manually and it has a cost up to ten times more than a simple washing process^{xxix}.

At the time of a first interview in 2003, Maule was able to complete in Romania the whole production cycle of Gas jeans, adding to cutting and sewing stages also washing and packaging. The Timi \u015b oara laundry, that works for several foreign customers, has been rebuilt and enlarged in 2004 and now it employs very modern machines. Goods are stocked in a rotating warehouse, weighing is controlled by robots, machines are equipped with microprocessors controlled through a server, and dyeing instructions are read through a bar code. There are few modern industrial laundries in Romania and countries the nearby: one is in Buz \u015b u (South East Development Region) and is managed by the firm Martelli Europe; another is in Bulgaria, at Yambol, and is managed by the Miroglio Group that owns textiles and clothing factories in that country.

This example makes clear the possible contrast between the logic of comparative advantage and that of value chain theory. The first, "comparative advantage" helps to explain why a

1
2 slice of the value chain moves across national borders in order to reap the lower (location
3 specific) costs. The second, “value chain theory” explains decisions on which activities and
4 technologies should be distributed at different points of the chain in order that the entire
5 production network should perform efficiently. The formation of a global value chain
6 structure is an ongoing process (WHITLEY, 1996). At the beginning, Gas and Benetton and
7 Maule had simply a market relation based on clothing subcontracting (to Mare Blu): in fact it
8 might have developed in any low wage country. But the network then developed with a very
9 specific investment being made by the subcontractor to overcome a crucial bottleneck in the
10 value chain. The building of the Intercolor laundry made Maule able to service more steps of
11 the value chain: relations became more complex, dependence was mutual, and the strength of
12 the subcontractor lay in its high level of assets specificity (GEREFFI et al. 2005, 97).
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27 6.3. Captive and relational subcontracting: three Romanian clothing suppliers

