Towards a Local Model for the Internationalizationof Italian Firms in Eastern Europe

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Economic Geography Research Group

Working Paper Series No. 02.07

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Abstract

The purpose of this paper is to investigate the interactions between Italian textile and clothing firms and local businesses and institutions and their effects on local economies in Eastern Europe. I am arguing that Post Socialist transformation in Eastern Europe at local level can be reinterpreted as the emergence of hybrid spaces, in which, through external influences, both institutions and firms re-work their relationships between themselves and the territory. Specifically, I am looking at Italian Foreign Direct Investment, Joint Venture and subcontracting in the Textile & Clothing sector as an example of firms transformation, and to the attraction of European Union funds through international co-operation from institutional side. In this paper I am looking at what Michael Dunford (Dunford: 2006) called 'Marshal second argument' of the districts understood as 'communities of firms and people,' and more specifically how the relationship between firms and institutions in four local areas in Eastern Europe is transformed through the combined effect of foreign (Italian) investments and EU funded programs of twinning and institutional co-operation.

Towards a local model for the internationalization of Italian firms in Eastern Europe[i]

1) Outline

On the very beginning of his recent paper on the restructuring of the Italian textile and clothing industry, Michael Dunford stated that “In recent years there have been few academic analyses of Italy’s textile and clothing industries … of these studies, most have dealt with the recent delocalization of economic activities to Central and Eastern European countries … conversely, a vast academic literature has dealt with textile, clothing and other industrial districts” (Dunford, 2006: p. 27). Dunford is the latest of a long lineage of Anglo-American scholars who published extensively on Italy, beginning with Piore and Sabel in the 1980s, to Locke, Putnam, Scott and Storper in the 1990s to quote just a few. All these scholars have analyzed, in a way or another, the Italian industrial districts, i.e. “dense concentrations of interdependent small and medium enterprises in a single sector and in auxiliary industries and services” (ibid). The fundamental characteristics of industrial districts have been first identified by Alfred Marshall, who argued that “districts are driven economically by three mechanisms: (1) scale economies, which result from an high degree of specialization and division of labor; (2) external economies, which arise from the existence of shared infrastructures, services, and information and (3) the availability of special skills and the pooling of the labor force. Marshall also argued that districts are not simply an economic phenomenon: they have an industrial atmosphere that itself involves the interaction of the economic and social system” (ibid.).

Since the seminal work of Giacomo Becattini (Becattini: 1979), Piore and Sabel (1984) and most of the literature on Italian industrial districts focused on the region as unit of economic analysis. However, in recent years, many of the Italian

(Rabellotti: 2004; Di Maria and Micelli: 2006; Corò and Volpe: 2006 Corò and Micelli: 2006 Chiarvesio and Micelli: 2006 Chiarvesio, Di Maria and Micelli: 2006a ; 2006b) and Anglo-American (Dunford: 2006; Dunford and Greco: 2006) scholars interested in the Italian industrial districts have shifted to a firm-based approach. This approach, that introduces Global Value Chains analysis in the scholarship on industrial districts, has several advantages. First, it analyses the changes in inter-firm relations both inside and outside the district as consequence of the growing internationalization of production (Micelli: 2006). Second, it shows that districts are “just one part of an interdependent division of labor and an inter-dependent territorial system” (Dunford: 2006, p. 29).

This paper argues that this new approach is weaker than the traditional Industrial Districts literature in addressing the role of local institutions and conventions, and the mechanisms of transmission of tacit knowledge in the overall performances of the districts. More in detail, this it speaks to what Michael Dunford called the ‘Marshall second argument,’ i.e. that districts are not a purely economic phenomenon, but are centered on the interactions of economic and social systems (Dunford: 2006, p. 27). Becattini built largely on this concept, considering districts as ‘communities of firms and people.’ The Florentine school, and especially Gabi Dei Ottati and Marco Bellandi (see Becattini et al. 2003) developed this concept, analyzing the impact of social norms, close-knit groups and credit policies and political subcultures on business transactions. This paper explores the possibility to include these ‘institutional dimensions’ into the new firm-based approaches. The analysis focuses on Italian textile and clothing firms establishing economic relations in Eastern Europe. Through subcontracting relations, joint ventures, foreign direct investments, Italian firms are inserting themselves into new communities, and must adapt to new social, cultural, political and institutional conditions. At the same time, by providing a sometimes relevant share of employment, and by engaging the local institutions in these communities they are an agent of post-Socialist change. What kind of changes do Italian firms bring to local communities? How are the transformation of firms and the transformation of institutions co-related? How can GVC analysis contribute to the understanding of these phenomena?

In order to answer these research questions, a three stages argument is developed. First, the units of analysis are discussed. In order to understand the reciprocal influences between Italian firms and local communities, three relevant kinds of actors are identified: the firms themselves, the local institutions, and banks and services. Second, the international connections of these actors are considered. This entails a description of the textile, clothing, banking and services, value chains; it also entails a description of the international connections of those local institutions in Eastern Europe are developing thanks to the European Union and its grant schemes (Structural funds, the now expired PHARE[ii] program and others). Third, the interconnections between local institutions, banks and services and Italian firms are considered.

2) Units of analysis

Firms

The most important unit of analysis in this paper is the 'Italian firm abroad,' operating in the textile and clothing sector. This category captures the fact that Italian firms overseas "extend beyond arm-length trade relationships, including both 'light' involvement through agreements and partnerships that do not include capital risk and 'deeper' involvement based on foreign direct investments in joint ventures and

Italian-owned firms" (Mariotti and Mutinelli: 2001, translation C. Sellar). These different forms of economic involvement are summarized and categorized in Table 1 and Figure 1. This categorization considers two forms of involvement overseas: first, the investments and, second, the deployment of personnel from Italy overseas. Investments can vary from close to zero (in arm length trade relations) to 100% ownership of the foreign company. However, the investment never reaches zero: even in the case of 'light' involvement, some resources (time and financial) must be spent to find the appropriate contractor, visit them and their production facilities in order to assess their suitability for the job. The next stage is partial ownership, in the case of 50/50 joint ventures in which Italian and local investors share the responsibility of managing the local company. The following is a situation of heavy control, either with 100% Italian ownership or small amount of shares divided among local people who helped set up the company. As for personnel, the presence may vary from occasional support by a technician (in the apparel industry, it is common whenever a new product is being produced) to regular trips by the entrepreneur or a director, or to the permanent presence of the Italian entrepreneur (entrepreneurial migration) or the director overseas. In some cases, the factory is managed by a local director with extensive experience in Italy and strong trust relations with the Italian entrepreneur.

