

Evolutionary patterns and strategies for internationalisation and relocation: Industrial districts and productive capabilities in Europe

ABSTRACT

It is argued that the productive manufacturing capabilities of some of the Western European industries has reached a mature stage and a subsequent relocation and internationalisation of such activities is occurring at an increasing level, leaving many industrial districts (IDs) in decline or even crisis. At the same time, it is observed that manufacturing industries in Eastern European states are experiencing a revival due to their dependence on foreign subcontracting and investment. This trend has led to different priorities for internationalisation for firms agglomerating in different European locations. Moreover, it is suggested that while globalisation is of high significance for the Western industrial districts it is less of an issue for their counterparts in Eastern Europe whose main concern is with developing and maintaining relationships with their existing or new multinational corporations to encourage new investment and/or to improve their own access to foreign markets. More importantly, the impact of such transformation in terms of loss of control over foreign owned activities and the positioning of the international competition pose policy choices for such transitional economies in view of development of relevant institutions.

This paper provides a comparison of patterns of internationalisation of fifteen industrial districts in Europe in total; eight districts in Western Europe and the rest in Eastern Europe. Traditional industries such as textiles, clothing, shoes and automotive which have already established into global industries are contrasted against other less internationalised industries such as furniture and audiovisual industries. It is shown that country specific factors, such as economic ties between countries in close geographical proximity and cultural similarities, are widely influencing patterns of internationalisation. It is concluded that Central and Eastern European countries (CEECs) are still less attractive destinations for many of the Western European countries when compared to other EU countries of the rest of the world. As our findings suggest, CEECs are not significant export markets for the products and services of the Western industrial districts (WIDs). Even for the Italian firms, which demonstrate a high level of economic interaction with EIDs, trade exchanges mainly refer to outward processing trade rather than market access. WIDs are on average more internationalised, or globalised, than EIDs. EIDs are also generally more dependent on their relationship with IDs in other parts of the EU and accession into the EU than the other way around; i.e., EIDs do rely more on CEECs and other EU countries in terms of trade and investment than WIDs on CEECs.

Introduction

This paper is based on a study undertaken under the West-East Industrial Districts project, where it was aimed to achieve a higher understanding of the internationalisation process, especially the process of relocation of firms belonging to Western European industrial districts into locations in the Central and Eastern Europe. A sample of 182 Western European firms formed the basis for 15 case studies. Eight Western industrial districts (WIDs) and seven Eastern industrial districts (EIDs) were studied and compared. The main productive industries in these districts included automotive, textile & clothing, sportswear, shoes, film, furniture and ICT. The integration of

CEECs into the EU by means of trade, in particular outward processing trade (OPT¹), has particularly increased with the collapse of communism and increased EU membership in the region. A particular attention is given to the possibility of knowledge transfer through relocation from WIDs to EIDs.

The relocation phenomenon has become a reality to both the ‘old’ EU countries and ‘newly integrated’ CEECs, especially as a response to the EU enlargement and other internationalisation and globalisation pressures. In particular, a significant vertical integration of production is taking place with CEECs, generally motivated by potential efficiency improvements and international economies of scale, through the exploitation of locational advantages of CEECs that relate to lower labour and other production costs along with high levels of education and training of the labour force. With the enlargement to CEECs, labour-intensive industries (e.g. textiles clothing and footwear) or streams of activities within industries (e.g. assembly of motorcars, metal bashing) have experienced a trend of relocation to Central and Eastern Europe as these countries can offer a comparative advantage in terms of lower labour costs and other production costs without limiting their flexibility to adjust to market conditions. For WIDs firms outward processing trade (OPT) is a tool for vertical integration and relocation of industries. For CEECs subcontractors, OPT is an enabling process to sustain activity in a period of transformation and restructuring while adapting to demand in the EU markets. FDI from Western European countries has also increasingly been directed towards CEECs with the growth of vertical production differentiation. In EIDs, inward foreign investment is important for both the restructuring of old industries and development of new projects with export potential. Overall, three main factors may be cited in explanation of this process of vertical relocation to CEECs: (1) diseconomies of agglomeration in WIDs due to shortages and/or increasing cost of labour, congestion effects and the lack of industrial premises or land; (2) a decrease in transportation costs within the EU, and (3) a lower cost of labour per employee and other production costs in EIDs. In addition, there may also be a move away from the CEECs with higher wages (Hungary and Slovenia) into the Balkan countries (Romania).

The rest of this paper is divided into three main sections. Section 1 examines and compares the patterns of internationalisation as experienced by the WIDs and EIDs and section 2 examines the extent, degree of openness, and significance of internationalisation for the fifteen case studies part of the WEID research across eight countries while considering their context of international competition and development. Section 3 concludes the paper.

Section one – Patterns of internationalisation, trade and FDI

Before moving into the main discussion it is necessary to outline the main assumptions of the paper. Firms strategies for internationalisation are conceptually divided into two main categories: i) strategies relating to subcontracting to CEECs firms (i.e. international subcontracting); and, ii) strategies relating to direct investment in CEECs (i.e. foreign direct investment). Other non-equity agreements such as licensing, franchising and know-how agreements are considered but in this paper the focus is mainly on international subcontracting and foreign direct investment (FDI²). International subcontracting and FDI are not considered as mere transfer of capital, but complex bundles of management, technology, market access and capital money.

¹ The situation in which EU firms supply subcontractors in Eastern Europe with materials, parts or components to be processed or assembled, and then re-import into the EU afterwards.

² FDI represents a purchase of physical assets, such as plant or equipment, or business operations in a foreign country, to be managed by the parent corporation. It is an investment that involves a long-term relationship and reflects a lasting interest and control by a resident entity in one economy in an enterprise resident in the economy

OPT between the EU and Eastern Europe developed fairly rapidly in the early 1990s (Lemoine, 1998) and accounted for one-fifth of volume in 1992, and a much larger share in labour-intensive products such as clothing, leather and shoes (ibid). This pattern has been attributed to the preferential tariff quotas for OPT imports which allowed CEEC clothing exports to soar despite the sensitivity. FDI expanded later than OPT and has recently accelerated especially in CEECs (ibid). Hungary, the Czech Republic and Poland have received three-quarters of the FDI inflows (Lemoine, 1998). However, future prospects have to be seen in a global context, strongly influencing all industries via changes in global trade and investment strategies and policies.

While outward processing trade (OPT³) has played a significant role in both German and Italian relocation activities, it has not been significant for British relocation activities in Europe. As far as the three West European countries studied in this project are concerned, since the 1990s, reliance on OPT in Germany and Italy has been gradually shifting towards foreign direct investment as it has already been for British firms (Lemoine, 1998) (although the result of this study does not support such a trend). OPT drove Central and East European exports in the early 1990s, accounting for nearly 20 per cent of total EU exports in 1992. According to **Lemoine (1998)** German firms have been most active in developing OPT with the CEECs and accounted for two thirds of the EU OPT trade with the CEECs in 1995. However, FDI in capital-intensive industries such as automobiles, machinery, and chemicals is gradually displacing OPT in Central Europe. Much of the FDI has then been geared toward export-oriented businesses, including intermediate good products such as machinery, electrical equipment, and transport equipment (Hunya 1997; Zemplerova and Benacek 1996)⁴.