28 Finally, we combine the stories of three clothing enterprises in order to demonstrate how
29 three ex-state owned Romanian firms were able to upgrade along the clothing value chain
30 showing different capabilities and autonomy.
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34 The companies, Rapsodia and Asco (See Table 1), are typical representatives of large
35 Romanian ex-state clothing enterprises that work exclusively for foreign enterprises. These
36 companies are located in the North-East, a poor area on the Ukrainian border, and employ
37 more than one thousand workers each. Rapsodia is managed by Romanians who own also a
38 small amount of equity in the company. Asco is controlled by foreign capital. In the past,
39 these companies also produced textiles and employed a higher number of workers.
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2 Both companies produced classic male clothes, receiving from their foreign buyers all raw
3 materials and accessories because they were not available in Romania and must be imported
4 under the OPT regime. Asco received the clothing designs, sometimes only simple sketches,
5 via internet and co-operated with its clients to develop products for manufacture. Rapsodia
6 made sample collections starting from sketches supplied by the buyers. It prepared real size
7 models and developed technical schedules which must be discussed with, and approved by,
8 the buyers. Through such means, both Asco and Rapsodia moved towards relational
9 subcontracting; they developed good technical competences and performed a series of roles
10 associated with production and export activities that go beyond the pure assembly phase.
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14 At the time of the second interview, in 2005, Rapsodia had shifted from supplying the
15 Incotex Group, one of its previously long standing main customers, to Luck (a Mavecom spa
16 brand) and produced casual and classic male good quality clothing. Luck used to produce in
17 Croatia but at the time of the interview brought all its delocalised production to Romania and
18 transferred five Croatian technicians and all its high-tech machines to Rapsodia. Rapsodia
19 also started a subcontracting agreement for Benetton which denotes a considerable autonomy
20 and capacity to engage with different players and product mixes.
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23
24 Rather different was the situation of Confstar, a Romanian clothing firm in Baia Mare, in
25 the North West Region, producing for a number of German brands, but with a strong
26 predominance for Gerry Weber, within a captive relationship. The German brand-owner at
27 the time of the interview was the only client and commissioned low quality products (some
28 items are also sold directly in the Romanian market through a shop within the firm premises).
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30 The producer had neither design nor marketing competences.
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2 The foreign customers of these three sub-contractors had their own workers that operated
3 permanently inside the Romanian factories to check, at the end of each production line, the
4 product quality. Through such means, foreign firms accomplished a functional upgrading of
5 their Romanian subcontractors (HUMPHREY and SCHMITZ, 2002, 1020), more in the case
6 of Asco and Rapsodia than with Confstar. However, the director of Italpant, a Veneto
7 enterprise of the Italian Incotex Group previously located in Portugal and now transplanted to
8 North East Romania, interviewed in 2003, asserted that the productivity in his factory was
9 much higher than that existing in subcontracting firms managed by Romanians, such as
10 Rapsodia, a factory well known to him as Italpant had purchased from Rapsodia in the
11 previous years. To him, this was partially due to the fact that Italpant's personnel policy was
12 entirely based on a piece-work wage while Rapsodia paid a monthly fixed wage. In general,
13 foreign firms reformulated labour market and industrial relations in respect of old ex-state
14 firms. For example, trade unions became absent and wages were, in several cases, set on a
15 piece-work basis, and this, in the short run, increases productivity.
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31 More generally, the existence of a productivity divergence in Romania between enterprises
32 managed by Italians and those managed by Romanians was a widely diffused opinion
33 amongst Italian technicians. This reflects the importance of underlying social, organizational
34 and technological structures: low productivity is the result of the way the work is organised,
35 the premises' functionality, and the type of machines in use.
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41 Romanian workers are generally skilled. Romania has an important 'textiles' polytechnique
42 in Iași and a large supply of workers (mainly female) specialized in clothing and footwear
43 production is available. Italian entrepreneurs that have come to Romania have taken great
44 advantage of the opportunity to employ these low waged qualified workers. Italians who
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2 started up enterprises in Romania paid higher wages than those offered by the larger factories
3 managed by Romanians, and so were able to attract and select the best workers. The basic
4 wage in the North East Development Region was at the time of our visit 100€ a month and
5 the additional cost required to attract the skilled workers was very small in terms of
6 manufacturing cost. The larger Romanian factories helped to create a qualified labour force
7 that was drawn upon by the smaller firms managed by foreign entrepreneurs.
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14 15 16 17 7. Commodity chains, geography, markets and competences.

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19 In 2005, 25% and 50% of all clothing and footwear products imported into Veneto from the
20 whole set of low wage countries^{xxx} came from Romania, and workers employed in Romania
21 on behalf of Veneto enterprises in these industries were estimated at around 55.000, while the
22 estimate for the whole of Italy reached 120.000. Such a huge de-localization process in
23 clothing and footwear brings to our attention two sets of key questions regarding the future
24 prospects for both the host and the home countries.
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31 The subcontractors that work on behalf of Italian firms in Eastern Europe still utilise yarn,
32 fabric and leather of Italian origin, universally recognized to be the best in the world in terms
33 of quality and design. Moreover, the initial phases of the value chain (such as design) and
34 the final phases (such as logistics and marketing) are still carried out in Italy. Production
35 phases that remain in Veneto include planning, quality control, shipment and distribution,
36 and sometimes the high capital-intensive parts of the production process, such as weaving,
37 dyeing, printing and in a few situations automatic computerised placement and cutting. In
38 general, short series production geared to providing a quick time to market (including re-
39 order and flash production) are not de-localized and this is also the case for some other
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2 products, such as ladies' high quality and fashionable shoes and high end clothing. Also,
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4 seamless knitting – a high capital intensive process, operated by very modern machines, is
5
6 still retained, by several firms, in Veneto (GOMIRATO, 2004).
7