Table 1 combines the two categories to account for the intensity of Italian involvement in the local Eastern European firm. The first category, characterized by investments close to zero and occasional visits by technicians, is the traditional subcontracting. This is the way in which Italian textile and clothing companies began to move abroad in the 1990s, and, according to Corò and Volpe (2006) it is still the preferred way of internationalization for most of the financially weak SMEs. Besides this, there are stronger forms of subcontracting: it is the case in which Italian firms set up a foreign investment in the form of a productive platform, which co-ordinates the work of several local producers. In these cases, the local producers are more closely controlled, thanks to geographical proximity. A further form of involvement of Italian manufacturers abroad is the establishment of joint ventures with local producers. This is often the case of firms willing to achieve stronger control on the productive process with a fairly low amount of investments. In these cases, the most common pattern is that the company is managed by the local partner, with the Italians providing technology, organization, and market. This partnership can be weak or strong, depending on the amount of control that the Italian partner wants to exercise on the productive process. There is an obvious temporal component in this distinction: newly established joint ventures are usually followed closely by the Italian partner; if the JV is successful and lasts overtime the visits tend to become more infrequent. The following excerpt of the interview with Ms. Maria Kushilka, Ukrainian entrepreneur in an Italian-Ukrainian JV active since 1998 shows how the Italian involvement was connected with the start up phase and to major changes in the company:

> We kept our structure and personnel. In the beginning, we had one Italian manager - one of the brothers owning the company; he is director of production in Italy - to help the start up. He managed the introduction of new machines and the change in the production process. We didn't change the organization of personnel. In the first six months we had one Italian couple working here. They were technicians helping us to improve the quality. In the first few years we only sew; five years ago we introduced the ironing and the packaging. At that moment we had again Italian technicians helping to start the new department (Interview Ternotex, entrepreneur: 07-14-2006).

The most intensive involvement is the foreign direct investment. Legally, it consists mostly in the establishment of a local company (given the small to medium size of many Italian firms, the favorite form is the limited liability company) with Italian capital. In the fieldwork, cases were detected in which the control of the Italian ownership on the internal organization of the factory was very limited. However, this was limited to ‘third wave’ investments: i.e. Italian owned firms already established in Slovakia made an additional investment further East in the Ukraine. In this case, personal connections of their Slovak partners or directors in Ukraine were very important in establishing the investment, which reflects in a weaker Italian control on the company. A more widespread case is the regular visit of the Italian entrepreneur and/or director in the foreign plant. This is the case of family businesses – a model in which family based ownership and management coincide - which maintain a base in Italy and the entrepreneur shares his or her time between Italy and the location in Eastern Europe. In this case, an important factor in the success of the company is the presence of a local director having a personal relation of trust with the Italian entrepreneur. These are truly international people, from the local area, but with many years of study and working experiences in Italy, that allow them to be mediators between the Italian ownership and the local context. The strongest case of control is the permanent case of the Italian entrepreneur or director in the foreign plant. This is either the case of financially strong companies, that can afford a director permanently residing abroad, or case of ‘entrepreneurial migration’ in which either one of the shareholders of an Italian firm has moved abroad to work in the foreign affiliate, or a physical Italian person moved abroad to establish a new company – as often the case of Benetton’s subcontractors, who has been pushed to re-locate abroad to follow Benetton’s investments.

Figure 1 represents graphically these different forms of involvement of Italian firms abroad. the small number (according to Corò and Volpe: 2006) of firms with 100% Italian ownership lays at the heart of the category, as the most intensive capital and human resources deployment. Next to it there are the joint ventures, in which capital and human resources are jointly deployed by Italians and local partners. The last category concerns subcontractors. At this level, the category becomes porous, since subcontractors are more deeply included in the local environment, and, they may work for clients other than Italian companies; therefore their degree of connection with Italy may be quite low.

Italian banks and service firms abroad are foreign direct investments, in which the parent firm in Italy owns 100% (or close to 100%) of the subsidiary firm abroad. Banks and service firms have a peculiar relationship with Italian manufacturers abroad. By providing Italian speaking financial and non financial services to the manufacturing firms, they provide an interface between the Italian firms and the local institutions and – broadly speaking – environment. Consultancies provide services such as payroll, information about the local fiscal, labor and other norms, but also less tangible ‘cultural’ services. For example, Dr. Vito Bovoli, owned of EDAS, an Italian consulting firm in Slovakia, describes his job as follows:

> We provide also ‘cultural’ support, providing a bridge between Italian and local entrepreneurial cultures. With respect to culture, EDAS helps to ‘organize human resources in a correct way,’ helping entrepreneurs to understand norms and rules of the organization of labor force. First of all, they insist on the concepts of ‘listening’ the inputs coming from the local people. Second, they provide detailed information on norms and customs: for example, in Slovakia contracts of employment specify in detail employees’ duties, while in Italy they tend to be much less detailed. Then they let them understand that the fact that Slovakia is less rich than Italy does not mean

> that there are no rules (health and security measures). (Interview EDAS, entrepreneur: 09-26-05)

Providing these ‘cultural services,’ they contribute to the overall governance of Italian entrepreneurial activity in Eastern Europe by providing an interface between local institutions, norms and unspoken rules and Italian firms.

Institutions

In Eastern Europe, Italian firms are affected by a wide range of institutional actors. Once the investment is established, local mayors and sometimes local schools establish relations with the Italian factory, as shown in these interviews with Italian clothing firms in Slovakia and Ukraine:

> Q.: You said there is a textile school.
>
> A.: Yes. At the moment, they teach only sewing. In summer, they used to send us ten or fifteen students for an internship, and we often hired them after they graduated. However the youngest generation, the nineteen or twenty years old do not have the aim of working in factories anymore; they emigrate more, they go to the UK, Switzerland, and Ireland. (Interview Entrepreneur, Italian firm in Slovakia, 07-14-06).

> When we had problems in constituting the company, we involved local politicians in the process. We were lucky to meet people like the mayor. He didn’t ask any personal favor, because he understands the importance of foreign investments for the town’s economy. He gave us political support; he introduced us to the right interlocutors at regional level. He was very important for us. With people like him we keep having good relationships; with other people we broke the relationship. (Interview Dr. Conte, Supervisor, Italian firm in Ukraine: 07-14-06).

