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Rural Development and Competition Between Territories: Marche and the Balkans

The case of Albania

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Abstract

The paper deals with the relation between the local development in the region of Marche (Italy) and the Balkan regions with especial attention given to Albania. Rural development based upon specialised industrial districts has reached a mature stage in many Italian regions. In many cases, cheap labour seeking strategy is becoming the prevalent outcome. Although the forms of delocalisation and Foreign Directed Investments (FDI) can be many, the case of the provinces of Marche and the Albanian districts provide evidence that low labour cost must be accompanied with a local network of entrepreneurs and stable institutions. Difficulties on this ground make delocalisation to Albania still an individual strategy rather than a whole system re-organisation.

1. Introduction

Since the end of the eighties, the liberalisation process activated in central and eastern European countries and the relative political and economic stability reached by several Least Developed Countries (LDC), have permitted a significant acceleration in Foreign Direct Investments (FDI) on a global level (Barba Navaretti *et al.*, 2000). The growth of these investments has been intense between 1992 and 1995 (18%, 16% and 28% respectively in '93, '94 and '95), followed by a

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slowdown (-0,7% in 1996), due mainly to a net decrease in investments made by EU member states (-4,6% in 1996).

Italian foreign investments have partly reflected the expansion characterising other European nations during the first half of the nineties. The total number of foreign firms with Italian shareholders in the LDC and transition economies was approximately 1.000 at the beginning of 1998. The number of employees of foreign firms with Italian shareholders increased from 244188 in 1986 to 606266 at the end of 1997 and most of this increase occurred in LDC or in transition countries, 53% of employees. Although the United Kingdom, Germany and France invested respectively 3,5, 2,5 and 2 times as much as Italy, the capacity of Italian firms to invest abroad is considerable, if only the investments in LDC and transition economies are considered alone. When considering central and eastern Europe states, for example, Italy is together with Austria the third largest investors after Germany and USA (Mutinelli-Piscitello, 1997).

Italian exports increased sharply in the nineties especially in those sectors mainly based on local industrial districts and representing the main competitive advantage of the Italian industrial development (the so called *made in Italy*). In the whole clothing industry (textile/clothing and footwear) export increased by 50% in the whole period 1990-1996. However, Italian firms' internationalisation has taken much more the form of delocalisation. We mean by delocalisation the decentralisation of (some phases of) production from the original firm (or district) toward other countries. In the same period (19901-996) the trade connected to the different forms of delocalisation of the Italian clothing industry have grown on average of 80-90% per year (Corò-Grandinetti, 1999)!

However, the foreign directed investments are not simply capital flows between a developed country and some LDC. They are mainly new economic relations between the local systems where some firms, or the whole system, decide to transfer and develop part of the production processes and relations. When seen from the point of view of the place of origin, foreign directed investments often means

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University and Scientific Research (MURST). The paper can be downloaded at this site: http://www.econ.unian.it/ospiti/ass-bartola.

delocalisation with a strong re-definition of the internal production networks and also with relevant impact on the local employment and overall development. In the Italian case, these potentially delocalising local systems are, at least originally, rural and have been considered as successful examples of rural industrialisation and development. Therefore, what can be view as an opportunity for many regions in LDC is indeed also a potential threat for the original rural local systems.

The aim of the paper is to analyse the economic relations between the Marche region and regions of the Adriatic Balkans with particular reference to Albania. The paper focuses both on bilateral commercial flows and, in particular, on the main forms of foreign directed investments, the areas where new investments are localised and the main issues, which can foster or hamper this re-localisation process. In the long run, this process can create a competition between territories of Marche and Adriatic Balkans for industrial firms' localisation.

The second section deals with the theoretical framework of the analysis. The rural industrialisation process shows usually an evolutionary pattern spontaneously leading to a maturity stage when delocalisation can become the only alternative to escape the risk of industrial decline. The forms of this delocalisation process, its main explanation as well as the choice of the target area will be dealt with. The third section will present the empirical analysis. We focus on Marche, a rural Italian region, and its delocalising strategy with respect to Albania which is, potentially, one of the most relevant target areas. Migration, trade patterns and foreign investing firms will be separately treated as alternative strategies of internalisation of the original local rural industrialisation process. The fourth section concludes.

2. The theoretical background of the internationalisation of local systems

2.1. The foundations of rural industrialisation

Rural areas[1] are often viewed as characterised by weak economies due to the joint effect of remoteness and small scale. The former increases production and transaction costs, the latter prevents high returns to scale benefits. On this argument,

both features should determine competitive disadvantages for rural areas in their competition with urban ones. Rural areas are consequently unable to achieve the same growth rate as urban ones, and a permanent decline in population and employment should be expected.

However, this law of rural decline is widely contradicted by the empirical evidence. Many recent studies have shown that some rural areas may experience more intense growth than urban ones. In the USA (Henry-Drabenstott, 1996; Bernat, 1997), in the European Union (Becattini, 1998; Esposti *et al*., 1999), and in many other OECD countries (Bollman-Bryden, 1997; OECD, 1994 and 1996a), many rural areas display population and employment increases due to their specific capacity to turn alleged disadvantages into competitive advantages with respect to urban areas.

Closer inspection of this rural "success story", of which Italian industrial districts can be considered outstanding examples, reveals a number of other frequent regularities. Most of the "successful" rural areas have a considerable capacity to attract manufacturing jobs, while agricultural employment rapidly declines and employment in services often grows more slowly than in urban areas. Moreover, employment growth in manufacturing is frequently achieved by low-medium tech sectors, and it is specialised in one or few sectors; in addition, the new jobs often pay lower wages compared with urban areas. As a consequence, rural success, when present, is frequently more evident in employment growth than in GDP per-capita growth.

What accounts for this rural "success"? Although the empirical evidence cannot be used to formulate a general law, these regularities suggest a theory of the rural localisation of economic activities. The traditional explanation of rural localisation rests on three components (Esposti-Sotte, 1999). The first component is the lower (implicit or market) price of some crucial production factors: mainly labour, as confirmed by the low wages frequently observed in rural manufacturing, and land for industrial settlement. The second component is the localisation economies that arise from the concentration of numerous firms belonging to the same industry in the rural area. Industrial clustering is essentially the origin of so-called 'industrial

[1] We use the OECD definition of rural-urban communities and regions (OECD, 1994 and 1996).

districts', and of the Marshallian external economies which make them highly competitive (Rosenfeld, 1992). The third component is the presence of urban spillovers. Rural areas can draw advantage from their closeness to urban ones, which usually provide financial and business services, infrastructures and increasing demand for supplied products while furnishing the demanded inputs.