8
9 A massive and rapid outsourcing of production activities can lead to an impoverishment of
10
11 old production areas, not only in terms of employment but also in respect of knowledge and
12
13 skills (SPAVENTA and MONNI, 2005). The innovations that have been at the root of the
14
15 'Made in Italy' success have nearly always developed out of very close contacts between
16
17 people that design and people that make; are based on product and process innovations that
18
19 have arisen out of the production process; and have come out of the daily familiar use of
20
21 machines and production materials. For Italian lead firms, both in clothing and footwear
22
23 manufacture, a significant part of their production they themselves carry out. They are not
24
25 exclusively buyers, and for them internationalization occurs both through subcontracting and
26
27 buying from abroad. Production competences are still at the basis of the development of the
28
29 Italian districts. But, if the industrial districts lose their production competences do they run
30
31 the risk of losing also their competitive advantage in designing successful products? Can a
32
33 favourable scenario be reasonably assumed where Veneto clothing and footwear production
34
35 maintains within its own regional border the 'more high value added' production stages, such
36
37 as marketing, design and logistics, and realizes in other countries the more labour intensive
38
39 and less skill intensive components? The question has a solid ground because some
40
41 entrepreneurs have demonstrated increasing difficulties in finding in Veneto workers with the
42
43 necessary skills and knowledge, and this is a clear indication that the local pool of
44
45 competences, from which the enterprises have drawn in the past, is today being diluted. On
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47 the other hand, lead firms, in order to assist their delocalisation abroad, need highly qualified
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people in areas such as marketing and logistics, both of which were traditionally neglected by the typical district producer.

As for Romania, can we assume that some territories there will mirror the successful growth experienced in the '80s by the Veneto clothing and footwear districts? Within Timiș county in Rumania, the footwear industry employed in 2005 around 4,000 workers –very close to the number of employees counted in Italy within the district of Montebelluna, Veneto, during the 70s^{xxx} although the two situations were profoundly different. Our case studies make clear that value chains located in diverse geographical contexts assume different forms, although interconnected. Consider for example the case of Geox : in the past Geox subcontracted inside Italy, within the Montebelluna district where the lead firm operated, where a thick network of skilled subcontractors provided the necessary operations from cutting to hemming, assembly, finishing, and finally quality control and packing. In such a context it was easy to shift from one subcontractor to another, and the lead firm was linked to its subcontractors by a typical arms-length relationship. In Timișoara, Geox, through Technic Development, had 5-6 subcontractors. One of them was set up in Technic Development's own premises. Some of them were Italians, and have been induced to come to Romania. Some were Romanians, selected after a long process of learning and upgrading. Relations between the lead firm and the sub-contractors were stable because substitution by firms possessing the required content of skill and productive capacity was not easily possible. At the same time, subcontracting was necessary to enable the flexibility that was required by a plant of such big dimensions as Technic Development. Technic Development's subcontractors played a crucial role based on trust. They carried out a difficult part of production and provided flexibility to the otherwise rigid Geox plant. What was apparently

1
2 the same production relation, in different territories, was in fact a different relation, reflecting
3
4 a dialectical relationship between the structure of the chains and their national, regional and
5
6 local context.
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8 The main constraints on host country development due to the process of production de-
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10 localization are the lack of organizational and entrepreneurial resources and up to date
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12 technical competences, and many factories in Romania that worked on behalf of foreign final
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14 firms were managed by Italians. Many small entrepreneurs who worked in Veneto as
15
16 subcontractors decided to move abroad under the pressure of low prices and the threat of
17
18 losing orders, but also under pressure to fill up specific gaps in the chain structure (such as
19
20 laundry facilities, fabric printing, automatic cutting, and others).
21

22 The absence of a strong domestic market was a key factor in explaining the insufficient
23
24 initiative and autonomy of Romanian producers: risk aversion and the failure to bear
25
26 responsibility was a characteristic complaint by various Italian entrepreneurs in respect of
27
28 Romanian employees (CALLEGARI, 2006). The ability to sell fashion products on the
29
30 international market requires marketing skills and an acquaintance with the complex fashion
31
32 circuit, factors that can be established in the long run and do not find favourable conditions in
33
34 poor or unsophisticated environments.
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36 37 8. Conclusions. 38