At the national level, the largest Italian firms can have access to the support schemes to foreign investments that many of the governments have established throughout Eastern Europe. Large investments give them direct access to the ministries, which usually smaller firms do not have. One example of this is the Miroglio Group, the largest Italian textile investment in Bulgaria:

> We have a fifth plant in the city of Iambol, which is in the making now. Last week we were appointed with a certificate of first class investment from the ministry of economy. For the earlier investments there wasn't this law yet (it was approved last year in July), but we are benefiting now because the investment is still in the making. [To obtain this certificate] we went directly to the Ministry of Economy. This is a 40 millions of Euros investment, which is a little more than the 70 millions of Leva that you need to obtain that certificate (Interview country manager, Miroglio Bulgaria: 05-17-06).

This 'certificate' entails significant support from the Bulgarian State, which takes the obligation of building infrastructures customized to the needs of the investor up to the border of the plot of land where the investment is located. However, investments smaller than 10 millions of Leva (USD 6.8 millions) are not entitled to special support from the Bulgarian State; therefore, only medium and large groups can have it (Interview State Expert, Investbulgaria Agency, Ministry of the Economy and Energy of Bulgaria: 10-27-05). Besides this, national level institutions have a direct impact on firms through norms and laws, which affect firms on important issues such as fiscal pressure, wage levels, regulation of the trade unions activities, and others.

Besides local and national institutions of the Eastern European states, the 'Italian system' as a whole is responsible for the creation of new institutional spaces abroad. Particularly, Italian embassies, the Institute for Foreign Trade, bi-national chambers of commerce, associations of Italian entrepreneurs abroad, local offices of Italian regional governments work, albeit with an uneven degree of cohesiveness and influence, towards the stabilization of the Italian presence abroad. Finally, the European Union requires the new member states of Eastern Europe to include EU norms and standard (collectively named *acquis communitaire*) in their legislation. The EU also provides funds through its grant schemes and programs (the most famous are Structural Funds for the member states, and the now expired PHARE program for the accession states) to support new members' adoption of the acqis, impacting the institutional environment in which Italian firms operate in ways that will be discussed in the next section.

3) International connections of firms and institutions: textile, clothing, banking and services value chains and 'transnational institutional chains'

Textile and clothing value chains

The textile and clothing value chains have been thoroughly discussed by Gari Gereffi and the GVC group (see www.globalvaluechains.org for a list of the group's publications). Gereffi (1994), (1999) has focused on the role of leading firms in the apparel sector in promoting the upgrading of some regional concentrations of producers. From this initial work, a consistent body of research analyzed the advantages and the disadvantages that apparel producers and regional economies face in being included in the value chains of global buyers. Tokatli (2007) and Smith (2003) analyzed the power relations along the apparel value chain; Cammet (2006) focused on the role of global buyers in promoting regional concentrations of apparel manufacturers. Dolan and Tewari (2001) discussed the processes of upgrading in the textile and food value chains in India and Kenya. Several papers (Schmitz: 2006), (Schmitz and Knorriga: no date), (Palpacuer and Poissonnier: 2003) focus on the constraints that the inclusion in the apparel value chains impose on manufacturers. Particularly, these papers present several case studies in which the global buyers support product and process upgrading (i.e. the improvement of the quality and timing of production), but hinder functional upgrading, and especially the development of own brand manufacturing. A large set of papers investigated the connection between the inclusion of apparel industry in global value chains and economic growth in developing countries (Bair and Peters: 2006, Giuliani et al.: 2005, Palpacuer et al.: 2005, to quote the more recent papers).

All these papers have in common the focus on the action of global buyers, large multi-nationals. The most famous US based are “giant cost-driven discount chains (Wal-Mart, Kmart, or Target), upscale branded marketers (Liz Claiborne, Tommy Hilfiger, Nautica), apparel specialty stores (The Limited, The Gap), and burgeoning private label programs among mass merchandise retailers (JC Penney, Sears)” (Gereffi: 1999, p. 40). Among European companies the most important are the Spanish Inditex, (owner of brand names as Zara and others), the Swedish H&M, the German CMD, the British Next, Marks and Spencer (which lost market shares in recent years); among Italian companies, Benetton and Vestebene (the apparel division of the Miroglio Group) are the most important. Instead, Dunford (2006) argued that the Italian textile and clothing industry, together with leather, cosmetics, accessories and the production of industrial equipment (sewing machines, cutting tools, etc), is shaped “by a range of services… and the structure of the distribution system” (Dunford: 2006, p. 29). In so doing, he extended the analysis of the value chain to include the articulation between production, distribution and supporting services.

In Dunford's view, service firms located in Milan (including research, design, showrooms, magazine publishing, organization of fashion fairs) co-ordinate a very diverse group of producers, ranging from large groups (as Miroglio) to medium and small enterprises clustered in the industrial districts. The competitiveness of this system as for prices has been maintained over the years through subsequent waves of de-localization of production. Analyzing the geography of employment trends in the textile and clothing sector, Dunford shows that the manufacturing activity shifted from the North West of Italy towards the industrial districts in the North East and East coast of Italy in two decades from 1971 to 1991 (see Dunford: 2006, p. 38 for a map of these trends). After 1991 the general trend of decrease of textile and clothing employment in the whole Italy is matched with a new wave of de-localization to Eastern Europe.

One of the consequences of this particular system is that the de-localization concerned the whole range of producers, from the large to the small. Qualitative data from the interviews collected in this fieldwork suggests that large firms had a leading role in this process, attracting their own subcontractors overseas. Dr. Vito Bovoli, owner of a consultant firm that has supported the internationalization of Italian firms in Slovakia since 1992, describes this process as follows:

> In the years from 1990 to 1998-1999 Italian textile producers de-localized to Slovakia. In doing this, [large] producers pushed their sub-contractors to move abroad to contain costs. By the year 2000 the subcontractors were pushed again, to move to cheaper labor countries, Romania, Bulgaria, and Ukraine.

> The textile and clothing businesses who remained in Slovakia are the one who adopted a strategy of internationalization: they made heavy investments, brought technology with a long term strategy aimed at market penetration, based on a quick co-ordination between retailer and producer. Terzisti instead did not have the capacity of investing heavily – usually their investment is limited to renting a space and bringing sewing machines from Italy, so they remained anchored to the logic of price containment. (Interview EDAS, entrepreneur: 09-26-05).

This variety of firms was confirmed in this fieldwork research. It detected cases of entrepreneurial migration (i.e. entrepreneurs establishing firms abroad without connection to a parent firm in Italy) in the case of Benetton's subcontractors, service firms (dyeing, embroidery works) and platforms (i.e. firms co-coordinating the work of several subcontractors). Among foreign investments, there are factories owned by very large groups (as Miroglio), but also medium sized firms, working partly as own brand manufacturers, partly as subcontractors for larger companies.