The actual experience of most rural industrialisation is instead founded on a number of important pre-conditions for embryonic rural industrialisation. This is the first stage in this pattern of rural development, because these pre-conditions eventually create the local competitive advantages – that is, lower unit costs – which generate scale effects. The real micro-foundation of these advantages is the rural local institutional setting, or in other words the set of (formal or informal) rules and organisation, consolidated behaviours, history and traditions locally and steadily defined. The main outcome of the rural institutional setting is the dominance of small group scope economies. Frequently, and traditionally, the small group is the extended agricultural family, but the idea can be applied to small rural communities as well.

Small group scope economies arise because individuals act to maximise group utility rather than individual utility; otherwise, we may say that individuals' utility tends to coincide with small group utility. The main explanation for this behavioural strategy is that the small group needs to provide numerous goods and services while reducing risk at the same time; and this need is directly linked to the remoteness and small scale of the local rural system. In this multi-task framework, it is optimising to have heterogeneity of roles, of knowledge and skills – that is, diversification and flexibility.

The truly important outcome of this system is its efficiency as an incentive scheme. Indeed, in a context of small group scope economies there is a large amount of self-employment, and therefore a tendency to minimise asymmetric information and transaction costs.[2] This system creates the pre-conditions for major competitive advantages in terms of low unit costs, while heterogeneous and diffused knowledge and skills simultaneously create the capacity to exploit new market or/and

technological opportunities. Embryonic rural industrialisation usually develops in low-tech industries when, at a given time, new external opportunities emerge.

In an evolutionary perspective the three components described above become three stages in rural industrialisation and tertiarisation. The rural system based on scope economies enables embryonic industry to take advantage of an external transitory opportunity (Becattini, 1998). These original competitive advantages locally attract resources towards the industry concerned, generating a cluster. This process introduces local scale economies (external to the firm but internal to the industry); if it reaches a threshold critical mass, these local scale economies are able to overcome the traditional rural diseconomies and then consolidate and persist in the long run.

However, this threshold mass (that is, the industrial district) can be achieved by concentrating resources, population, knowledge and skills in the winning industry, thereby creating specialisation and territorial concentration. The original rural institutional setting “collapses”, from both a geographical and sectoral point of view, into an embryonic centre. This centre is needed in this evolutionary pattern because it has to provide urbanisation economies to the industrial district requiring more and more services, infrastructures, and local demand. At this point the industrial district reaches a mature stage and is permanently linked to an urban centre, becoming an urban system.

This evolutionary pattern of rural industrialisation from a small original and specialised cluster to a complex urban-industrial system increasingly interacts with the ongoing process of economic globalisation. It is now widely acknowledged that local industrial districts have been the main engines of the Italian success on the international markets (Becattini, 1998). However, they have been usually understood as closed systems. Most productive relations and of the intermediate trade remain within the local context which is opened to the international markets only at the extreme points of the “chain of value” that is in import of raw materials and export of final products. This is indeed the main competitive advantage of this local systems: the thick internal network makes possible to reproduce locally human capital, skillness, technological innovation and financial resources.

[2] It is a framework of “many principals and few agents”.

The increasing globalisation of the economy, however, makes this "closeness" potentially nonessential and also a weakness; moreover, it also opens many new opportunities for local firms to be exploited. According to many authors (Tiberi Vipraio, 1996), internalisation can be viewed has the stage following the maturity in the life-cycle of the rural industrialisation process.

2.2. From local to global networks

Decentralisation has rapidly become a need as well as an opportunity of many Italian industrial districts. Although the local networks and industrial relations are still crucial for the competitiveness of the system, the global competition forces these districts to open their relations also to other international agents and firms.

The low cost of labour of the LDC, the increasing need to be closer to the remote markets and to final demand, the new technological paradigms make the traditional marshallian and closed configuration of the local systems inadequate to avoid the long run decline of the district. Consequently, vital industrial districts are now much more than complex local urban-industrial systems; they are the evolutionary combination of a local and a global network where firms interact with neighbours as well as with international partners and competitors.

There are three main forms through which the local system may undertake the delocalisation process (Corò-Grandinetti, 1999):

1. *Approaching the remote markets*: the leader firms of a district increasingly tend to avoid traditional means (such as international buyers and import-export agencies) to "attack" the new world market thus achieving a better control and organisation of the marketing logistics and protection of the trademark. Although it may depend on the core business of the local leader firms, this internalisation strategy often involves developed country whose markets are highly attractive as well as contended. This kind of FDI investments have been also defined *market seeking* (Dunning, 1993; Mutinelli-Piscitello, 1997).

2. *Gaining access to highly specialised immaterial services*: the information technology revolution as well as the crucial role of technological innovation make possible and necessary to the local leader firm the access to advanced services provided by foreign firms or institutions. R&D, design, financial and accounting services, marketing and strategic advice are all services that the leader firm can hardly produce by himself and usually do not belong to the traditional activities and relations internal to the local district. Again, this delocalisation usually implies networks between local leader firms and specialised firms in developed country where the search of human capital, technological and financial leadership and contextual knowledge are the main motives of delocalisation. This kind of FDI investments can be also defined *services seeking*
3. *Delocalising the filiere*: in the industrial districts as closed system all the phases of the production process leading to the final product are locally concentrated; many small firms are specialised only in some phases vertically integrating with other local firms particularly in the form of sub-contracting. However, many production phases are quite labour intensive and require low human capital as well as standard technology. For this reason, these phases can be localised in places and countries where the cost of labour is much lower, fiscal policies are more favourable and raw materials also cheaper. This kind of FDI investments can be defined *labour (resource) seeking.*

This paper mainly focuses on this latter form. On the one hand it is the most relevant in the Italian industrial districts. It does not only involves few leader firms but also concerns all the internal industrial relations and indeed imply a hierarchical re-definition of the local networks. In particular, this delocalisation involves some particular production phases, or whole segments of the filiere, which can reduce the degree of internal dependency of the firms. However, the management of the crucial phases as well as of technological innovation and trademark strategies remain under the control of the main local firms. For this reason, this delocalisation also implies a local concentration of the control power (management concentration) and has been

also depicted as *concentration without centralisation* (Harrison, 1994; Carminucci-Casucci, 1999).