39 The commodity chain framework moves our attention away from 'the commodity' per se
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41 and towards the mechanism by which value in a particular sector is governed by the networks
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43 of linkages that connect firms with economic life (SMITH et al. 2002; WHITLEY, 1996).
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45 Romanian integration with the international economy required a period of catching up
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47 involving a deep restructuring of production and labour markets in a very short period of
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1
2 time. Integration on the basis of trade suggests that Romania's place in the European division
3 of labour is as an exporter of clothing, footwear and transport equipment; the first two
4 products had a peak in 2003, the latter has constantly increased its share since 2000.
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9 The picture of Romania being integrated with Europe on the basis of low cost economic
10 sectors is rather simplistic (KAMINSKI and NG, 2004; WORLD BANK, 2004) and it does
11 not capture the process of upgrading undergone by Romanian firms in these sectors. The
12 analysis of trade flows provides some interesting insights. In 1995, when delocalisation was
13 at its beginning, finished shoes represented 41 percent of Romanian total exports of footwear
14 products to Italy (UN Comtrade^{xxxii}), whilst 59 percent were components (mainly
15 uppers^{xxxiii}). After 12 years, finished shoes represented 71 percent of Romania's total exports
16 of shoes to Italy, whereas uppers were only 29 percent. This striking change, which started in
17 2000, clearly testifies to the steady shift of the entire production process by Italian firms
18 towards Romania. It is almost impossible to disentangle from the trade data the various
19 production phases in clothing, but the evidence provided by the case studies of Filty, Asco
20 and Rapsodia, - together with the presence of qualified workers, of a plurality of customers
21 and the offer of services related to production, which indicates some ability to manage the
22 knowledge, procedures, vocabulary, and technology through which economic activity is
23 conducted - , point towards a process of incremental upgrading (Smith, 2003) that may lead
24 to the transition to a more cohesive network structure (GLÜCKLER, 2007). The whole
25 process of production can now be performed in Romania, from cutting to packing the
26 labelled product, and in some cases manufacturing of a sample from a sketch.
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46 Italian firms in footwear and clothing frequently produce directly in Romania and set in
47 motion a process of knowledge transfer and upgrading in technologies, quality, flexibility,
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2 product customisation and skills. Firms that possess the advanced competences that
3 contribute to technological progress are found in clothing and footwear industries as well as
4 in other sectors: laser cutting, dyeing, printing etc. Simply stated, low-tech industries are not
5 devoid of high techfirms, nor, for that matter, are high tech industries comprised exclusively
6 of high tech firms. There are numerous dimensions of technological progress and the
7 competences required to interpret a sketch, respond to demands for customization and
8 propose quality variations are highly sophisticated.
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11 The transfer of the high components of the value chain from Italy to Romania is at present
12 only at its beginning, and we cannot assume it will necessarily occur in the future: the high
13 value added design and marketing activities remain located in Italy and it is only very
14 gradually that the end of line operations are moving abroad. The history of the 90s' tells us
15 that the de-localization processes directed towards some East European countries such as
16 Hungary and Poland have, in the following years, been redirected towards Romania and
17 Bulgaria. A similar situation had already taken place in respect of Portugal when it joined the
18 European Union in 1986. A significant number of French and German firms outsourced into
19 this country their clothing production, but subsequently, when the attractiveness due to the
20 low wages faded away, foreign enterprises redirected their production towards other
21 countries (THIEL et al., 2000; CEPS-WIIW, 2005, P. 94; HARDY, 2007). Since Romania
22 signed the Treaty of Accession in 2005, clothing and footwear exports and production have
23 fallen as a result of labour shortages, higher costs and competition from low cost countries in
24 Asia, particularly China. The cost of labour in Romania since 2003 has more than tripled
25 (Eurostat, Statistics), given the Leu appreciation towards the Euro (tilll February 2007).
26 Some buyers are now testing the water in Serbia, Albania and North Africa, as testified by
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2 the pause in the trend of Italy-Romania trade growth, but many Italian firms value the good
3 relationships they have created with Romanian factories, and prefer to work with established
4 partners rather than seek out lower prices. Romania can take advantage of its high level of
5 human capital, of the completeness of the manufacturing process, of its geographic strategic
6 position vis-a-vis the drive by European producers towards the Russian market, and a
7 favourable fiscal regime towards company taxation^{xxxiv}. Moreover, the country has an
8 institutional infrastructure to support Italian industry, including Antenna Veneta to Veneto
9 Banca (with its branch, Banca Italo-Romana), and the Italian Camera di commercio Italo-
10 Romena (with its several branches)- all three with an explicit Veneto origin-, and
11 entrepreneurial associations such as Unimpresa Romania^{xxxv}.