Banks and services value chains

One of the consequences of having large numbers of small firms moving overseas is the emergence of a demand for basic services – banking, accounting, and start up services. Large firms moving overseas can be supported by their own legal, accounting and financial experts, and are in conditions to negotiate the investment directly with the national governments. Small firms often cannot afford the necessary investment in human resources (interview general secretary of the Italian Chamber of Commerce in Bulgaria: 10-31-05) . Partly to respond to these needs, partly following a broader market logic – discussed in the annexed power point presentation - Italian banks and manufacturers followed the first waves of Italian manufacturers in the 1990s.

The most important difference between these value chains and those enacted by manufacturers is the effort to be present, with as much as possible uniform services, in all countries of the area. It is through the action of banks and service firms, plus, of course Italian institutions abroad (embassy, Institute for Foreign Commerce) that a network of support for the activity of manufacturers has been put in place. Unlike firms that tend to establish bi-lateral relations between Italy and one or more locations in the area, banks and service firms are making an effort to act multi-laterally across Eastern Europe.

Particularly, the annexed powerpoint analyzes the internationalization of a major Italian banking group – Unicredit – and of a consortium of service firms – IC & Partners. In so doing, the paper will argue that the internationalization of Italian manufacturers followed a progressive model in which light forms of involvement overseas (namely, subcontracting relations) were followed over time by heavier involvement through foreign direct investments. This model has a temporal and spatial component: it started in the countries closest to Italy in the early 1990s (represented by Slovakia and Romania in this research), and then it was re-produced in the late 1990s-early 2000s while Italian firms moved further East.

Towards 'transnational institutional chains?'

In establishing themselves in Eastern Europe, Italian firms must connect with local institutions that are going through a process of deep change, which is part of the broader trend of post-socialist transformation. This dissertation argues that the transformation of Eastern European institutions, especially State bureaucracies at national, regional and local level in the new members of the EU, is heavily influenced by forms of co-operation with Western European institutions. More precisely, I argue that these forms of co-operation are structurally not very different from a value chain.

International donors (World Bank, IMF, the EU, USAID) have accepted since the 1990s the findings of neo-liberal scholars (see, for example, Lipton and Sachs: 1992 and Aslund: 2002), according to which a successful transition from planned to market economy involves macroeconomic stability and rule of law – including both stable and well defined legislation, and capacity of enforcement - (EBRD *Annual Reports* series, and particularly EBRD “Operational Environment” in *Annual Report 1997*). Since the early 1990s, a significant effort from international donors has promoted the transformation of Eastern European institutions, with the joint objective of promoting ‘democracy’ and ‘market economy.’ For example, the US government intervened in the process with Support for East European Democracy (SEED) Act[iii]; private donors as the Soros Foundation have a wide range of programs in the region[iv]. However, the enlargement of the European Union in the area has brought the largest financial contribution to the transformation of institutions in the area. The EU has several programs to support institutions in Eastern Europe: the Structural Funds, dedicated to EU members; the now expired PHARE Program, dedicated to accession countries; ISPA “has been funding transport and environmental schemes … It provides direct financing for environmental projects to help apply directives that call for heavy investment, and for transport projects” (EU electronic document) and SAPARD (for the support of agriculture). PHARE, active from 1989, had a budget of Euros 1.6 billion per year, of which 30% were dedicated to institutional transformation and 70% for investment support (see The European Commission’s Information Centre on Enlargement: 2003); ISPA has a budget of Euros 1 billion per year, SAPARD Euros 0.5 billion. As a comparison, USAID budget for Eastern Europe in recent years ranged from US$ 440 millions in 2004 to US$ 270 millions in 2007 (USAID).

Especially the funds from the European Union are allocated through competitive grants, which funds projects that privilege the co-operation between Eastern European and Western European institutional partners. These projects establish connections between institutions that have several points in common with the value chains in the industry. The GVC literature has pointed out that leading firms in the chain support the upgrading of their suppliers and/or clients by providing them access to new technology and/or organizational skills (Gereffi: 1994, Bair and Gereffi: 2001, Schmitz: 1999). Similarly, through the EU funded projects, Western European institutions 'transfer' to their Eastern European partners a set of practices involving the adoption of new norms, organization, and training for State officials. The case study of the 'Agency for Economic Development of Timis' (ADETIM: www.adetim.ro) is a paradigmatic case of such transfer: the agency was initially funded by a German regional agency, which transferred to its Romanian partner its own organization, trained the officials and worked with them in implementing projects of economic development in the first few years of activity (Interview project manager, ADETIM). Second, the GVC literature points out that global value chains are vertically disintegrated, and are characterized by uneven power relations between independent partners. In similar ways, EU projects bring together institutions belonging to different States and therefore independent from each other. As for power, the bureaucratic rules connected with the disbursement of funds introduce a mechanism of control on the execution of the projects. A high level State official of

Bulgaria described the impact of this new kind of power relation on Bulgarian civil servants as follows:

> I worked in this region since 1998. In this period there have been two important changes in the attitude of the administration. First, they had to learn that whatever they do with public funds they have to follow the procedures, while in the old days the major used to have the final word on the use of public funds, which is not possible anymore, since there are strict procedures to get EU funds. Second, most of the regional authorities understood the need of having at least one person to manage EU projects. (Interview Head of the Directorate for Technical Co-operation and Management of Regional Plans and Programs, North Central Region, 11-07-05).

One specific example of an EU funded project, 'Virtual Clustering Identification and Dissemination of Strategic Territorial Planning Best Practices for Certain Countries of Danubian and Southern Europe' (VICLI: www.informest.it/vicli/), carried on in 1999 and 2000 (VICLI, electronic document). In this project, a pool of Italian, Hungarian, Romanian and Bulgarian regional and national level authorities came together to identify "strategic territorial planning for clustering of productive activities set-up by small and medium enterprises in the industrial sector" (VICLI). Looking at the structure of the project, and at the ways in which it was implemented, the central role of consulting firms emerges. More precisely, in the VICLI case, the actual execution of the project was co-coordinated by the Italian public private partnership Informest (www.informest.it), while local consultancies and/or think tanks carried on the project in Hungary, Romania and Bulgaria. These firms are: equipped with the necessary know how to both apply for and carry on projects; their members have a wealth of personal contacts both among the institutions in their own countries and similar organizations and institutions abroad; and, they hunt for new ideas to apply in the policy realm, with frequent excursions and world of research and academia.