Not only this form is particularly interesting because the delocalisation process induces a new internal organisation of the local economies. It is also inteteresting because it almost exclusively concerns LDC mainly driven by the search of low labour (resource) cost. On this base and also considering that delocalising firms are often small or medium enterprises (SME), delocalisation is made toward near rather than remote countries. In the Italian case, many Mediterranean non-UE countries and CEEC are of particular interest, has shown by numbers mentioned in previous section.

The delocalisation of the filiere is a form of internalisation of local industrial systems whose objective can be afforded following three different ways: joint-ventures, acquisition or creation of industrial plants, long term supply agreements. This latter form have been called Passive Improvement Trade (Gregori, 1996) because the local firm delocalises only some production phase and then import, in a special tariffs regime, the intermediate product on which finally only add some final operation to maintain the original trademark.

2.3. The target areas of the internationalisation process

The delocalisation process outlined above requires some preconditions in the country or region where the new investments have to be carried out. The choice itself is not casual. Firstly, it is driven by the search of low labour cost and not by the need of closeness to remote markets. Secondly, SME can only delocalise on a small scale and also assuming high risk. A contextual knowledge is needed and also a path dependency can be observed the target area often being a country where the firm previously traded final products or purchased raw materials. Therefore, local firms tend to direct their investments to target areas that are relatively close both geographically and from a cultural and historical point of view.

Moreover, delocalisation also not only means to direct investments toward a foreign country but also to re-organise a thick production network in the new specialising area. This area has to substitute part of the process that was previously internally

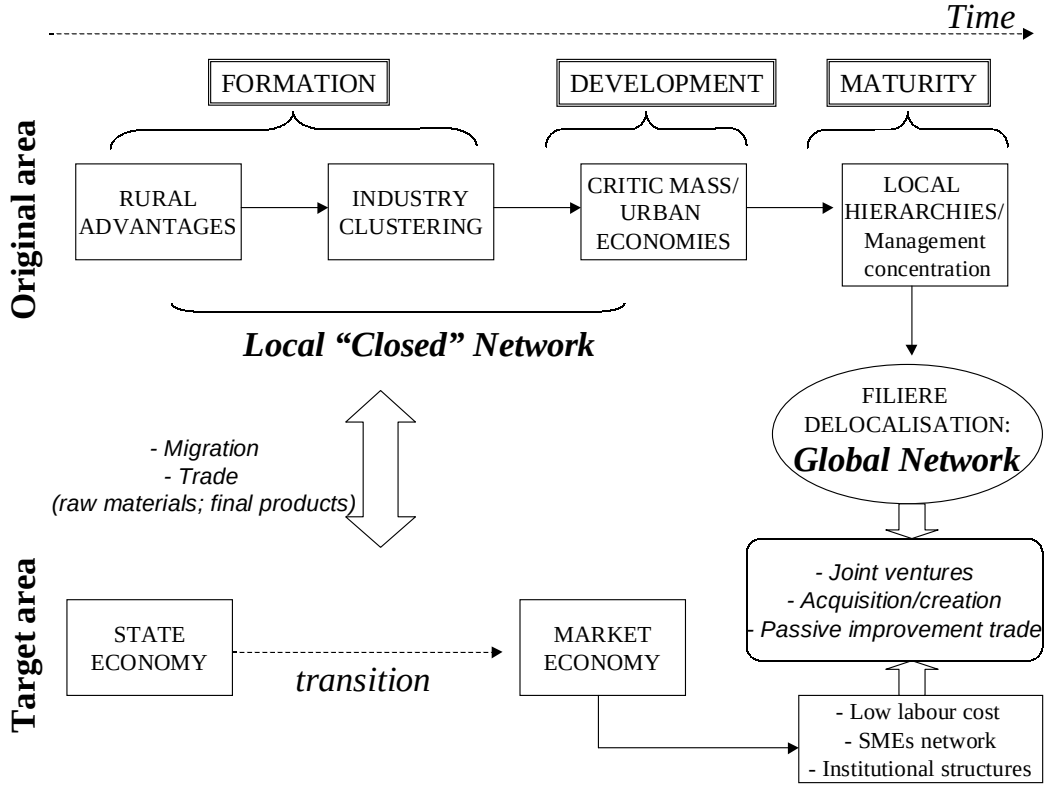
managed. Therefore, a potential system of local SME is needed, handicraft tradition and skillness, habit to trade and business, a functioning labour market, etc. Generally speaking, an informal institutional structure is needed to create a local network that can be integrated in the global network and hierarchically leaded by the original mature local systems.

The target areas tend to repeat those original “rural advantages” that made possible the creation of the original industry clustering it tends to lost in the mature stage.

We can the outline the life-cycle of the district considering also this final step of internationalisation with the consequent induced creation of a local network in the target areas. Figure 1 synthesises the theoretical discussion of this section. It considers the original rural advantages and the consequent industry clustering as the formation phase of the local industrial system. Its development implies achieving a critic mass and the formation of a complex urban-industrial system. In this phase, the internationalisation of the local economy is mainly expressed in terms of immigration, “importing” low cost labour force from LDC, and in terms of international trades (especially final goods export).

When the system reach a mature stage, the closed local network becomes insufficient to maintain local competitiveness in presence of increasing global competition; moreover, most original advantages have been lost. To escape the risk of industrial decline, a delocalisation process, usually guided by the leader firms but involving the whole system, is undertaken. The most labour intensive and least strategic phases are transferred abroad while the main firms of the local system hold the strategic control. Through joint ventures, direct acquisition/creation of plants or trade agreements, the local system transfers part of its internal network abroad. This transfer process is mainly attracted by those transition economies whose regional production system allows low labour cost, provides for a potential local network of SME and has an appropriate institutional structure.