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31 ⁱ This paper is part of the research program PRIN 2002-2003, n. 2002133972-03. We thank
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33 Frank Pyke for his careful reading and valuable comments.

34 ⁱⁱ Veneto region is characterized by a presence of important brand-owning final firms in
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36 footwear and clothing, supplied by a large network of small subcontractors.
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38 ⁱⁱⁱ In Romania a team directed by prof. G. Tattara carried out more than 50 interviews to
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40 clothing and footwear firms both managed by Italian and foreign entrepreneurs (Prin: 2002-
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42 03; FSE project, 3-C1.2004). The firms that were interviewed are located in the counties of
43
44 Botoşani, Bacău, Cluj, Mureş and Timiş.
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46 ^{iv} Permission to report names and qualifications has been agreed with the interviewees.
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48 ^v Trained at the Iaşi Faculty of Textile and Leather Engineering.
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^{vi} Capital flows into Romania have been fully liberalized since the early nineties. Direct investments in Romania amount to 4.7% of Gross National Income (The Economist, 2006). Investments, in large part, depend on the outsourcing processes of large manufacturing enterprises (such as Continental, Michelin, Daewoo, Renault, Sumitomo, Yazaki, and Panasonic) and distribution firms (such as Metro, Carrefour, Billa, and Unilever), as well as major European banks ("Survey on the Entrepreneurial Veneto Presence in Romania" and HUNYA, 2002).

^{vii} On the effect of FDI see NAVARETTI et al. (1999) and NAVARETTI et al. (2002). On the necessity to assess the magnitude of de-localization flows through the study of commodity flows, see, amongst others, YEATS (1998) and KAMINSKI and NG (2000; 2004).

^{viii} Thousands of Veneto entrepreneurs and technicians controlled, both through foreign affiliates and local sub-contracting firms, respect for quality standards and delivery times for items produced to the designs sent by home enterprises.

^{ix} These numbers include possible non- active units.

^x According to the WORLD BANK (2004, 2.36), the presence of many small Italian firms was probably responsible for the fact that the textiles and leather industries were characterized by much higher foreign penetration than in the case of other CEEC-10 countries.

^{xi} According to the International Labour Office, between 1990 and 2000 industrial employment and wages of Romanian workers declined (in real terms)(Laborsta in www.ilo.org). In contrast, the Romanian Central Statistical Office asserts that wages, during the nineties, registered a modest increase (Insee, various years). Anyway, as the strong

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employment reduction is not questioned, the employees' aggregate purchasing power certainly declined.

^{xii} On the German position in respect to Eastern Europe, see PELLEGRIN (1999), KAMINSKI and NG (2004) and FAUST et al. (2001).

^{xiii} A firm's textiles sample collection is generally necessary for a wide range of products, differentiated by the blend of material used, colours, the printing, and other aspects.

^{xiv} This was a case of non-existent or negative consumption linkages. As Hirschman had noticed: "it is now widely recognised that during the first phase of export expansion in the countries of the periphery an important effect is not the creation of new industries to satisfy rising consumer demand, but the destruction of established handicraft and artisan activities...as new imports of consumer goods compete successfully against them" (1977, p. 72-73)

^{xv} ALBU et al. 2005.