Lovering (1999) was the first to reflect on the emergence of this new 'service class' of consultants, which he saw as the way in which corporate elites re-appropriated the new institutional spaces emerging from the weakening nation states and the rise of regions as prime political and economic actors (Lovering: 1999, pp 389-390). This view of 'institutional chains' adds to Lovering's interpretation a transnational dimension: by co-coordinating the EU funded projects, consultancies are a key element of the EU led continental integration, supporting the construction of homogeneous institutions among the members of the EU. For example, the chairman of the Foundation for Entrepreneurship Development (FED) (www.fed-bg.org) among the oldest and best established think tanks in Bulgaria summarized the role of FED in contributing to the institutional changes in Bulgaria as follows:

> Nowadays the financing of the foundation comes for the 80-90% from our activity of consultants for EU projects. In the EU projects, usually the funds go to ministries, which distribute them to consultants, who organize teams for the implementation. In this framework, we contributed to establish many structures, and trained their personnel. (Interview Chairman of FED: 10-26-05).

4) Emerging hybrid spaces in Eastern Europe

International connections of firms and institutions as carriers of tacit knowledge and shared world views

This section argues that the activity of 'Italian firms abroad' is part and parcel of a broader process, in which international connections re-shape bureaucracies, firms and their inter-relations. This happens both at national and local level throughout Eastern Europe. The outcome of this process is the establishment of hybrid spaces, in which imported technology and management style (at firms level) and norms and organizations (in the public sector) mix with the local conditions.

One of the ways in which these changes are introduced is through the transmission of tacit knowledge. Within Italian firms abroad, the constant interactions of local managers, cadres and workers with Italian technicians/entrepreneurs/directors has both the function to transmit tacit knowledge through 'learning by doing' processes and to guarantee that the newly acquired notions are actually applied, without falling back in the old system once they leave. The Neo-regionalist literature considers untraded interdependencies based on social conventions developed through proximity at the root of the paths of technological development of regions. My argument here is that untraded interdependencies may also travel along the value chain, because the activity of contracting and investing often presupposes a thick set of face to face relations that favor the development of mutually understood codes. The following excerpt from the interview with Mr. Pandy, Slovak director of an Italian owned company gives an hint on how this process works:

> Q. What did it change at the level of innovation and management as a consequence of working with Italians?
>
> The most important change is that we got more modern machines. Then the organization was brought at an higher level.
>
> A. What does it mean 'higher level organization'?
>
> Comparing with communist times, now one worker can perform a task that before required two or three people. The productivity is three times higher.
>
> Q. How could you achieve this?

> A. In the first period of activity, there was an Italian [technician] constantly present here; he showed us how to work.
>
> Q. What did he do?
>
> A. He showed us personally that just one person can perform certain tasks. He had to do it, because we didn't believe it (interview Italian firm in Slovakia, local director, 07-21-2006).

However, this transmission of untraded interdependencies along the value chain requires thick interpersonal, non economic, relations, which are needed to understand the reciprocal conventions, and an interplay of power relations within the company. Erszebeth Horvath, local partner in an Italian-Ukrainian JV, summarized as follows the engagement with the Italian shareholders:

> We and the Italians definitely have different mentalities. However, we worked to get closer: we studied each other languages and, as part of our JV agreement, we decided to talk every day to keep constant contacts. They come here to check the production. In the beginning they came every two months, then less and less, and last year they didn't come for eight months. We became friends. However, comparing with us, they are cheap. They do not raise the prices often, they make questions for every cent, and it is difficult to cover the expenses with what they pay (Interview Vistex, entrepreneur, 07-13-06)

In the case of Ms. Horvath's company, a process of breaking cultural barriers through constant interpersonal communication was formally established in the JV agreement. However, frequency of interaction alone is not sufficient to account for the traveling of untraded interdependencies along the chain. It is also important to consider the partners in the interactions and their role (and, more broadly, the power relations) in the local company. Italian firms are pressed between cost saving issues

- and therefore they reduce the employment of Italian labor abroad to the bare minimum – and the necessity to get the work done according to their standards. The response to this problem depends on the degree of the company's commitment abroad. In the case of traditional subcontracting, the transmission of tacit knowledge may be limited to a few meetings between Italian technicians (or entrepreneurs directly) and local entrepreneurs. In cases of stronger involvement (strong subcontracting, JV, ownership) the usual way is to train closely some key figures within the local company, that can in turn re-transmit tacit knowledge to the rest of the company. This process varies in intensity according to the Italian commitment abroad: In case of the JV considered above, it consisted in working closely with the local partner abroad; in case of larger investments, an Italian entrepreneur or a director of production puts special care in training middle managers. The extreme case is represented by very large investments, like Miroglio in Bulgaria, in which more than one hundred people were brought to Italy for training, for periods ranging from two months (for workers) to one year (managers) (Interview Miroglio Bulgaria, country manager: 05-17-06). Although these training programs may be very different among each other, the basic goal is the same: to find a few trustworthy local persons who speak Italian, work with them to transmit tacit knowledge, and then assure they have a position in the local company that is the most suitable to transmit the knowledge to other employees.

The transmission of tacit knowledge, as any interpersonal relation, presupposes a shared world view, a set of assumptions shared by all the actors involved. This set of assumptions constitutes one further dimension of international co-operation. The basic assumption of Italian manufacturers going to Eastern Europe is that their own technology and organization is the best fit to produce high quality clothing and textiles. The extent to which this assumption is shared by the local partners and employees, and the ways in which it is adapted to the local conditions constitutes a delicate moment in the establishment of the Italian commitment overseas. The tension between the export of the 'Italian model' and the adaptation to the local environment is summarized by the Slovak director of an Italian-owned clothing company as follows:

> Those who wanted to work well in Slovakia had to adapt to the local conditions. However, the idea behind the investments is always to bring the Italian mentality and way of working in Slovakia. The hardest impact for the Italians has been to adapt to a different mentality and a different bureaucracy. Besides this, in a system in transition everything changes quickly, and this is a source of tension.
>
> However, they receive also considerable help. The government offers fiscal and economic support in form of tax holidays, while city councils offer spaces, once belonging to State companies that went bankrupt. The Italian government gives support too.
>
> Italians have a management style that looks like a family, strongly based on personal relations. In German companies this would never happen. Sometimes I would like to work in a system close to the American, where the rules are clearer and stricter, and nobody raises his or her voice. (Interview Italian firm in Slovakia, local director, 09-05).