Figure 1 – Rural industrialisation life-cycle and the internationalisation process



3. Marche and the Balkans: the case of Albania

3.1. Regional growth and rural development

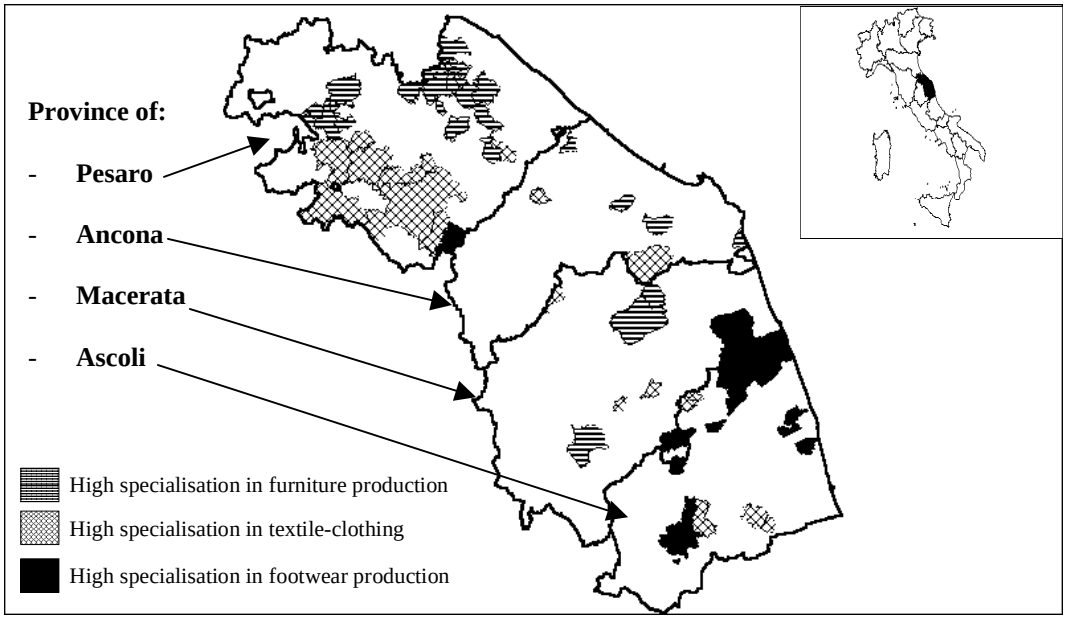
There are many examples of European rural regions which have experienced successful industrialisation (Esposti *et al*., 1999). Relevant cases are to be found in Spain, Austria, Germany and many other countries. However, the most typical and most thoroughly studied ones are the Italian rural regions located in the north-eastern and central part of the country, which have acquired the name of the "Third Italy".[3] Based on small and medium enterprises and on low and medium tech

[3] Traditionally, the Italian economy has been considered as a typical dualistic one, divided between a highly developed part, represented in particular by the Milan-Turin-Genoa triangle, characterised by traditional large-firms-based industrialisation, and a second dual part, underdeveloped in comparison to the former, consisting of the *Mezzogiorno* to which the main transfers of national re-equilibrium policies have been traditionally dedicated.

activities, these local economies are regarded as outstanding examples of successful endogenous industrialisation (Fuà, 1988).

The Marche region with its various industrial districts (figure 2) is one of the most interesting examples of this rural industrialisation process. Marche is an Italian rural region of about 1.45 million inhabitants and 960 thousand hectares, lying in central Italy, bordering to the west on the Apennine mountains and descending to the Adriatic coast to the east. It is a region without an apparent centre-periphery hierarchy, as well as being one whose recent industrial growth has been based on a highly localised and specialised industrial concentration on traditional manufacturing (mostly clothing, textiles, footwear, furniture, but also machinery).

Figure 2 – Main industrial districts in the Marche region



In the recent years this rural industrialisation process has reached a mature stage, generating a complex industrial–urban system. Maturity means that the previous stage of generalised industrial growth built upon the reinforcement of the industrial districts has turned into a continuous cycle of crises and restructuring compelled by global competitive pressure. The local industrial system reacts by shifting towards new segments of global markets, a process which requires new and higher-level technologies, new specialities, new markets and new local leaders and hierarchies.

This cycle may eventually give rise to de-industrialisation, or decline, or further success, but the success may be strongly labour-saving. One of the most relevant process implied by this evolution is the tendency of local firms to re-localise production phases in foreign countries particularly attracted by cheaper labour. Mainly for historical and geographical reasons, the Adriatic and Balkan countries has become the most attractive territories for Marche's entrepreneurs.

As seen, Italy intensively trades and invests in the CEEC and the Balkans. Although Albania is one of the smallest country of the Balkans, there are many historical, geographical and economic aspects making the Albania an important partner of many Italian regions, especially the adriatic ones. Among them, and together with Puglia, Marche is the most active region. Table 1 shows Italy is largely the most important trade partner of Albania. While import from Italy decreased in 1999 both in absolute terms and in share, export sharply increased also in absolute terms and notwithstanding the crisis due to the war in Kosovo. The increasing partnership between Italy and Albania is also showed by the FDI numbers (table 2). According to the Reprint Database (Cominotti-Mariotti, 1994), in 1994 the share of Italian FDI in Albania were respectable if compared to other CEEC (6% on total employees). Moreover, if we consider the participations of SIMEST, the society providing public support and financing to Italian firms investing in non-UE countries, Albania is largely the first among the Balkan countries.

Clearly, Albania is considered an attractive country for trade partnership, FDIs and delocalisation strategy. According to the Reprint Database, 88% of the Italin investors in Albania are motivated by a labour seeking strategy, no one by a market seeking strategy. Considering all the CEECs, 66% of firms are market seeking and 55% labour seeking. Therefore, what is attracting in Albania is the low labour cost. At the same, many Italian firms are sceptical about the present Albanian situation and public support or some kind of institutional partnership are needed to convince entrepreneurs to invest in Albania.