A. FDI by Italian enterprises in CEECs

Industrial districts in Italy have gone through various phases since the late 1970s. According to Balcer (1997) the evolution of internationalisation process in Italy that characterised the country in the last three decades is composed of three stages. The traditional pattern which lasted until the late 1970s was characterised by the divergence between the very good export performance of Italian firms and their weak and delayed multinational growth (Mariotti, 2004). During this period Italian firms invested in Latin America and the EU in pursuit of new markets and domestic firms had a very limited propensity to expand abroad. The second stage is characterised by the restricted 'oligopolistic heart' of the Italian industry that expanded abroad through acquisitions, mainly in Europe, this time to improve economies of scale. The internationalisation scene was dominated by four firms (IFI-Fiat, Pirelli, CIR-Olivetti and Ferruzzi-Montedison) which controlled 59 per cent of total sales (Mariotti, 2004). After the World War II Italy played a relatively minor role as an international investor, but in the last two decades there has been a considerable swing in FDIs. The third stage of Italy's internationalisation since the 1990s is mainly concerned with SMEs operating in scale-intensive and traditional sectors, investing in the EU, Eastern Europe and Far East. The motive for investments in CEEC is cost saving strategies (ibid); the scarcity of skilled and unskilled labour in Northern Italian provinces and the need to increase production capacity encourages local firms to seek subcontractors in the CEECs where

other than that of the investor. It is the ownership of 10 per cent or more of voting stock in the local company that qualifies as FDI. Otherwise, it is regarded as foreign portfolio investment, which is an investment in foreign financial instruments such as government bonds or foreign stocks. Based on Shim and Siegel (2001), OECD (1996), and IMF (1993) cited in Sohinger (2004).

³ The situation in which EU firms supply subcontractors in Eastern Europe with materials, parts or components to be processed or assembled, and then re-import into the EU afterwards.

⁴ Cited in Zysman and Schwartz, 1998

cost of labour is considerably lower. As shown in Table 2, Italy had the highest FDI in Romania and Slovenia in 1995.

B. FDI by German enterprises in CEECs

In the past decade, the German economy has been facing two major changes: the reunification of the East and West Germany and the opening up of Central and Eastern Europe. These developments have added to the ongoing internationalisation pressures facing all advanced economies. According to Buch and Toubal (2003, p595): “In the 1990s alone, gross annual outward FDI flows have increased from roughly 100 billion euro in 1990 to over 3,000 billion euro in the year 2001 (Table 3). During the same period, the share of the reform states in Central and Eastern Europe in German FDI flows (stocks) has risen from practically zero during the 1980s to 6 to 7 per cent (4 to 5 per cent) at the end of the 1990s” (ibid). In the years 1993 and 1994 alone, FDI into the accession states accounted for around 10 per cent of German outward FDI. Hence, there has been a quite significant re-direction of Germany’s outward FDI in transition economies. This re-direction is linked to the progress towards market economy in the accession states but also to the globalisation of German economy.” However, German outward FDI is not homogeneously distributed and countries such as Czech Republic, Hungary and the Slovak Republic have been the main recipients due to geographical, cultural and historical proximity (Buch and Toubal, 2003).

Table 3 German FDI in Transition Economies of Middle and Eastern Europe¹



Source: www.sourceoecd.org

Source: Buch and Toubal (2003)

C. FDI by UK enterprises in Slovenia, the Czech Republic, Romania and Poland

Slovenia has been slow to attract foreign investments. The UK currently accounts for around 4 per cent of total FDI, amounting to US\$103.1 million (1999 figures). Leading British investors include PriceWaterhouseCoopers, Allied Domecq, ICL, SmithKline Beecham and Castrol. At the end of 1999 British investors were in sixth place (with about US\$2 billion) after Germany, USA, France, the Netherlands and Italy. The sectors which attracted the most foreign capital were financial services, manufacturing, and trade and repairs. Leading British investors include BP, Pilkington Glass, Cadbury Schweppes, Tesco, Glaxo Wellcome, Shell. BOC and Unilever (DTI 2003).

The Czech Republic continues to provide good opportunities for British investors in a number of sectors. Leading British investors include National Power, Tesco, Unilever, Tarmac and Avon Automotive (DTI 2003).

Romania is the second largest consumer market in Central and Eastern Europe and is now beginning to attract UK companies in increasing numbers. An Investment Promotion and Protection Agreement (IPPA) was signed in July 1995 and came into force in January 1996. It is the UK's fourth largest export market in Central and Eastern Europe. UK exports represent about 4.6 per cent of Romania's imports. UK investments have risen steadily since the early nineties and the UK is now the fifth largest foreign investor behind France, the USA, Germany and the Netherlands. Total foreign investment now stands at approximately US\$7 billion (DTI 2003).

The Polish Agency for Foreign Investment (PAIZ) indicates that over the period 1990-1999 FDI reached almost US\$39 billion. At the end of 1999 British investors were in sixth place in Poland with about US\$2 billion) after Germany, USA, France, the Netherlands and Italy. The sectors which attracted the most foreign capital were financial services, manufacturing, and trade and repairs. Leading British investors include BP, Pilkington Glass, Cadbury Schweppes, Tesco, Glaxo Wellcome, Shell, BOC and Unilever (DTI 2003).

Section 2: The extent and significance of internationalisation and relocation

It can generally be assumed that industrial activities in mature or traditional industries (which are generally older industries) may suffer more from the pressure of internationalisation than the emerging ones (except perhaps for those 'satellite' IDs that heavily depend on foreign-owned contracts and MNCs). The rationale behind this expectation is that mature IDs not only have developed a higher degree of vertical integration but also the local actors benefit from stronger inter-firm dynamics and the support of local institutions for internationalisation. Some factors in mature IDs may also trigger a need for relocation such as the possible shortage of (skilled) workers and land, depletion of natural resources and congestion costs experienced by firms established in the ID. Mature IDs are expected to be in a restructuring phase of their development that is exacerbated by strong internationalisation pressure, which is generally associated with a crisis of the district leading to its repositioning or decline. As a consequence of our first expectation, WIDs are expected to be under greater pressure from internationalisation than EIDs since EIDs are overall more recent than WIDs.

We can also expect that all sectors in our study to be increasingly affected by internationalisation and globalisation. Changes may nevertheless be particularly strong for traditional industries such as textiles & clothing, shoes and automotive that have already developed as global industries in their production and markets. IDs that are specialised in those industries are under significant pressure, as they have to consider their competitive position in that context. The other industries of furniture and film may be more prone to market segmentation and specificity, and therefore be less challenged by internationalisation and relocation.

Methodology and the sample

The selected approach for this study has been the case study approach. It is therefore acknowledged that analytical generalisation and statistical generalisation are not the same. As Yin stated "A fatal flaw in doing case studies is to conceive of statistical generalisation as the method of generalising the results of the cases. This is because cases are not 'sampling units' and should not be chosen for this reason. Rather, individual case studies are to be selected as a laboratory investigator selects the topic of a new experiment. Multiple cases, in this sense should be considered like multiple experiments (or multiple surveys)" (Yin, 1991, p.38). The argument

of ‘small sample’ which is generally used against the case study approach is therefore an incorrect use of terminology as if some sample of cases has been drawn from a larger universe of cases.