The importance – and the hardship – of this issue is highlighted by the fact that Italian manufacturers have been followed abroad by service companies, whose work tackle not only legal, accounting and administrative issues, but broader issues of 'cultural encounter' as well. For example, Dr. Vito Bovoli, owner of the consultant firm EDA, active in Slovakia through its local branch EDAS since 1992, summarizes the work of his company in the realm of 'culture' as follows:

> EDAS stresses the importance of continuity with the past. Socialist countries had even an excess of rules, and even nowadays not to establish an internal normative which tells what you can do and cannot do during work hours, what you can bring to work and what you cannot is very dangerous. Entrepreneurs have to balance continuity with the past and innovation, retaining the positive aspects of the old system, re-using them in a more modern way. Medals for excellent employees, prizes for senior workers, feasts organized for the village, health assistance beyond what is stated by the law are examples of what can be done. The objective is to motivate employees, let them share the objectives of the enterprise. In the fashion industry, which goes through seasonal cycles of intense work EDAS proposes a system of compensation, in which the hours worked overtime are compensated with a lesser amount of hours in down time. We try to match employees' free time with the seasonality of the most important crops. EDAS work is for 70% to let Italian entrepreneurs not to build a copy of their business in Italy, but to create new entities adapted to thrive in Slovakia (Interview EDAS, entrepreneur, 09-25-05).

This construction of shared values is part and parcel of a broader process of building an hegemony in Gramscian terms. In an unpublished paper, Cacciarru described this process as follows. "The hegemony of a political class meant for Gramsci that such a class had-through its control over the political, educational, and cultural modes of incorporation no less than through its ownership of the means of production-succeeded in persuading other social classes to accept its moral, political, and cultural values as the sole legitimate ones. To the extent that a ruling class is successful in this mission it will use the minimum of physical force, as the normal exercise of hegemony is characterized by a combination of consensus and force which vary in their balance with each other, without force having to exceed consensus in any regular manner… As used by Gramsci, hegemony is much more than a synonym for ideology. It is “neither secondary nor super-structural, but it is lived at such depth and “saturates . . . society to such an extent; even constitutes the substance and limit of common sense for most people under its sway that it corresponds to the reality of social experience very much more clearly than any notions derived from the formula of base and superstructure” (Williams K. 1980, 37) (Cacciarru, A., unpublished material).

However, Italian firms can succeed in bringing their own set of cultural values abroad because they tap into the powerful hegemonic project of the European Union. In sum, the EU enlargement, through the transnational institutional chains described in the previous section, built a widespread consensus around a specific version of the neo-liberal project, among which the attraction of FDI comes together with the adoption of a set of common norms governing the economy and infrastructural plans that ‘smooth out’ the work of companies. Italian firms contracting and investing abroad present themselves as part of this project, plus they add their own, country specific, consensus, relying in the prestige of the Italian products. Besides prestige, there is a power of coercion relying in the fact that the mother company in Italy controls the access to the final market and most often the supplies as well.

Italian firms and institutions abroad as hybrid spaces

This role of ‘channels’ through which Italian firms abroad and transnational institutional chains import the ‘best practices’ of capitalism and the EU led neo-liberal reforms configure them as transnational, hybrid spaces, which are not fully under control of any nation state (Mitchell: 1997), i.e. they are the embodiment of the ‘grey zones’ highlighted in the globalization literature since the 1990s (see Strange: 1996). In her analysis of hybrid spaces, Katherine Mitchell has focused on the socio-cultural relations and family ties that allowed Hong Kong Chinese capitalism to be very successful in a decade of financial de-regulation (Mitchell: 1995). Working on the Chinese community in Vancouver, she developed an understanding of hybridity that links business, communities of expatriates and discourses on race and multi-culturalism. In one of her papers, Mitchell (1997) highlighted that hybrid, transnational spaces can be easily appropriated by capitalist forces, and used for purposes of capital accumulation. The firms and institutions studied in this dissertation are examples of such appropriation.

Looking at Italian firms abroad, the degree of hybridity is the highest in the case of Italian-owned firms: these are legal entities of the host state, but their capital, their market, and often their input supplies come directly from the parent company in Italy. Hybridity is experienced by the joint ventures and the subcontractors as well: although the capital may be partially –or entirely – local, they have various degrees of dependence from firms in Italy for the market and supplies. Local states control them with regard to labor laws and provision of infrastructures, but the locus of control of their financial sources and incomes is located in Italy, as summarized by Claudio Gasparini, director of an Italian owned knitwear factory abroad:

> Evropeiskaia Fabrika received the machinery and all its needs from the mother company in Italy. All of it is a capital account and included in the investments. Therefore, it doesn’t have amortization costs. It has only personnel and general (electricity, etc) costs, which are around 20 thousand euros per month. It produces around 17 thousand sweaters per month. By statute, as Daughter Company, it must

> not generate profit [because the profit has to be made by the mother company]. (Interview Evropeiskaia Fabrika, director: 07-18-2006)

The institutions are characterized by hybridity as well. The most ‘hybrid’ institutions are the Italian chambers of commerce abroad, which are, at the same time, Italian and local, and have both a status of private association and a public dimension within the Italian State. Dr. Michele Bologna, General Secretary of the Italian Chamber of Commerce in Slovakia, describes this hybridity as follows:

> The Italian-Slovak Chamber of Commerce was born in late 1997 as a part of an initiative of a group of Italian entrepreneurs in Slovakia. It followed the typical pattern of Italian chambers of commerce abroad. They start as associations of entrepreneurs. After at least two years, they can make a request of recognition to the Italian ministry of international trade. The phase of recognition has a quite various timing, from a few months to a few years. We received the recognition as Chamber of Commerce in the beginning of the year 2000. Thus we became a private subject with a public dimension. This is a peculiar status of Italian chambers abroad. They are private associations under the local law, but they are also regulated by an Italian law (Law 519 1970). This hybrid status makes them a case of international jurisprudence (Interview Italian Chambers of Commerce in Slovakia, General Secretary, 07-06-2006).

Associations of Italian enterprises abroad (the largest and more capillary present on the territory is Unimpresa Romania, reflecting the fact that Romania is the largest recipient of Italian investment, according to the number of investors) share part of this hybridity, being private associations, regulated by the private law of the local state, but having foreign members. The lowest level of hybridity is, obviously, given by the local institutions and think tanks, which are fully local, except for their role of ‘capturing’ ideas, producing policies blueprints and funds from the EU and other donors.