Table 1 – Main Albania trade partners

	Export (% on total)		*Import (% on total)*	
	1998	1999	1998	1999
Italy	49	67	45	38
Greece	15	14	30	28
Germany	9	6	4	6
Others	27	13	21	28

Source: INSTAT

Table 2 – Italian FDI in the CEEC's (1994)

	Number of firms with participation	*Number of employees*	*% on total employees*
Albania	8	5380	6%
Bulgaria	7	1104	1%
Former Czechoslovakia	12	5390	6%
Hungary	44	17822	19%
Poland	27	28419	30%
Romania	17	14820	15%
Former Soviet Union	53	15704	16%
Former Yugoslavia	14	7101	7%
Total CEEC	182	95740	100%
Number of projects with SIMEST participation in Italian FDI (1991-1999)			
FYROM		1	
Slovenia		11	
Croatia		16	
Albania		20	

Source: Reprint database (CNEL – Politecnico di Milano) and SIMEST

It is the contradictory aspect of this delocalising strategy: firms look for low labour cost but are also worried by the low level of economic development, political stability and infrastructure endowment. In fact, Albania is largely the poorest between the Balakan countries; GDP highly relies on agricultural production and most population still lives in rural areas (table 3). This lag of Albania with respect to other Balkan countries makes this country particularly favourable in terms of low labour cost but also makes difficult to find these preconditions for the delocalisation

process outlined above. The low presence of manufacturing and the high degree of rurality make difficult for foreign firms to find regions with an existent network of local entrepreneurs and a sufficient endowment in infrastructure and institutional organisation.

Table 3 – Albania versus other Balkan countries in 1997

	GDP *per capita* (in $)	% Agriculture on GDP	% of Rural Population
Albania	617	62,7	62,0
Slovenia	9161	4,4	43,4
Croazia	4610	9,0	48,1
Bosnia	1086	19,7	58,0
Yugoslavia	1465	22,5	NA
FYROM	1090	13,7	39,0
Bulgaria	1140	18,8	30,7
Romania	1420	18,5	43,1

Source: World Bank, IMF, FAO; Yugoslavia Federal Statistics Institute

However, a great regional disparity can be observed: diffferent labour costs and localisation preconditions are present across the national territory. Since 1992, Albania is divided in 12 prefectures and 36 districts (figure 3). Most population is concentrated in the eastern part of the country especially around Tirane and Durres (figure 4).

Concentration of population sharply increased in the last decade thorugh a massive migration from the western-mountain rural regions to the eastern-flat urban districts (figure 5). In 1996, population density in four districts (Tropoje and Has in the North, Kolonje and Permet in the South) is lower than 40 inhabitants/Km^2 while in three districts, Tirane, Durres and Kukove, it is above 350 inhabitants/Km^2. This intense population flow from the rural regions to the urban areas is indeed guided by an increasing gap in economic development between the districts.