Table 4: Degree of internationalisation/relocation towards CEECs

		Region	a. Number of firms confirmed to have subcontractors in CEECs in the sample	b. Average No of subcontractors in CEECs per firms (2001)	d. Number of firms that declared to have FDI in CEECs	e. Total No of firms responded
West	Germany	NRW Herford, kitchen	3	189	-	13
		Saxony, automotive	2	53	2	24
	Italy	Verona, footwear	12	7	10	30
		Montebelluna, footwear	20	16	10 ⁵	30
		Val Vibrata, Clothing	4	23	6	30
		Rome, film	-	-	-	19
	UK	W Midlands, automotive	2	34	2	26
		Scotland, ICT	0	23	1	19

Obtaining information about the characteristics of firms in the ID has proved difficult in some of the cases and not all samples can be regarded representative of their IDs. Representativeness is not a requirement in case studies and should not be regarded as a weakness. Table 5 shows each case study according to their industrial specialisation, type, stage of evolution, and age (based on the first recorded date of ID formation)⁶.

Table 5: IDs characteristics, stage of development, age, specialisation and type

	Nation State	Region	Industrial Specialisation	Evolutionary Stage	Type	Age (date of emergence)
West IDs	Germany	NRW Herford	Furniture (kitchen)	Consolidated	Canonical	19 th century
		Saxony	Automotive	Consolidated	Satellite	1990 (reunification)
	Italy	Verona	Shoes	Repositioning	Canonical	1950s-60s
		Montebelluna	Sportswear	Repositioning	Evolutionary	Early 20 th century
		Val Vibrata	Textile & Clothing	Declining	Satellite	1970s-80s
		Rome	Film	Consolidated	Canonical	Early 20 th century
	UK	W Midlands	Automotive	Repositioning	Evolutionary	18 th century
		Scotland	ICT	Repositioning	Evolutionary	1950s
East IDs	CZ	Mlada Boleslav/Liberec	Automotive	Consolidated	Satellite	1991 (Skoda acquisition)
		Prague	Film	Consolidated	Satellite	1990s (privatisation)
	Poland	Kalwaria	Furniture (kitchen)	Consolidated	Canonical	1980s-90s
	Romania	Banat Crisana	Textile & Clothing	Emerging	Canonical	1990s (privatisation)
		Arad Timisoara	Shoes	Emerging	Canonical	1990s (privatisation)
	Slovenia		Automotive	Consolidated	Satellite	2001
			Furniture	Declining	Agglomeration	2001

Source: WEID case studies

Columns B and C in Table 6 show the average values for exports and value added per firms in each case study. Figures in brackets indicate the number of firms responding. Within this sample,

⁵ 13 firms with some FDI initiatives

⁶ For details of classification see Janne and Farshchi () Methodological Framework, WEID. www.west-east-ID.net

Bohemia car industry, Prague film industry and Montebelluna have the highest relative exports in the case studies. Moreover, average value-added in Bohemia's car industry, Arad's footwear and Kalwaria Zebrzydowska's kitchen/furniture are the highest within the 15 case studies. Hereford, Prague and Slovenia have the highest relative number of subcontractor/client firms (column D in Table 7). Also membership in formally organised networks of firms is highest in Banat-crisana: sportswear (>73 per cent), Slovenia: car industry (>73 per cent), Cinecitta, Rome Film (>68 per cent), NRW Herford Furniture (>61 per cent) and West Midlands, automotive (>61 per cent) respectively.

Table 6. Intensity of internationalisation: foreign-owned MNCs in relation to total in the sample (figures in bracket indicate to the number of firms responding to the specific question)

		Region	A - Total firms in the sample	B - Average Exports per firm 2001 Euro	C - Average Value Added per firm 2001 Euro	D- Average no of sub-contractor per firm	E - % of firms members of a formal group
Automotive	W	AMZ Saxony, automotive, Germany	24	2,239,454.38 (16 firms)	N/A	52.10 (10 firms)	37.50
	W	West midlands, automotive	26	2,629,561.64 (11 firms)	55,349.74 (8 firms)	32.75 (8 firms)	61.54
	E	North-east Bohemia: car manufacturing, Czech Republic	30	312,150,000.00 (10 firms)	13,849,542.69 (13 firms)	12.50 (4 firms)	20.00
	E	Slovenia: car industry	30	19,067,553.55 (22 firms)	30,423.29 (23 firms)	110.63 (27 firms)	73.33
Furniture	W	NRW Herford Furniture	13	22,958,400.00 (10 firms)	N/A	188.86 (7 firms)	61.54
	E	North littoral: Furniture, Slovenia	30	7,083,412.18 (22 firms)	15,304.84 (21 firm)	87.37 (27 firms)	30.00
	E	Kalwaria Zebrzydowska: kitchen/furniture; Poland	21	19,416.67 (6 firms)	297,875.00 (16 firms)	1.00 (4 firms)	57.14
Footwear	W	Montebelluna, footwear	30	36,617,842.58 (24 firms)	N/A	15.04 (24 firms)	50.00
	W	Arad, Timisora & Orado: footwear	30	514,980.74 (7 firms)	944,528.45 (30 firms)	7.50 (2 firms)	46.67
	W	Verona: footwear	30	9,969,117.65 (17 firms)	N/A	6.71 (21 firms)	28.57
Clothing	W	Banat-crisana: sportswear	30	10,040,040.12 (4 firms)	16,695.18 (30 firms)	16.89 (18 firms)	73.33
	W	ValVibrata, clothing	30	5,656,593.94 (18 firms)	N/A	21.91 (11 firms)	26.67
ICT	W	Scottish ICT	19	9,803,702.26 (8 firms)	117,550.82 (8 firms)	25.45 (11 firms)	57.89
Film	W	Cinecitta, Rome Film	19	1,762.33 (9 firms)	N/A	1.06 (16 firms)	68.42
	E	Prague: film industry	30	47,466,666.67 (9 firms)	1,704,666.67 (9 firms)	158.46 (13 firms)	26.67

Geographical extent of internationalisation

Table 7 presents the geographical spread of foreign activities in the Western and Eastern IDs in terms of the identification and number of countries of origin and destination of trade and

FDI. According to the evidence presented, the main exports and imports markets for WIDs are other EU countries and then the rest of the world (the US and a rising share from Asia) rather than CEECs. Overseas locations in North America and South East Asia may be as important as more neighbouring countries in Europe. Except for the Italian IDs, CEECs exports and imports (related to possible outward processing trade exchanges) are not a priority destination in our WIDs such as the West Midlands, Saxony, Herford, Scotland and Rome. The pattern is similar for outward investments from WIDs that have rather been directed to other Western EU countries rather than CEECs. No inward investments from CEECs into WIDs were present in the study.