The interactions between these hybrid spaces are represented in Figure 2. The table conflates the national and local scale, on the basis that both national and local level institutions may interact directly with Italian entrepreneurs. For example, an hypothetical Italian entrepreneur abroad may go to the local mayor for, let’s say, a request about electricity provision or (if the firms is large enough) go to the FDI promotion agency for some kind of State contribution. The embassy and the firms are connected by the Italian Chambers of Commerce abroad and/or Italian entrepreneurial associations, which constitute the link between the public (Italian and local) institutions and the private sector. From the perspective of the local institutions, both ministries of the economy (and particularly some of the connected agencies, like FDI promotion), local institutions and think tanks can constitute transnational links in order to gain from EU (or other donors) sponsored projects. These connections are expressed by the arrows in the central part of Figure 2.

All of this may sound obvious, until looking at the overall consequence of the relationships chartered in Figure 2. In the fieldwork it emerged that, especially considering the actors on the left side of the table (those located in the capital cities), many of the leading representatives of each kind of institution or association tend to know each other and share a common, neo-liberal ideology. In other words, especially in capital cities, all these actors tend to share the same social space and the same neo-liberal ideology; all together, these actors contribute significantly to the creation and harmonization of a neo-liberalist market economy.

5) Conclusions

The involvement of Italian firms abroad takes a wide range of forms, from subcontracting to the establishment of Italian owned firms overseas. Looking at Italian textile and clothing firms in Eastern Europe, this paper discussed their impact on the local communities through the export of technology and management style into the local industry. However, this process sometimes raises delicate issues of adaptation between the Italian firms and the local environment, including the understanding and compliance with the local legislation, access to credit, habits in the workplace. These issues can hit severely the smaller Italian firms, which do not have enough financial resources to pay their own experts. In order to respond to these issues, Italian firms were followed by banks and services, which began to provide an interface between the Italian firms abroad and the local people and places.

These firms insert themselves in a rapidly changing post Socialist environment. One of the important ways local institutions are changing is through projects financed by the EU and other international donors. These projects often involve the co-operation between Western and local institutions; through this co-operation the practices and the structures of Western institutions are transferred into Eastern Europe. Consulting firms are at the center of this process, because they provide co-ordination and the know how to implement the projects. The outcome is the harmonization of norms and institutions among EU countries. From the standpoint of Italian firms, this means dealing with rules and regulations not too different from the homeland.

Global Value Chains analysis contributes to the understanding of these two parallel processes of change at levels of firms and institutions in two ways. First, this paper argued that the EU funded projects create international connections among institutions which are structurally similar to value chains, because they involve relationships among independent actors, leading to some forms of 'upgrading' (the Westernization of the local bureaucracies) under power constraints (provided by the budget rules of the EU). Second, the paper highlighted the ways in which forms of tacit knowledge are transmitted along both the value chains and the 'institutional chains.' These informal exchanges between Western and Eastern European state officials and entrepreneurs lead to shared values, among which neo-liberal ideology plays an important role in promoting further co-operation.

In conclusion, both the EU-led transformation of local bureaucracies and the investors-led transformation of local textile and clothing and other firms are heavily influenced by transnational connections. All together – and especially in the capital cities - these connections lead to the establishment of 'hybrid social spaces' in which representatives of firms and institutions contribute to the diffusion of neo-liberal ideology in Eastern Europe.

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Table 1: Involvement of Italian firms abroad

		FLUXES OF PEOPLE		
		Occasional visits by technicians	**Regular visit by entrepreneur/director**	**Permanent presence of Italian entrepreneur or director**
FLUXES OF CAPITAL	**Arm length trade relations, close to zero**	Subcontracting	Strong subcontracting	no
	50-50 joint venture	Weak partnership	Strong partnership	no
	100% (or close) Italian ownership	Weak ownership. Often the case in ‘third wave’ investments, from Eastern Europe further East	Medium control ownership. Key distinction: presence or absence of a local director with strong Italian connections	Strong ownership. Key distinction: presence or absence of local stakeholders