Figure 3 – Prefectures and districts in Albania

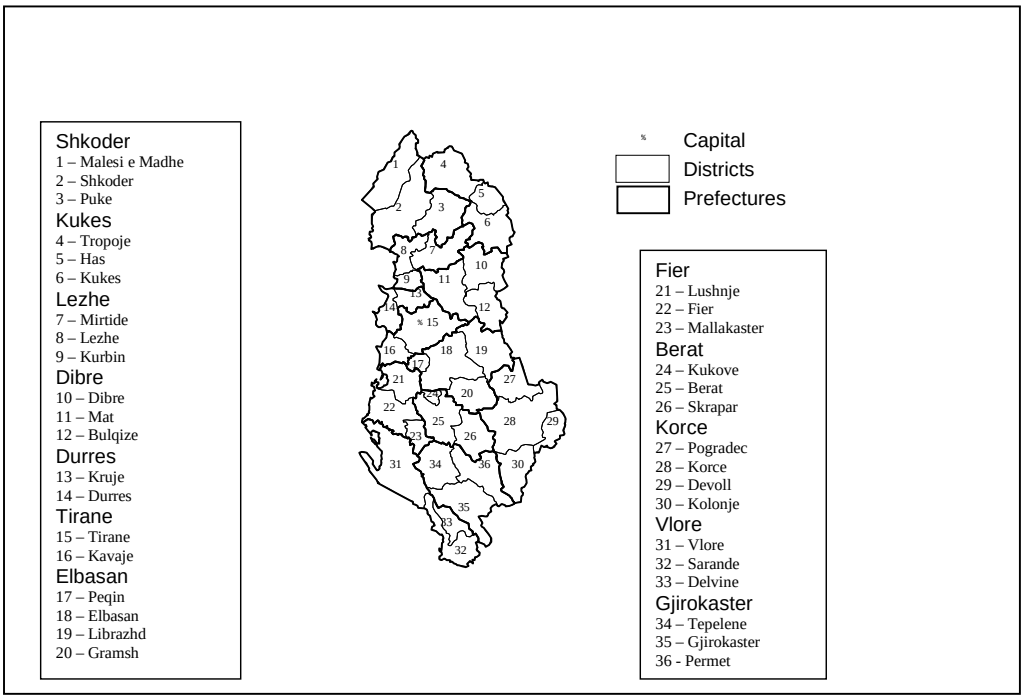


Figure 4 – Population density (inhabitants/Km^2) in 1989 *Source: INSTAT*

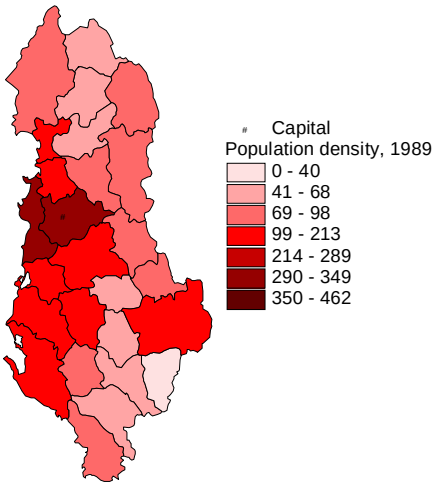


Figure 5 – Population density (inhabitants/Km^2) in 1996 *Source: INSTAT*

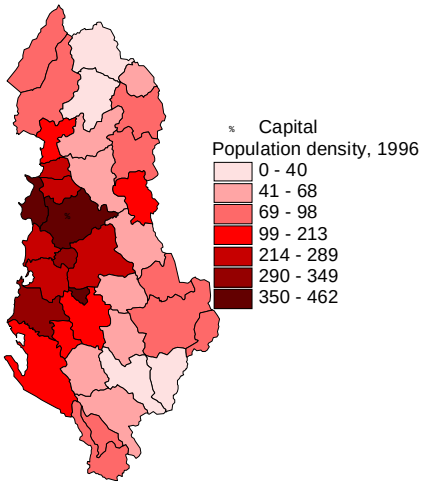


Figure 6 – Number of firms on 1000 inhabitants (1996) *Source: INSTAT*

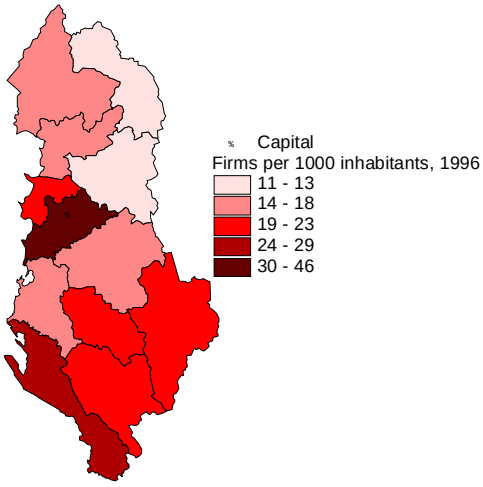


Figure 7 – Most dynamic regions: growth of the number of firms 1997-1998 *Source: INSTAT*

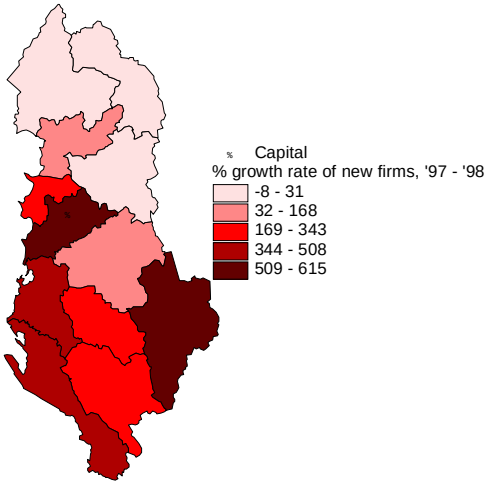


Figure 6 reports the number of firms any 1000 inhabitants by prefectures while figure 7 shows the rate of growth of new firms between 1997 and 1998. It emerges that the western part of the country is the most developed, at least in terms of entrepreunership, especially around the capital Tirane. However, also the Southern part is strongly dynamic although less densely populated. Therefore, three distinct areas emerge: highly rural and less developed regions in the north-east; a core area around the capital in the western part of the country; dynamic regions in the south especially in the prefecture of Vlore. These different contexts imply different labour cost and localisation preconditions; therefore, also different is their capacity to attract foreign investors.

3.2. Trade and migration

As depicted above, Italian industrial districts are traditionally characterised by a closed system of production relations between local firms. Therefore, if this model still held for the case of Marche, the main form of economic integration between the region and Albania would be observed in migration of cheap labour force from

Albania to Marche and in terms of trade patterns implying export (to Albania) of final products and import (from Albania) of raw materials.

Table 4 shows the number of Albanian immigrants legally registered in the Marche's provinces until March 2000. Almost 5000 people (Albania is the most represented country between immigrants) distributed quite homogeneously among the provinces. About 70% of them obtained residence permits for work motivation. However, if we consider the provinces with the highest and lowest presence of Albanian immigrants respectively, we can see how differently they are employed across the region according to the work permits registered at the provincial Labour Bureau. In Ascoli Piceno, almost all of them are employed in agriculture, construction and domestic work. In Macerata, agriculture and dmoestic work are absent.

However, the number of work permits are very low if compared to the total number of legal immigrants and it is difficult to detect where, in which sectors and regional areas, they are mainly employed, also due to the significant presence of illegal work. In any case, there is evidence of neither a great dependency of the main industrial districts of the region on this low cost labour force nor a tendency to "import" cheap labour force instead of delocalising.

Table 4 – Albanian immigrants in Marche

Residence permits at 01/03/2000 by provinces				
	Ascoli	Macerata	Ancona	Pesaro
Albanians	1433	1102	1170	1255
% su Marche	29	22	24	25

Work permits in 1999 in the provinces of Ascoli Piceno and Macerata		
	Number of Albanian immigrants	% on total immigrants
Ascoli Piceno		
Agriculture	19	51%
Industry	9	24%
of which: construction	7	19%
Services:	9	24%
of which: domestic work	9	24%
Total	37	100%
Macerata		
Agriculture	0	0%
Industry	12	92%
of which: construction	8	62%
Services:	1	8%
of which: domestic work	0	0%
Total	13	100%

Source: Provincial Labour Bureau and Police Headqaurtes

If we consider the trade numbers a more cleare pattern emerges (Tables 6 and 7). First of all notice that two provinces (Ascoli Piceno and Macerata) amount for about 80% of total import of Marche to Albania; therefore a much more higher share than expected. On the contrary, export shares are much lower. However, imports declined sharply in Ascoli Piceno in 1998 while Macerata increased the exports of almost 50%. Moreover, if compared to the whole trade with the Balkan area, Albania's share decreased in 1998 in both import and export in the case of Ascoli Piceno, and in both provinces the share fluctuates between 6% and 8%.

Considering more in detail the traded products, a sharp difference in the partnership between Albania and the two provinces emerges. In table 6 traded products have been divided in raw materials, capital goods (mainly machinery and equipment), intermediate and final products concerning the main local specialisation that is textile/clothing, footware, furniture, and all other products. Macerata shows a very similar composition of trade with Albania both on import and export side. Capital goods and intermediate products referring to the main specialisations (especially textile/clothing) prevail but no particular mutual trade pattern emerge. In the case of Ascoli Piceno, capital goods mainly flow from the local firms to Albania, while intermediate and final products, prevalently concerning textile/clothing and footwear production, are mostly imported from Albania.

These numbers suggest that Ascoli Piceno exports technology for specialised production whose intermediate and final products are then re-imported. This is the typical pattern of the passive improvement trade: Italian firms take the advantage of low labour cost in Albania, letting some production phases being made by Albanian firms and workers. Re-importing the products allows the original firm to maintain the control on the trademark and on the commercial strategies. This kind of behavior does not emerge in the case of Macerata. However, the data also suggest that in Ascoli Piceno the crisis of these last years in Albania has probably slowdown this tendency.