Table 7: Type and location of internationalisation activities by industry, country of ID

Industry	West / East	Region	a. Exports (countries of destination)	b. Imports (countries of origin)	c. FDI (countries of origin)	d. FDI (countries of destination)
Automotive	W	AMZ Saxony, automotive, Germany	Rest of the world (Northern America, South East Asia, Switzerland) Little in CEECs: CZ, Poland, Hungary	-	West Germany, US	Little: CZ, Poland
	W	West midlands, automotive	EU / rest of the world (US, Asia/Oceania)	EU / rest of the world, little: Hungary, CZ	US, Germany, France	UK, EU
	E	North-east Bohemia: car manufacturing, Czech Republic			Germany	
	E	Slovenia: car industry	EU (Germany, Italy..), CEECs (Croatia)	EU (Italy, Germany, Austria), CEECs (Croatia)	Little: EU (France)	
Furniture	W	NRW Herford Furniture	EU, rest of the world (USA, Switzerland, China)	EU (Italy), little: Slovakia, Poland	-	-
	E	North littoral: Furniture, Slovenia				
	E	Kalwaria Zebrzydowska: kitchen/furniture; Poland	CEECs in the future		N/A	
Footwear	W	Montebelluna, footwear	EU, CEECs (Romania), US, Eastern Asia	Subcontracting: CEECs (Romania, then Hungary, Slovakia, Bulgaria) / Imports: CEECs (Romania), Far East (Vietnam), North Africa (Morocco)	EU (Italy, France)	CEECs (Romania)
	W	Arad, Timisora & Orado: footwear	N/A	N/A	N/A	N/A
	W	Verona: footwear	EU (Germany, France) / rest of the world	Subcontracting in CEECs, especially Romania / Some final products: Russia, Romania, India, Far East	N/A	Romania
Clothing	E	Banat-crisana: sportswear			EU (Germany, Italy), CEECs (Hungary)	
	W	Val Vibrata, clothing	Relocation and subcontracting: Romania, Tunisia, Morocco	Relocation and subcontracting: Romania, Tunisia, Morocco	N/A China	Romania
ICT	W	Scottish ICT	EU / rest of the world	N/A	US	CZ, China in the future
Film	W	Cinecitta, Rome Film	EU, less: US, little: Bulgaria	EU, less: US	US	-
	E	Prague: film industry	EU (Germany, France..)	Germany (50%), CEECs (50%)	-	

Italian IDs clearly have a very distinctive and privileged relation with CEECs, and as far this study is concerned Romania, reflects similar historical and cultural pre-existing relationships. By contrast to other WIDs, Italian IDs have developed and continue to grow significant trade and investment relationships with CEECs, principally subcontracting the most labour-intensive (and lower skilled) activities of their industry to Romanian firms. Relocation processes of subcontracting and (to a lesser extent) FDI are significant to the Italian districts in Verona, Montebelluna and Val Vibrata. In Verona, the majority of outward FDI and 61 per

cent of the CEECs subcontracting firms in the sample are located in Romania (52 firms out of 85). One of the specific motivations given by Verona firms to invest in CEECs is that these areas are close not only geographically but also culturally, e.g. Romania. In Montebelluna, almost 57 per cent of the purchase of intermediate products is produced in CEECs, and 62 per cent of the CEECs subcontracting firms are Romanian. The German IDs also have some (but relatively weak) exchanges with their most geographically close locations in CZ , Poland, and Slovakia.

Eastern industrial districts have stronger trade / FDI links with the rest of Europe, mainly the 'older' 15 EU members. As Table 7 shows for EIDs, both main foreign clients and key investors are businesses belonging to other EU countries. Other CEECs and the 15 EU countries prior to the enlargement constitute the main markets, sources and destinations of trade and foreign investments for the studied EIDs.

IDs evolution, internationalisation patterns and consequences: conclusions

According to our earlier hypotheses, Western IDs would be more involved in and under greater pressure from internationalisation than Eastern IDs. WIDs and EIDs that are specialised in the furniture and film (audio visual) industries would also be relatively less internationalised, and rely more on segmented and national markets than the other IDs.

WIDs currently suffer from relocation of their large firms outside the ID, and the closure or relocation of smaller subcontractors firms. Italian IDs are unique in their widespread use of relocation strategies towards CEECs, particularly based on significant outward processing trade. Our WIDs are specialised in manufacturing industries that have reached an advanced and mature stage of their development. Faced with more intense international pressures, WIDs are undergoing a phase of repositioning and/or crisis, or even decline. Except for the furniture Hertfordshire and Rome film IDs, WIDs are therefore going more or less successfully through a phase of restructuring that has been triggered and/or is exacerbated by relatively recent internationalisation and relocation. WIDs are often in the process of specialising or upgrading the activities of their firms towards the higher value-added activities and functions of their industry, or at least aiming at these objectives. For mature IDs this is a particularly complex process as a wide range of activities have historically developed in the IDs and some are now increasingly becoming uncompetitive when they can be more efficiently relocated abroad. The flexibility and innovative strength of the ID may reveal to be of crucial importance.

EIDs are overall more recent, emerging and/or in a growing phase of their development. In addition, many EIDs are 'satellite' IDs that depend on foreign subcontracting or investments. As expected, internationalisation and globalisation are often less of an issue for these IDs than for WIDs, and it is practically insignificant for some. It may be too early to identify a strong pressure from internationalisation because of the earlier stage of development of these districts. Overall, district firms are rather geared to the advantages of recent subcontracting contracts and benefits from foreign-owned subsidiaries. EIDs are often building on existing relationship with foreign clients and MNCs, aiming at attracting new incoming investments and improving their own access to foreign markets. Issues of longer-term development and international competitiveness are often only emerging and part of a broader agenda. However, not all EIDs have the same prospects and some are concerned about the negative impact and/or loss of control over foreign-owned activities as well as the future of their position in international competition. The growth and restructuring of these IDs has a dimension of

moving from transitional economies to global markets and building supportive new institutions.

The internationalisation and relocation between countries seems to be influenced by certain country-specific factors such as pre-existing economic ties with countries with which they have close geographical proximity and/or cultural similarities (e.g. Italy and Romania, Germany and the Czech Republic). Italian IDs are characterised by their unique outward processing trade relationship with CEECs, and Romania in particular. However, this does not prevent other countries such as the UK, Japan and the US getting increasingly involved in CEECs as part of a European and global strategy.

Table 7 also supported our hypothesis that WIDs are more involved in internationalisation, and therefore demonstrate a more extended geographical pattern of internationalisation, than EIDs. EIDs are more internationally involved with other EU countries than WIDs in CEECs. This reinforces the argument that WIDs are more internationalised, or globalised, than EIDs. However, EIDs may also on average be more dependent on their relationship with other EU IDs and accession into the EU than the other way around.

Except for the Italian IDs, trade and investment in CEECs still seem to be in their infancy for the majority of our WIDs and do not cause specific significant reactions despite the rising pressure and competitive threats to domestic local firms that these countries represent. CEECs are regarded as potential locations to establish in the future but little knowledge, significant and/or consistent move from ID firms has been found from the case studies. Many firms from WIDs are equally aware of the trend towards increasing competition from and presence of other foreign locations in CEECs but also China and South East Asia. WIDs consider CEECs as increasingly important competing locations for some types of activities that are currently located domestically, and the EU enlargement may accelerate that awareness. The West Midlands, Saxony and Scottish IDs are particularly dependent on foreign-owned affiliates and subsidiaries that are restructuring and rationalising their activities; and aware of the potential impact of relocation on the local economy.

Markets in CEECs are not identified as very significant for the products and services of WIDs, perhaps they are better evaluated as longer-term future markets that may improve their prospects along with their integration into the EU. When important trade exchanges are observed between Italian IDs and EIDs, they rather refer to outward processing trade, based on international subcontracting relationships than market access. We may therefore infer that it is not the markets of CEECs but the relatively cheaper production costs of these locations that is attractive to WIDs. This is further discussed in the next section in relation to the motives for relocation into EIDs.