Figure 1: Italian firms abroad: categorization according to ownership

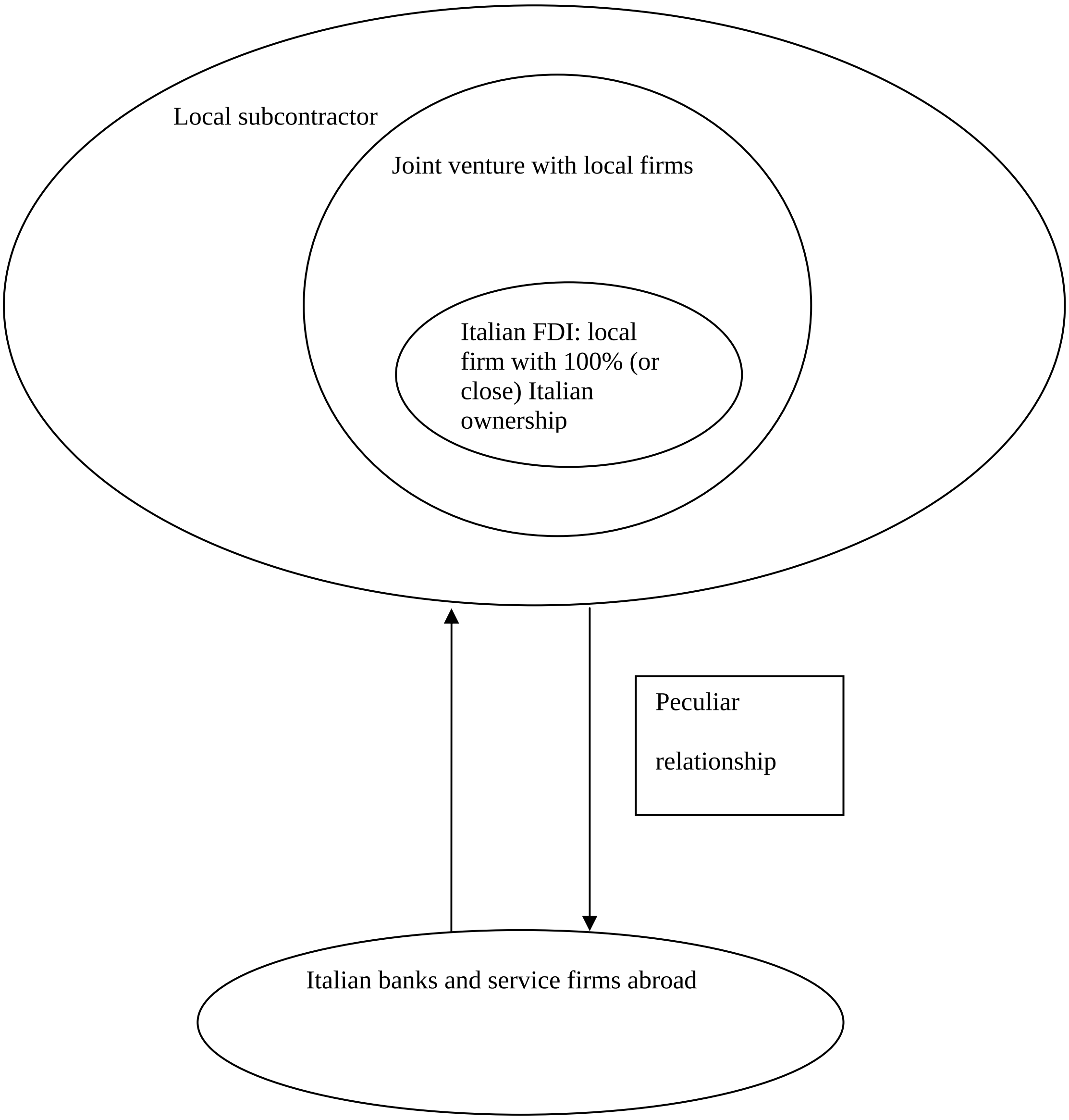
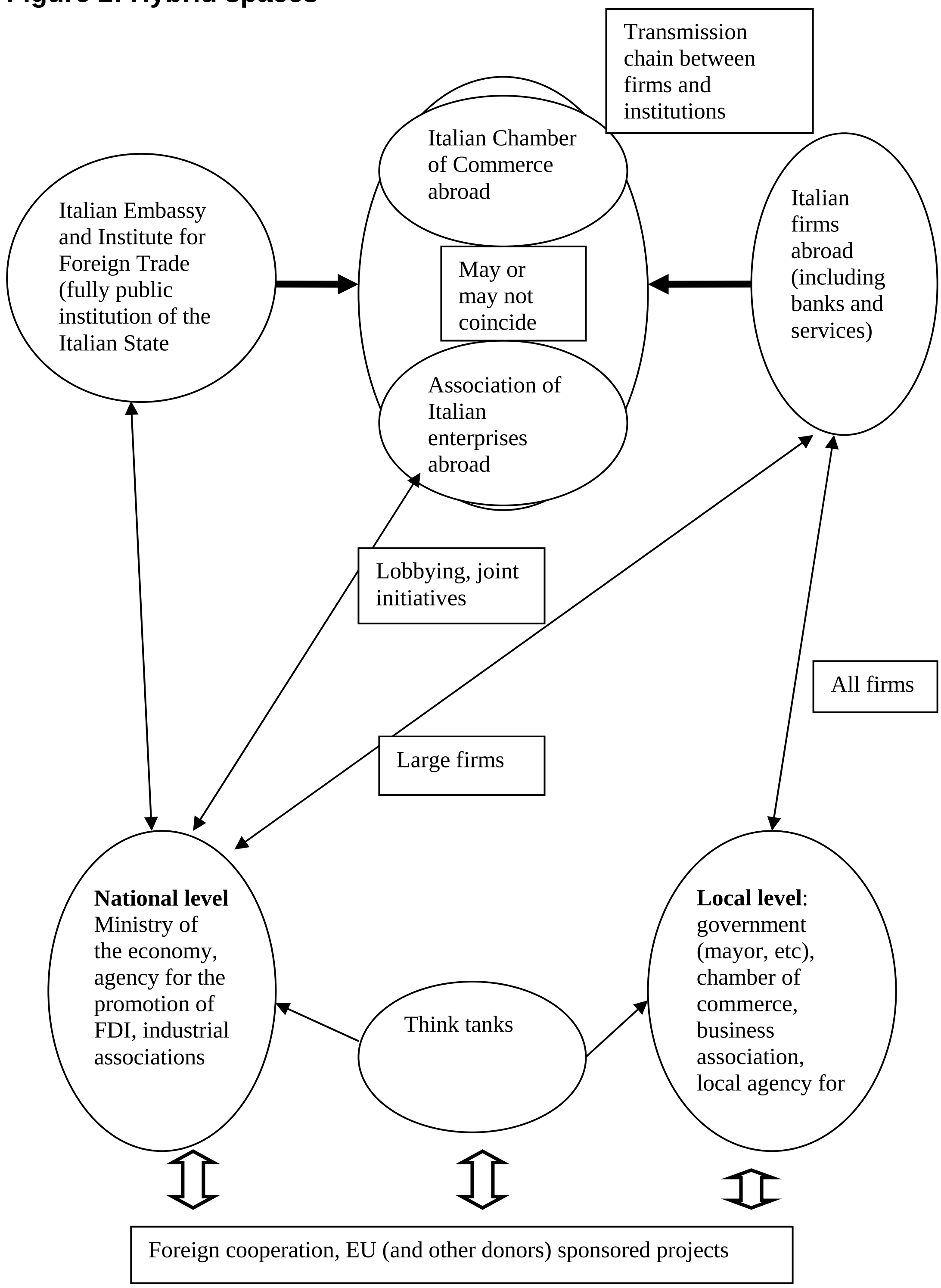


Figure 2: Hybrid spaces



[i] Funded by a *Doctoral Dissertation Improvement Grant* from the National Science Foundation, *Off Campus Dissertation Research Fellowship* from the Graduate School of the University of North Carolina at Chapel Hill, *Doctoral Research Travel Award* from the University Center for International Studies (presently called Center for Global Initiatives) of the UNC-Chapel Hill, *Dissertation Completion Fellowship* from the Graduate School of the UNC-Chapel Hill, this paper draws on empirical research undertaken between 2005-2006 from a project entitled 'the Relationship between the Processes of Outsourcing of Italian Textile and Clothing Firms and the Emergence of Industrial Districts in Eastern Europe'. This took the form of eighty-five semi-structured elite interviews with key Italian firms, associations, local and national institutions in Eastern Slovakia, Western Ukraine, Bulgaria and Romania, with all interviews fully transcribed and analysed. The quotes used here capture the key points of concern expressed. The following institutions supported the research: Informest, IC & Partners Group, Foundation for Entrepreneurship Development, CPL' 92, Business Support Center for Small and Medium Sized Enterprises – Rousse; Bulgarian Academy of Sciences, Economics University in Bratislava, Christian University 'Dimitrie Cantemir' in Sibiu, 'West' University in Timisoara, University of Bucharest, University of Trieste.

[ii] Pologne, Hongrie Assistance à la Reconstruction Economique.

[iii] (http://www.usaid.gov/policy/budget/cbj2007/an/seed.html);

[iv] (http://www.soros.org/initiatives/regions/south-eastern_europe