In any case, this kind of trade partnership is just one initial form of internationalisation and delocalisation. Indeed, it does not necessarily involve FDI

because it can require just long-term trade agreement between an Italian firms (providing the technology and sometimes the raw materials) and an Albanian entrepreneur providing the cheap labour and the intermediate products. Other more advanced forms require some degree of FDI by the delocalising firm. This subject will be dealt with in the next section.

Table 5 – Trade with Albania of the two Marche's provinces (in thousands of current Liras)

	Ascoli Piceno			Macerata		
	1997	1998	% Variation	1997	1998	%
Import	7602883	6889690	-9	6236381	6383801	+2
% on region total	43	42		35	39	
Export	10475465	10593209	+1	5793776	8325266	+43
% on region total	26	21		14	17	
Balance	2872582	3703519		-442605	1941465	

% Albania on total trade with Balkan countries: Ascoli Piceno

	1997	1998
Import	9,3	6,4
Export	8,6	7,2

% Albania on total trade with Balkan countries: Macerata

	1997	1998
Import	7,5	6,7
Export	6,5	7,6

Source: ISTAT

Table 6 – Traded products between selected Marche'provinces and Albania

	IMPORT		EXPORT	
	Millions of Liras	*% on total*	*Millions of Liras*	*% on total*
Ascoli Piceno				
Raw materials	0	0%	713526	8%
Capital Goods (Machinery, Equipment)	1562320	23%	4431250	50%
Intermediate Products (Textile/clothing; Footware; Furniture)	1996350	29%	177229	2%
Final Products (Textile/clothing; Footware; Furniture)	2837142	42%	1727107	20%
Other products	439582	6%	1738888	20%
Total	6835394	100%	8788000	100%
Macerata				
Raw materials	159090	2%	549607	7%
Capital Goods (Machinery, Equipment)	2217032	29%	2030231	26%
Intermediate Products (Textile/clothing; Footware; Furniture)	3487954	45%	3722768	48%
Final Products (Textile/clothing; Footware; furniture)	7313	0%	457546	6%
Other	671512	12%	919217	12%
Total	6383811	100%	7679369	100%

Source: ISTAT

3.3. Delocalising firms and Albanian regions

It is quite difficult to find updated data on FDI at regional level and even more difficult is to know the name of the firms involved. No official extensive data are available and usually research work relies on *ad hoc* survey (Mutinelli-Piscitello, 1997). In the present study, we selected the firms investing in Albania according to the Chambers of Commerce and Entrepreneurial Organisations of both Marche and Albania. On this list of firms, we then carried out a survey submitting a questionnaire. In table 7 we report the list of the detected firms. To maintain the privacy, we only report the original localisation (province and town), the sector, the size and the Albanian town where the delocalising investment has been made.

Table 7 – Marche's firms investing in Albania

Province (Town in parenthisis)	Sector	Size	Town of the investment
Pesaro	Construction	Small	Durres
Pesaro	Construction	Medium	Tirane
Ancona (Camerano)	Textile/Clothing	Small	Elbasan
Ancona (Morro d'Alba)	Textile/Clothing	Small	Lezhe
Ancona (Fabriano)	Textile/Clothing	Small	Skhoder
Ancona (Iesi)	Textile/Clothing	Small	Skhoder
Ancona	Transportation	Medium	Tirane, Durres
Ancona	Transportation	Small	Tirane
Ancona	Fishery	Small	Tirane
Ancona (Falconara)	Oil industry	Large	Tirane
Ancona (Monsano)	Mines	Small	Elbasan
Ancona	Construction	Large	Tirane
Ancona (Marzocca)	Marketing	Small	Elbasan
Macerata (Montecassiano)	Textile/Clothing	Small	Tirane, Durres
Macerata (Montecassiano)	Textile/Clothing	Large	Tirane
Macerata	Machinery for Textile/Clothing	Medium	Tirane
Macerata (Morrovalle)	Accessory for Textile/Clothing	Medium	Tirane
Ascoli Piceno (Petritoli)	Food	Small	Durres
Ascoli Piceno	Footwear	Small	Tirane

This list suggests some initial comments. First of all, most firms are located in the province of Ancona, while Ascoli Piceno is almost absent, although it is the most relevant province in terms of immigrants and trade. Second, textile/clothing is largely the most relevant sector particularly if we also consider Footwear and

Machinery and Accessory for textile/clothing. Third, most delocalising firms are small[4] and, fourth, most FDI are concentrated in the coastal-flat urban area around Tirane and Durres. Finally, it must be reminded that 18 of the 19 surveyed firms answered the questionnaire and 12 have declared that the investments have been carried out before 1997. Therefore, most of the FDI are relatively dated and the crisis in 1997 seems to have significantly slowed down them.

To better understand the general forms of the delocalisation process, we distinguish two groups of firms: the 9 firms of the clothing industry (textile/clothing; footwear and Machinery and Accessory for textile/clothing) and all the others. This distinction is useful because there is a clear difference between the FDI of the two groups. Table 8 shows the size of the firms considering separately the part still operating in Italy and the part established in Albania. It emerges clearly that the firms of the clothing industry delocalise the most labour intensive phases of the production; on average, the number of employees if much higher in Albania. With the exception of the firm producing machinery, all the firms of the clothing industry have more employees in Albania than in Marche, while for the other sectors the size is almost the same comparing Marche and Albania.

Moreover, the investment of firms of the first group is much lower both in absolute terms and on average. Furthermore, they tend to control the 100% of the new firm while joint-ventures prevail for the other sectors. In any case, observed joint ventures usually imply a high share held by the Italian firm. Therefore, generally speaking, delocalisation of the firms of the clothing industry is also relatively capital saving: investments are made to exploit low labour cost in strongly controlled new firms established with a low level of investments and, presumably, of technology.

[4] Small firms have less than 20 employees; Medium firms between 21 and 50 employees; Large firms more than 50 employees.