Main regional factors and business motivations for relocation

Key motives for relocation can be associated with one (or several) of the internationalisation strategies of resource-seeking, market-seeking, efficiency-seeking or strategic asset-seeking. The overall assumption is that most relocation from WIDs to EIDs has been mainly driven by 'efficiency-seeking' motives; i.e. lower cost of production in CEECs and particularly cheaper labour that these countries, and IDs can offer.

The motivations for relocation are important to identify because they refer to potential different mechanisms of relocation in the different types of IDs. The motivations may also

reflect different potentials for supporting the foreign local economic development in CEECs. For example, strategic asset-seeking investments would be more prone to knowledge transfer and promotion of the foreign local economic development than the other types of investments. Affiliates of strategic asset-seeking MNCs may be more likely to interact dynamically with the local environment than affiliates of efficiency-seeking MNCs that are more focused on costs. Policies in EIDs may then support the emergence and development of the type of relocation strategies that would provide the highest potential benefits.

Regional ID Factors

This section identifies and discusses the locational advantages and disadvantages in the IDs that are perceived by the firms as important. These define the conditions in WIDs and EIDs that influence, i.e. provide incentives, for firms to locate or relocate in particular region(s). As far as relocation processes are concerned, some locational factors in WIDs may incite firms to leave the district while at the same time locational factors in EIDs may attract further foreign contract and investments in the EID. The locational advantages as perceived by the firms are:

- The relative cost and a rise in the cost, of labour or land in the WID are an important leverage in the decision to invest locally or abroad. Wage differentials between the West and Eastern IDs can create a motivation for WID firms to relocate in locations with cheaper labour costs. Some firms prefer to leave the WID and relocate in alternative cheaper locations for their production (or parts of their production). Similar related concerns such as shortage of unskilled/skilled labour, congestion, higher cost in the WIDs may also justify relocation abroad. For EIDs, firms may perceive the lower costs of being established in their ID as a locational advantage, but decreasingly so if competition with other lower costs locations (such as China) is considered as relevant.
- Because of the generally long tradition of WIDs and their restructuring and upgrading efforts under the pressure of internationalisation, and relative emergent development of EIDs, Western IDs are more likely to perceive knowledge-related factors as an advantage of their ID than EIDs.

Table 8 identifies the three most highly ranked locational advantages and disadvantages as considered by firms interviewed in our WIDs in Germany, Italy and the UK as well as Eastern IDs in Czech Republic, Poland, and Romania. There is no data available for Slovene firms. As predicted, most firms in WIDs consider the greatest locational advantages to be the technological competence and qualified workers that the region offers. It has also been important that the location offers competent suppliers. The most deterring locational factor, which is considered as a disadvantage of the ID, is the high cost of labour or competition from neighbouring regions for skilled labour.

Table 8: locational advantages and disadvantage across IDs by order of importance
(Source: WEID interviews)

		ID	Locational Advantages			Locational Disadvantages		
			Rank 1	Rank 2	Rank3	Rank 1	Rank 2	Rank3
Western	Automotive	AMZ Saxony, automotive, Germany	Good cooperation climate	Good support infrastructures	Developed research scenery	Attractiveness of labour conditions for qualified workforce in W. Germany	Attractive terms of production in southern and eastern neighbouring countries	Difficulties of provision with venture capital

	West midlands, automotive	Availability of qualified workers, technicians, engineers, scientists and managers	Physical infrastructure	Availability of local demand for the company's product/services	Regulatory environment	Cost of housing	Cost of labour
Furniture	NRW Herford Furniture	Good infrastructure	Competent suppliers	Competent workforce	Cost of labour	Imitation	Bureaucracy (Red tape)
Footwear	Montebelluna, footwear	Access to technological competence	Availability of qualified workers	Access to market information	Physical infrastructures, cost of labour.	Access to technological competence	Availability of qualified workers
	Verona: footwear	Availability of qualified workers	Availability of competent suppliers; availability of local demand; and buyers and distributors	N/A –Shortage of qualified specialised workers	Availability of qualified workers	Availability of competent suppliers; availability of local demand; and buyers and distributors	N/A –Shortage of qualified specialised workers
Clothing	ValVibrata, clothing	Availability of qualified workers	Availability of buyers and distributors	Local competition	Opportunity to enact common strategies/actions with similar firms for the access to critical resources or markets	Cost of labour	Availability of effective business services
ICT	Scottish ICT	Access to technological competence	Availability of qualified workers	-	Cost of labour	Cost of housing	-
Film	Cinecitta, Rome Film	Availability of qualified workers, technicians, artisans and producers	Availability of competent suppliers	Access to market information, technol. Competence, infrastructure	Cost of labour	Cost of housing	Competition (Only two buyers in audio-visual production)

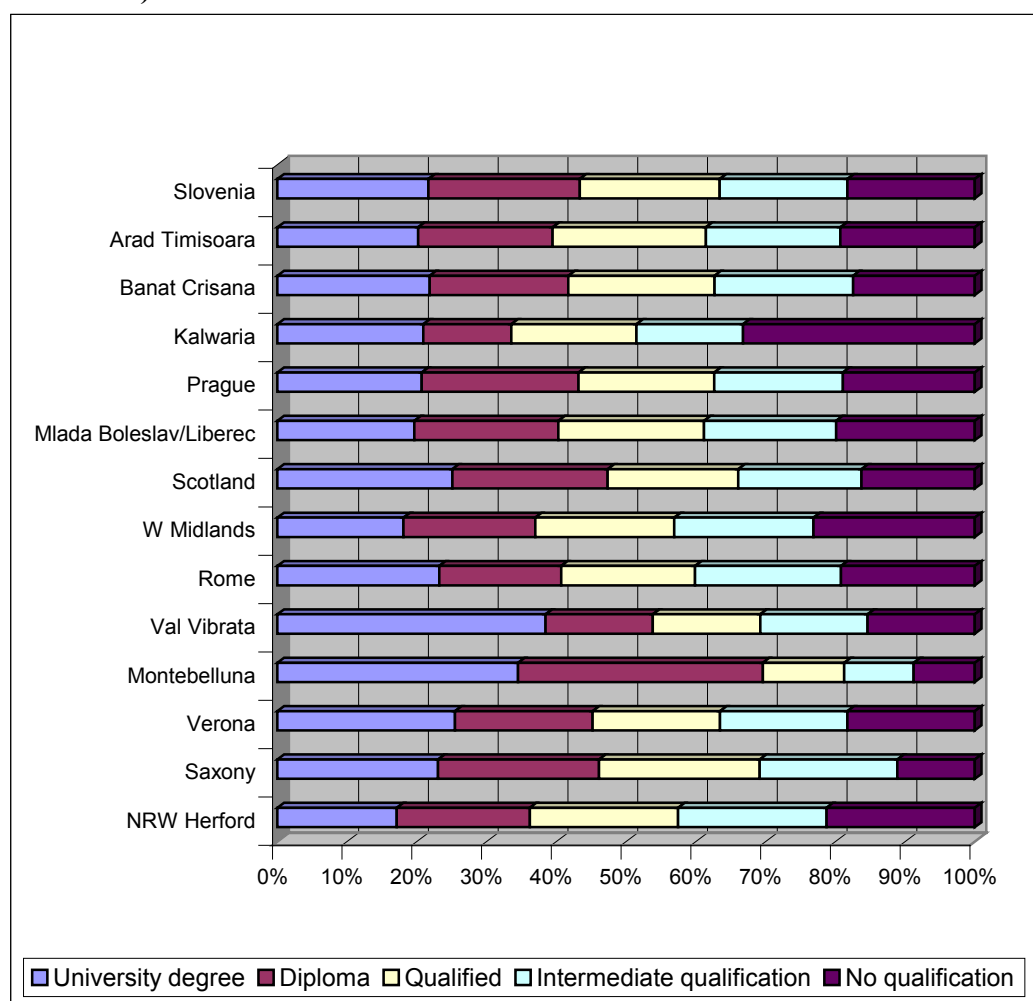
Eastern	Automotive	North-east Bohemia: car manufacturing, Czech Republic	Access to technological competence	Availability of competent suppliers	Availability of effective business services	Competition	Imitation	Cost of housing
		Slovenia: car industry	-	-	-	-	-	-
	Furniture	North littoral: Furniture, Slovenia	-	-	-	-	-	-
		Kalwaria Zebrydowska: kitchen/furniture; Poland	Availability of competent suppliers	Competition	Cost of labour	Availability of buyers and distributors	Access to market information	Access to technological competence
	Footwear	Arad, Timisora & Orado: footwear	Price competitiveness within the location country	Price competitiveness on a global scale	Specific skills	Unstable legal and fiscal frame	Bureaucracy	Lack of clusters policies
	Sportswear	Banat-crisana: sportswear	Cost of labour	Cost of housing	Competition	Number of employees leaving the company, regulatory environment	Physical infrastructure, propensity to innovate	
	Film	Prague	Availability of qualified workers, technicians, engineers scientists and managers	Access to market information	Availability of buyers or distributors	Competition	Regulatory environment	Imitation