^{xvi} See Chakravarthi Raghavan from Ginevra 7 Dec, 1995

<www.sunsonline.org/trade/process/lookup/1995/12060095.htm>. See also UN's Economic Commission for Europe (ECE), Economic Bulletin, v. 47, 1995

^{xvii} Hirschman notices that imports play a creative role in the process of development but that the "exporting countries can make political and economic pressure in order to prevent or delay the loss of important markets" (1968, p. 151).

^{xviii} On the importance of the nation state for the development of the value chain, see WHITLEY (1992, 1996)

^{xix} Romania exporters, as explained, do not deal directly in the international market, as they lack the necessary competence and organization.

^{xx} The authors provide a second estimate based on the data of turnover, export value and employment provided by the Romanian central statistical office in 2002 and arrive at very close to the same numbers. See CRESTANELLO and TATTARA, 2006, table 7.

^{xxi} For footwear in Italy and the Montebelluna district, see Amighini and Rabellotti (2003).

^{xxii} Geox was in Romania since 1994 with a small footwear firm, Leg.

Geox has recently (June 2009) sold its factory in Timisoara to VT Manufacturing as a result of Geox production reorganisation strategy. VT is owned by an Italian entrepreneur and the Timisoara plant will work a one of the Geox subcontractors <www.business-review.ro/Blog/admin2/art/5144/Geox-sells-Timisoara-factory-on-production-reorganization-strategy.html> downloaded july 13th 2009.

^{xxiii} Geox has another small design centre in the Marche where 25 employees design the models and make the prototypes for its more important fashion collections.

^{xxiv} In Hungary, Benetton built a production platform in order to manage relationships with subcontracting firms in PECO countries, a free exchange area with the European Union. The Hungarian plant manages at present around 50-55 subcontractors and is supplied from Italy with textiles, either produced by Olimpias, the textiles company of Benetton group, or directly imported from other countries outside Eastern Europe. Textiles and accessories are then distributed to all the subcontractors located in Eastern Europe. The production made in those countries are 'substituting' old French, Spanish and especially Italian production plants. On Benetton (CRESTANELLO and TATTARA, 2009).

^{xxv} Italian global buyers such as Benetton, Gas, Stefanel, Max Mara and others are not exclusively retailers and brand-owning companies, or "companies without factories", but keep some direct manufacturing activity

^{xxvi} Benetton retains in Italy only high quality and quick time-to-market products such as flash collections and re-orders, and the remaining production is outsourced abroad (re-orders in Italy are delivered in one week's time). Benetton's Sibiu plant works jointly with the plant in Hungary to manage subcontracting in Centre and east Europe.

^{xxvii} Crestanello and Dalla Libera show how the Vicenza clothing industry lost 20.000 jobs from 1990 to 2000, due to outsourcing into foreign countries (2003, p.27)

^{xxviii} Part of the Cantex group, based in France (Roubaix), that produces mainly high quality men's suits, men's and women's overcoats and casual jackets.

^{xxix} In some cases double the cost of a simple washing process; in Romania, rising from 0.20 € to 2 or 3 € for each piece (in 2003).

^{xxx} Low wage countries are defined as countries in the following regions: North Africa, Central and East Asia, Central and East Europe. See <www.coeweb.istat.it>.

^{xxxi} During those years the footwear industry within the province of Treviso employed around 4,000 people.

^{xxxii} <comtrade.un.org/db/>. Standard International Trade Classification (SITC), revision number 3, codes 85-8519.

^{xxxiii} SITC.3, code 8519

^{xxxiv} Basic corporate income tax is 16% in Romania and 33% in Italy.

^{xxxv} Italy comes third in the Romanian market, as far as bank's net liabilities are concerned. One of the most significant presence among Italian banks is represented by Veneto Banca that entered the Romanian market in 2000 with the explicit aim to support small Italian entrepreneurs, bought Banca Italo Romena, and has now 20 branches there.

Several other associations provide assistance to Italian firms as Associazione Imprenditori Italiani in Romania, Associazione degli Italiani in Romania, Compagnia delle opere and the traditional branches of Italian Foreign Trade Institute (Ice).

Table 1. Interviewed, firm, location, activity.