Table 8 – Delocalising firms size according to the location

Group	Employees (avg.)	Number of firms in each size group		
		≤ 20 employees	21-50 employees	> 50 employees
	in Marche			
Clothing	21	6	2	1
Others	66	4	2	3
	in Albania			
Clothing	79	2	1	6
Others	73	6	0	3

Firms of the Clothing industry		
Firm	Employees in Marche	Employees in Marche
Textile/Clothing n. 1	10	34
Textile/Clothing n. 2	15	250
Textile/Clothing n. 3	4	110
Textile/Clothing n. 4	15	125
Textile/Clothing n. 5	3	10
Textile/Clothing n. 6	80	150
Accessory for Textile/Clothing	25	100
Machinery for Textile/Clothing	21	8
Footwear	19	52

Table 9 – Foreign Directed Investments from Marche to Albania

Group	Total Investement (in billions of Liras)	Average Investement (in billions of Liras per firm)
Clothing	2,7	0,3
Others	26,28	2,9

Forms of FDI				
Group	100% controlled firm	Joint venture (share of the Italian firm)		Other
		<50%	≥50%	
Clothing	4	1	3	1
Others	1	0	8	0

The labour seeking strategy is confirmed explicitly in table 10. The firms asked about the main motivations of delocalisation in Albania indicate the low labour cost as the main factor if the clothing industry is concerned whereas market seeking is sharply prevailing in the other sectors. Moreover, also the relation between the Italian firm and the Albanian one is different (table 11). In the case of the clothing industry, the Italian firm clearly provides technology, raw materials and other production factors while intermediate or final products are obtained in Albania and

then re-imported to Marche. In the case of the other sectors, the Italian firm provides support but the final products are mainly sold in the Albanian local market.

Table 10 – Declared main motivations of the FDI in Albania (more answers admitted)

Motivations	Clothing (n. of firms)	Other (n. of firms)
Low labour cost (labour seeking)	8	3
Access to a new dynamic market (market seeking)	1	8
Low resource cost (resource seeking)	0	3
Presence of other Italian firms	0	0
Low taxes	2	0
Low bureacratic and administrative control	2	0
Other	1	0

Table 11 – Main production relations between the Italian and the Albanian firm

Relation	Clothing (n. of firms)	Other (n. of firms)
The Italian firm provide for:		
Production factors (Machinery, etc.)	1	5
Technicians and technical advice	3	5
Labour force	0	0
Raw materials	6	1
Intermediate products	2	0
Other	1	1
The Albanian firm provide for:		
Final products re-imported to Marche	4	3
Intermediate products re-imported to Marche	4	0
Final or interemdiate products sold on the local market	1	7

A final aspect to be considered is the character of the target areas. As shown, most of the FDI of surveyed firms to Albania are concentrated in the core part of the country. Table 12 shows this is mainly due to the contemporaneous presence of infrastructure, administrative services and other institutional aspects; when low labour cost is only considered, then other non-central places can become more attractive. These results show that delocalising firms strongly depend on local preconditions that make possible the exploitation of the favourable labour market to create that global network between the Italian production plants and the new Albanian firms. As table 13 shows, many firms still struggle with these issues. Most

of the delocalising firms encounter great problems in establishing production in Albania. All the relevant issues are detected by most firms: the low quality of the labour force that partially offset its low cost, the low infrastructure endowment and, above all, the uncertain institutional situation.

Table 12 – Motivations of the localisation of the investments (more answers admitted)

Towns:	Tirane (n° firms)	Durres (n° firms)	Elbasan (n° firms)	Shkoder (n° firms)	Lezhe (n° firms)
Motivations:					
Low labour cost	0	0	1	0	1
Closeness to market	2	1	0	0	0
Presence of other Italian firms	1	0	0	0	0
Presence of Infrastructure	4	3	0	0	0
Presence of administrative services	3	0	0	0	0
Safety	1	0	0	1	0
Closeness to raw materials	0	0	1	0	0
Other	3	1	1	0	0

Table 13 – Main negative aspects of the experience (more answers admitted)

Negative aspect	Number of answers
Low labour quality	13
Low infrastructure quality	14
Laws uncertainty	18
Low political stability	15
Low quality of the local partners	4
Other	1

4. Concluding remarks

The main objective of the present paper is to provide some empirical evidence of the ongoing economic integration between the Italian region of Marche and the Balkan countries with particular emphasis on Albania. Marche's industrial development is a typical case of a rural industrialization process. It has now reached a mature stage: most of the original advantages have been lost and a strong tendency to move toward higher technological levels and sectors prevails. This also imply a great interest of many firms to delocalise part of the local production network in countries where lower labour cost can be found provided than some minimum preconditions are maintained.

Working on data about bilateral trade and migration and on a survey of local (Italian) firms delocalising to Albania, the paper provides some useful insight about the economic competition and cooperation between Italian territories and Albanian regions. Firstly, although attractiveness of low labour cost is high, FDI investments to Albania are still underdeveloped. Some industrial districts (for instance in Ascoli Piceno) still maintain a strong local and close network; it tends to "import" labour force from Albania rather than carry out FDI. Alternatively, they develop specific trade pattern, through bilateral agreements, allowing Italian firms to transfer parts of the production process in Albania then reimporting intermediate or final products.

More FDI come from other provinces in particular Ancona. They mainly involve the so called clothing industry and small and medium firms whose tendency is to delocalise most of the production, and of the employment, in Albania following a labour seeking strategy. At least according to our survey, however, this delocalisation seems an individual strategy followed by some minor firm rather than a process involving all the industrial district and the complex local network controlled by the leader firms. This higher level of internationalisation seems unaffordable given the uncertain political and institutional conditions in Albania as well as the insufficient presence of human capital and infrastructure. Also the tendency to maintain the control of the new firms suggest that the local entrpreneurship is still considered weak by many delocalising actors.

The Italy-Albania case suggests that globalisation and internationalisation of market relations and production processes open great opportunity for LDC if some preconditions are satisfied. In the Balkans some well known cases show how far this kind of partnership can go and what contribution it can give to a full transition to a market economy. For instance, in the case of Marche, many footwear firms of the province of Macerata and Ascoli Piceno have established part of the production in Romania, especially in the area around Timisoara where a strong local network is now present. Political stability and higher level of human capital can allow also to Albania to follow those examples.

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