Comparison of locational advantages across Western IDs and Eastern IDs

For the firms interviewed in Western industrial districts in Germany, Italy and locational advantage of the ID lie in their supply of qualified and skilled workforce, extended infrastructure and competent suppliers (Table 8), while at the same time increasingly deploring shortages of specific skills. Most WIDs identified high(er) (and increasing) costs of labour and housing as significant disadvantages, which may be associated with the need for structural change of these IDs. On the other hand, the Polish and Romanian IDs in particular identified lower costs and prices as advantages of their region. This is in line with our first assumption on the likely local conditions in WIDs that may justify relocation of activities into CEECs.

In order to get a better picture of the wage differentials across both Western and Eastern regions, Table 9 offers wage comparison across a range of skills and examines their change over a five-year period. It is evident that the cost of labour with university degree has been particularly rising in Italian IDs (Val Vibrata, Montebelluna, Verona, Rome) Scotland and Saxony. While on the other hand the cost of unskilled labour has been rising in Kalwaria Kitchen district and to a lesser extent in the West Midlands.

Table 9: Relative wage increase across Western and Eastern IDs (Source: WEID interviews)

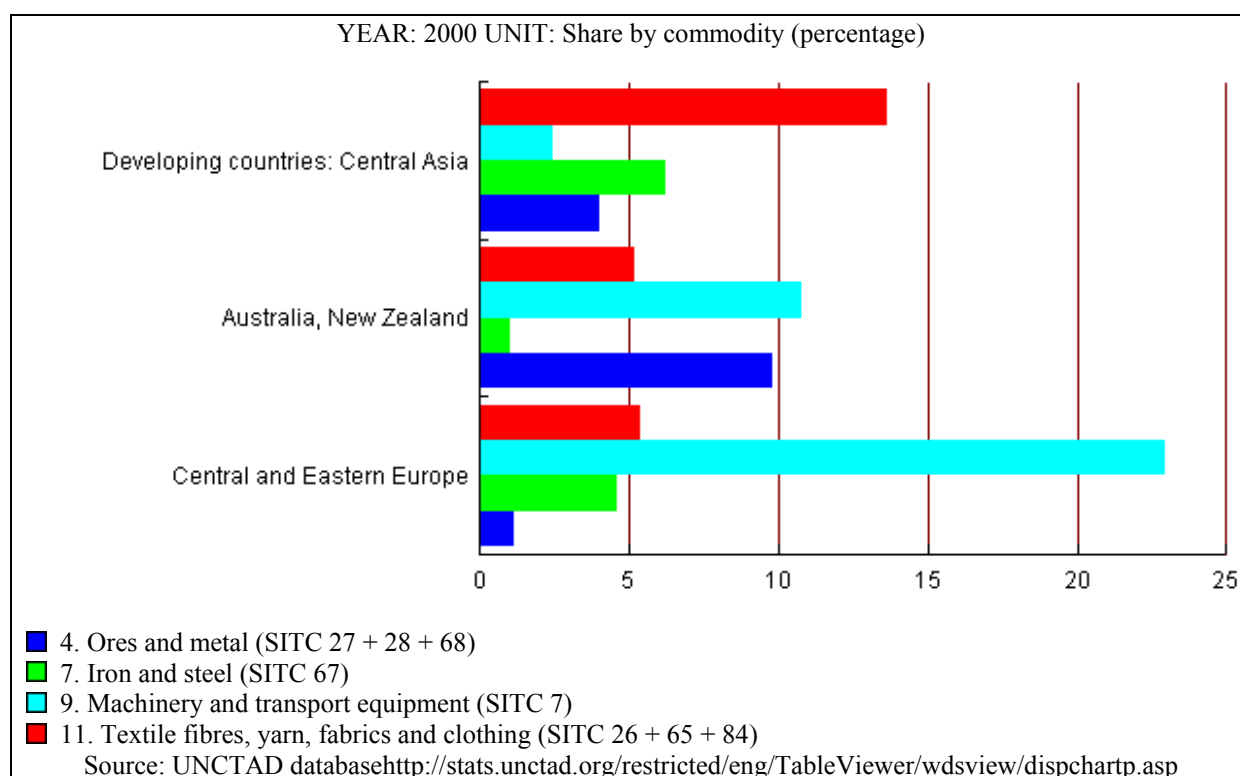


Our second assumption is finally supported by the more common identification of knowledge-related advantages in WIDs than EIDs, although the consolidating EIDs of Prague, Mlada and Liberec seem supported by specific competences of the area. The most intangible potential knowledge-related advantages such as the propensity to innovate and imitate others, hiring employees from neighbouring companies, and the opportunity to enact joint strategies with other companies were nevertheless largely dismissed by businesses of both WIDs and EIDs as being ‘irrelevant’. Disadvantages of EIDs are mostly concentrated around those of the regulatory and institutional framework and competition, which would reflect the transitional nature of these IDs.

Finally, accessing the local or domestic national markets for some WIDs have ‘traditionally’ been relevant but this has become less so over time as industries are increasingly becoming globalised. The local demand condition was claimed to be a significant advantage for the IDs of Verona, the WM and Rome, though businesses emphasised that further opening to international markets was becoming essential for the future development of their region.

In terms of competitiveness of the EIDs it is clear from Table 10 that CEECs are still ahead of Developing countries in Central Asia as well as Australia and New Zealand in terms of their capability in producing machinery and transport equipment. However, competition in textile and clothing is far greater from the Central Asian countries.