Firms in Romania			Lead Firms				Nature of the relation of firms in Romania with lead firms
Name and year of interview	Location*	Size. n. of employees	Name, date of interview	Relation with the firm in Romania	Location*	Size. n. of employees	

Technic development SRL (2003 and 2005)	Timișoara (West)	2800	Geox (2003)	full control, foreign direct investment	Montebelluna (Veneto)	400	Designs and manufactures Leather shoes for Geox
Italian Shoes Components SRL (2005)	Timișoara (West)	69	F.lli Cunial (2005),	full control, foreign direct investment	Montebelluna (Veneto)	30	Manufactures footwear parts and components for F.lli Cunial
Samtex SRL (2005)	Jibou (North West)	150	F.lli Campagnolo (2003 and 2005)	full control, foreign direct investment	Vicenza (Veneto)	320	Manufactures for F.lli Campagnolo clothing and knitting from imported cotton yarn
Italpant SRL (2003)	Botoșani (North East)	150	Incotex,	full control, foreign direct investment	(Mira) Veneto	n.a.	Manufactures for Incotex clothing, mainly trousers, from sample. Imports fabric and accessories.
Benrom SRL (2007)**	Sibiu (Centre)	30	Benetton Group (2005)	full control, foreign direct investment	Treviso (Veneto)	8000	For Benetton, carries out production network management, and distributes imported fabrics and accessories
Mare Blu SRL (2003 and 2005)	Timișoara (West)	120	Intex srl	full control, foreign direct investment	Vicenza (Veneto)	25	Manufactures casual wear, acting as a subcontractor for Benetton, Gas and others. Imports fabric and accessories
Intercolor SRL (2003 and 2005)	Timișoara (West)	100	Intex srl	full control, foreign direct investment	Vicenza (Veneto)	25	Carries out laundry activities, acting as a subcontractor for Gas, Benetton and others.

Formen's SRL (2003)	Botoșani (North East)	700	Cantex Group,	full control, foreign direct investment	France (Toulouse)		Manufactures for Cantex clothing (formal wear) from imported fabric.
L'avventura SA. (2003)	Timișoara (West)	210					Manufactures leather shoes (lady's) and acts as a subcontractor for Geox and others.
Filty SA. (2003)	Timișoara (West)	1400					Manufactures leather shoes (lady's), and acts as a sub-contractor for Geox and others.
Rapsodia Conf. SA. (2003 and 2005)	Botoșani (North East)	1700					Manufactures casual and formal wear clothing, acting as a subcontractor for foreign brands (Incotex, Benetton and others). .
Asco SA. (2003)	Bacău (North East)	1000					Manufactures casual and formal wear clothing, acting as a subcontractor for foreign brands (Susan Martin and Etam). Makes samples in house.
Confstar SA. (2005)	Baia Mare (North West)	250					Manufactures casual wear clothing, acting as a subcontractor for Gerry Weber, other German brands. It also has its own brand for the local market.

*Town and Region. ** Interview to a director of the Benetton plant, conducted in Italy.

The absence of a date means that there has been no direct interview

Table 2. Clothing Manufacturing. Yearly Labour Costs in € per employee.

	1997	1998	1999	2000	2001	2002	% of the cost EU-15 in 2001
The Czech Republic	3436	3732	3817	4424	4843	5758	21.7
Hungary	3417	3414	3608	3939	4382	5236	19.7
Lithuania	2175	2413	2712	3016	3018	–	13.5
Poland	3270	3489	4247	4067	4683	4533	21.0
Slovakia	2898	3318	2805	3296	3427	3640	15.4
Slovenia	8095	8694	9000	9480	10023	10372	45.0
Bulgaria	860	1114	1185	1267	1345	1418	6.0
Romania	1214	1478	1419	1715	1806	1831	8.1
EU-15	–	–	–	–	22282	–	–

Source: CEPS-WIIW (2005, table 5a)

*1997-2001

Table 3. Italian Foreign Direct Investments in Eastern Europe.

	Number of firms			Number of employees			Value of turnover in million €		
	2001	2003	2006	2001	2003	2006	2001	2003	2006
Romania	771	820	886	59994	65679	77088	1888	2422	3305
Poland	379	392	416	43021	40637	42384	4674	4800	6403
Russia	195	219	246	24603	25412	26963	1360	1895	2205
Hungary	237	247	259	19573	18350	18788	1937	2535	2816
Czech Republic	175	190	197	13297	15334	15481	2574	3055	3398
Slovakia	115	127	144	8475	9912	9521	357	501	573
Albania	124	128	129	7405	7662	7158	291	340	356
Ukraine	94	98	108	5312	7863	8321	336	384	449
Croatia	79	95	109	3354	4893	7529	421	681	869
Slovenia	101	113	115	5687	6640	6970	499	592	645
Serbia and Montenegro	106	120	126	16882	13025	6436	875	501	573
Beloruss	18	17	19	1386	1276	1331	35	34	38
Bosnia Herzegovina	48	51	51	1237	1304	1260	53	60	60
Macedonia	6	5	6	1064	1048	1216	108	111	134
Moldavia	12	12	13	221	221	226	8	9	9

Source: Mariotti and Mutinelli, 2009. The data base refers to Limited firms in mining, energy, manufacturing, and services, in which Italian companies own more than 10% of their share capital.

Table 4. Romanian Trade for Selected Products and Markets (values in million \$)

1991	Imports				Exports			
	World	Italy	Germany	Ex-USSR	World	Italy	Germany	Ex-USSR
Textiles	91.1	5.8	8.4	4.5	99.5	7.9	11.9	22.2
Clothing	52.3	6.1	2.6	-	296.3	29.7	72.2	96.2
Tanned leather	4.7	0.4	1.0	-	0.9	-	0.4	-
Footwear	44.4	5.6	10.3	-	85.0	7.6	9.2	34.2
2006								
Textiles	3328.9	1399.3	429.7	7.2	838.7	249.3	166.6	-
Clothing	757.5	221.0	32.9	-	4423.0	1569.6	913.0	6.9
Tanned leather	855.0	687.0	29.0	-	83.2	37.0	11.5	-
Footwear	490.3	293.0	4.5	-	1703.2	1179.1	133.0	-

Source: <http://unstats.un.org/unsd/comtrade>.

Table 5. Share of selected industrial sectors in manufacturing* production and employment in Romania.

	Value of production at current prices				Employment			
	Textiles	Clothing	Footwear	Manufacturing	Textiles	Clothing	Footwear	Manufacturing*
1990	6,69	5,43	2,15	100,00	11,99	7,47	3,68	100,00
1998	3,07	4,09	1,73	100,00	6,71	12,53	3,99	100,00
2002	2,52	5,51	2,97	100,00	6,34	18,95	5,71	100,00
2006	1,95	3,72	1,84	100,00	4,61	17,53	6,67	100,00

Source: Inse (various years).

* Without construction, energy and mining.

Table 6. Romanian jobs created by the Veneto outsourcing and 'equivalent' jobs in Veneto. Clothing and Footwear. 2005.

		Clothing/ Knitwear	Footwea r
	Millions		
Veneto Imports from Romania	€	439	464
Romanian Subcontractors: Raw materials/Production Value	%	75	80
Veneto Subcontractors: Raw materials/ Production Value	%	50	50
Value Added/employee in Romanian subcontractors	€	3,500	3,500
Value Added /employee in Veneto subcontractors	€	20,000	20,000
	Millions		
Raw materials exported from Veneto to Romania in OPT	€	329	371
	Millions		
Romanian subcontractors value added	€	110	93
	Millions		
Value Added in Veneto necessary to transform OPT exported raw materials	€	329	371
Jobs in Romania connected with Veneto OPT trade	n.	31,357	26,514
Equivalent jobs in Veneto	n.	16,462	18,560

Source: Inse, Statistical Yearbook, 2003, ch 12. and www.coe-web.istat.it.