Table 10: Network of exports by region and commodity group in 2000



Business motivations and strategies

The motivation of firms to establish in CEECs and relocate their activities in these countries may be directly understood from some of our questions, but also inferred from the type of relationship that firms have developed with their CEEC subcontractor(s) and/or affiliate(s). Assuming that most relocated activities have been driven by a desire to reduce the overall costs of production of some activities, which fit into a vertical chain of production, most concerns about subcontractors and/or affiliates in CEECs are expected to be about the control for time and quality of delivery of these activities within the chain. The rationale is that in order to achieve / exploit potential international economies of scale, those activities that are carried out in the CEECs have to be sufficiently coordinated and/or controlled as to be integrate into the international organisation of the firm. We can therefore hypothesise the following:

1. Most FDI and subcontracting activities in CEECs will be justified by cheaper cost of production, especially the cost of labour. It is unlikely that 'access to a new market' would be a significant motive for relocating in EIDs. Following up on previous discussion, many WIDs firms already face global markets and seem not to identify CEECs markets as being currently very significant. We can also suggest that Western firms are able to access the CEECs emerging markets from other EU countries if necessary.
2. As a consequence of the above hypothesis, Western IDs firms tend to develop strong control relationships with their CEECs suppliers and/or branches as to secure the supply of products at the desired level of sophistication, quality and timing of delivery.

3. More generally, the extent to which firms source high value-added activities abroad may reveal the extent to which they have developed strategic asset-seeking strategies. We expect that the adoption of such strategies be increasing but still often the attribute of only some of the leading and most dynamic firms in each ID.

FDI and subcontractors in CEECs

Our first hypothesis suggests that most FDI in CEECs will be justified by cheaper cost of production, especially cost of labour. Our second assumption suggests that Western IDs firms have a tendency to develop strong coordination/control relationships with their CEECs branches as to secure the supply of products at the desired level of sophistication, quality and timing of delivery. Most subcontracting in CEECs is also expected to be justified by cheaper cost of production, especially cost of labour. Similarly as for FDI, Western IDs firms are expected to have a tendency to develop strong coordination/control relationships with their CEECs subcontractors in order to secure the supply of products at the desired level of sophistication, quality and timing of delivery. Table 11 highlights the motivations of firms for FDI into CEECs.

Table 11. Ranking of business motivations for FDI in CEECs (from average values)

	ID	Realised FDI			Potential FDI			Change (increased) of motivations over the past 5 years		
		Rank 1	Rank 2	Rank 3	Rank 2	Rank 2	Rank 3	Rank 2	Rank 2	Rank 3
Automotive	AMZ Saxony, automotive, Germany	Proximity to market outlets (distributors) or to industrial clients	Proximity to market outlets (distributors) or to industrial clients	Availability of low cost labour, high labour productivity, increased market share in CEECs, investments in the area by competitors, entry into new market(s), qualified low cost suppliers	Proximity to market outlets (distributors) or to industrial clients	Increase market share in CEECs	Entry into new market(s)	N/A	N/A	N/A
	West midlands, automotive	Availability low cost labour	Availability low cost labour	Availability skilled labour	Availability low cost suppliers	Availability low cost suppliers	Favourable fiscal legislation and assistance	N/A	N/A	N/A
Footwear	Montebelluna, footwear	Low cost of labour	-	-	-	Availability of suitable infrastructure	Low cost of land and housing	Low cost labour	Skilled workers / training / lab productivity	-
	Verona: footwear	Low cost of labour	-	-	-	Economic and political stability	Strong property rights legislation and enforcement	Infrastructure	Skilled workers	Land / low cost labour / training / competitors
Cloth	ValVibrata, clothing	Low cost of labour	-	-	-	-	-	Low cost labour / skilled workers	-	-
ICT	Scottish ICT	Low cost, skilled labour, proximity to markets, high labour productivity, increase market share in the CEECs and common communication language			Good training facilities, the entry into new geographical market(s), group relocation by a number of companies from the cluster			Low cost labour / market proximity / new geographic market	Infrastructure / profit margins / skilled workers / training / lab productivity / market share / group relocation / qualified suppliers / stability / subsidies / low interest / ind. relations / environmental law / community language / local culture	-

Type of relationship between clients and subcontractors:

Our overall proposition is that most subcontracting in CEECs will be justified by cheaper cost of production, especially cost of labour. As a consequence, Western IDs firms would have a tendency to develop strong control relationships with their CEECs subcontractors as to secure the supply of products at the desired level of sophistication, quality and timing of delivery. It is expected that client firms retain strong control on key attributes and functions of their CEECs subcontractors such as quality, prices and customers.

Furthermore, it is expected that CEECs subcontractors remain dependent on their client companies and limited in the functions that they perform. They are also expected to perform less effectively as domestic WIDs subcontractors while benefiting from necessary transfer of knowledge and capital. There seems to be a similar content with regard to the Saxony, Verona, Montebelluna and Val Vibrata, where the subcontractor works within strict technical specification provided by the Western client firms. NRW Herford, however, seems to be different from the above in the sense that CEECs subcontractors have more flexibility in their design responsibility. Although our conclusions for the UK is limited by the number of responses it can be suggested, though cautiously, that in both IDs (the WM and Scottish ID) the CEEC subcontractor gets into an interactive relationship with their British clients but at the international level this relation is more restricted.

Firms of Verona do not seem to trust the local CEECs (Romanian) subcontractors and typically organise a direct inspections in the subcontracting factory, or provide a long-term assistance through the firm controllers who are placed for weeks abroad to organise the quality control. The product supplied is realised according to the design and the technical competence of the final commissioning firms, which supervise the production. The commissioning firm always sends an internal technician to visit the subcontracting firm. The relationship with the CEECs subcontractors is relatively recent, 2-3 years, and CEECs subcontractors may be changed more frequently than are local subcontractors; client firms change subcontractors and search for others if standards or quality are not respected. In terms of content, the relationship with the local and CEECs subcontractors both supply products according to the client firm strict technical specifications. CEECs subcontractors are particularly checked through frequently visits to their workshops to ensure that the standard quality and commissioning firm's specifications are respected.

For Montebelluna client firms, the essential requirement from subcontractors is the ability to respect the standards. The areas in which the client firm most influences the subcontractor in CEECs regard prices and on-site inspections connected to the quality standards. The production programme and the delivery system are verified; 14 firms out of 20 influence the choice of machinery, at times by transferring their own machinery to subcontractors. Finally, half of the firm in Montebelluna also asks the subcontractors to be involved in production flexibility, adaptability and development of productions. Nearly half of the firms place the CEECs workers performance at the same level as the one experienced by the workers belonging to the Montebelluna ID. There is nevertheless a recurrent criticism expressed by managers of creative capabilities of CEECs subcontractors and limited training received by the professional employed in CEECs, and consequent need for technical assistance.

Clients firms from the VTV ID have stable relationship with their CEECs and North African subcontractors, typically long-term 2-3 year relationships. Their influence on subcontractors' decisions concerns mostly product creation (4.7); quality control procedures (4.7); delivery

system (4.0); product adaptation/development (4.2); and the price to charge (3.5). Similarly to subsidiaries, CEECs subcontractors execute the most labour intensive phase of the production process on the basis of strict technical specifications. Quality control of subcontractors is based on random visits to the establishment and control on products' reception.

For Scottish firms, the relationship with CEEC and internationally based subcontractors were dominated by technical competencies and strict technical specifications.

Few conclusions can be drawn from the Herford ID as clients that had CEECs subcontractors only had them for a short period of time (less than three years). However, other international subcontractors benefited from the same level of trust and reliability than local subcontractors.

International sources of knowledge

The extent to which firms source high value-added activities abroad, i.e. develop strategic asset-seeking strategies, is likely to be small for the Western IDs. Knowledge-sourcing strategies are becoming increasingly important although they are still considered as one of the attributes of the few leading firms. The importance of these strategies for ID firms can be inferred from the extent to which they source knowledge from outside the ID, nationally or internationally.

a- Knowledge sourcing for each WID:

In-house R&D and continuous learning processes within production are the most relevant sources of knowledge for the WM firms. The main external sources for knowledge were also primarily local. Some firms however mentioned the role of interaction with clients/suppliers and inter-firms cooperation at the national and international levels, and some large firms the importance of consultants and publicly available information for sourcing technical knowledge. Local and internal knowledge also received a higher rate for Verona firms than national or international sources. International sources of knowledge were mostly derived from international exhibitions and publications, and used by the largest firms in the sample.

The strong international success of the Montebelluna district is explained by the intense innovation activity that is going on amongst the local firms. The most important source of knowledge for the sampled firms is R&D gained through in-house activities. As to external sources of knowledge the most relevant issues are the interaction with local and international clients, the participation to international fairs, and the use of national consultants. As regards the external sources of knowledge for the VTV firms, the respondent firms reported that the most important one is the interactions with local and national clients and suppliers, rather than international sources. The local sources of knowledge in the Herford ID are more important than the national or international ones and international sources are the least significant.

The most relevant sources of technical and organisational knowledge are also internal for the Scottish ICT ID, despite the global ICT knowledge base that can be sourced.

Motivations for internationalisation and relocation: conclusions

Our evidence indicates that relocation has been predominantly considered as an instrument for improving production costs under strong control by firms, rather than an instrument for extending market share abroad (i.e. export-related), or upgrading innovative knowledge

capabilities. Domestic factors relating to conditions in WIDs have also facilitated and/or provided incentives for firms to relocate abroad, such as increasing wages and overall cost of production. Vertical integration of EIDs activities into the networks of international subcontractors and MNCs has resulted in the significant external control of EIDs subcontractors/affiliates, potentially making them more dependent on the decision of foreign-owned businesses and international economic changes. Strict control on quality standards, technical specifications and prices seem to be the norm rather than the exception. CEECs affiliates and subcontractors are also still perceived to offer lower performance and quality overall when compared to their counterparts in WIDs; except for prices.

Market-seeking motivation (e.g. opportunities for market penetration, market size expansion) reflects an ambition to capture a market share through FDI in CEECs if relocation is intended to serve domestic or CEECs markets. This has not been mentioned as a significant reason for relocating in CEECs in our sample. Yet other types of investments such as resource-seeking and strategic-asset seeking have not or hardly been mentioned either. Although human resources in most of our EIDs have been used and appreciated by foreign clients and investors, EIDs firms do not have a significant role in the knowledge development of our firms.

The main motivation for subcontracting and investing in the studied EIDs is indeed access to cheaper production inputs, usually meaning cheaper labour (in comparison with its productivity). Growing EIDs may take advantage of additional skills and mechanical equipment being imported and utilised although most research and development, design and highly specific activities remained in the WIDs, i.e. in the home locations of the businesses involved. Some transfer of knowledge related to higher productivity, use of machinery and quality has occurred, but the nature of activities (low / medium value-added activities) that are carried out in these countries has not changed. Some EIDs, and CEECs, seem directly (and increasingly) compete with non-EU countries such as China, India, etc for the production of similar goods.

Knowledge seeking at international levels is important to firms both in the Western and Eastern IDs. However, the motivation for sourcing of technological as well as organisational knowledge demonstrates a different pattern across IDs. In Western IDs for example, interaction with international clients and suppliers are relatively more important in Val Vibrata and firms in this ID are less dependent on cooperation with other firms for their technological knowledge. Saxony, Cinecitta, Scottish ICT and West Midlands however, rely more on cooperation as a source of learning new technological knowledge. International sourcing of technological knowledge in the Eastern case studies shows a different pattern to that of the Western cases, as imitation of products plays a bigger role overall. This is more so in Kalwaria and North Littoral, and to a lesser degree in the rest of case study. International sourcing of organisational knowledge in benefits from employment of new staff in all western case studies except for Val Vibrata. Private research centres have a relatively more important role in sourcing of organisational knowledge in Montebelluna, Verona and NRW Herford. International sourcing of organisational knowledge in the eastern case studies indicate to the importance of relationships of these firms and their clients and suppliers except in Kalwaria where publicly available information (trades, fairs and publications) play a more important role.

Relocation from WIDs to EIDs does not seem to have experienced a change in its motivation, and has recently developed further in depth and breadth, although some ventures have been unsuccessful and some are, or may be, re-directed to competing non-EU countries in the East

such as China, India or Vietnam. Many of our EIDs have nevertheless the particularity to demonstrate a high level of education, skills and other qualities of the labour force when compared to other regions that are attractive for their cheaper labour as well. Finally, little evidence could be found of strategic asset-seeking strategies for WIDs firms as most knowledge is internally sourced. Some knowledge however was sourced from within the ID.

Internationalisation and relocation strategies: conclusions

The evidence presented in the above section confirmed that firms tend to follow each other into foreign locations. As a consequence of increasing vertical integration with CEECs, many suppliers will follow their larger clients when they relocate in CEECs. There are no clear examples of horizontal collaboration or agreements between firms to relocate in CEECs, and abroad in general; subcontractors in Italian IDs, however, follow each other into CEECs.

Although in many cases the larger firms are responsible for relocation strategies, this has not been the case in the Italian district of Montebelluna (Verona) and for which many SMEs and entrepreneurs have migrated to CEECs, particularly Romania, in order to survive.

No sequential development path has been identified, in which firms start exporting and using different market entry modes to CEECS and then develop FDI (Johanson and Vahlne 1977). MNCs from Western EU countries already play a significant role as investors in CEECs, and firms often claimed to have no time for gradual internationalisation when they face the decision to invest abroad or risk losing their business. There is also some evidence that the different modes of entry in CEECs are unlikely to be substitutes for each other, but rather serve different purposes in the strategies of firms, or reflect strategies adopted by firms of different sizes.

Firms more generally relied on informal channels of information and/or exhibition fairs to find necessary information about their host CEE location and/or potential partner, rather than formal collaboration or agreements with other firms or support from specific institutions.

Internationalisation and existing relocation has proven to be more ‘spontaneous’ or ‘bottom-up’ activities than specifically planned strategies supported or organised by the countries and local governmental agencies of our IDs. Relocation is also often still perceived as a recent phenomenon by many local firms. Many firms, especially SMEs, in the UK and Germany still only feel indirectly concerned by the trend.

WIDs local actors and businesses have often expressed some concerns about relocation issues and are wary of its impact on local development. Access to increasingly qualified and productive human resources in CEECs poses a direct threat to domestic labour in WIDs, particularly that involved in the most labour-intensive activities and the least qualified. With only a few exceptions, mainly in Italy, no support from policies makers was offered to businesses that wish to relocate activities in CEECs or abroad more generally. Most internationally focused policy initiatives focus on promoting exports and inward investments. Other initiatives promote the industrial restructuring and upgrading of activities in the WIDs.

EIDs policies welcome relocation from WIDs for employment and growth, although it was not - or not yet - relevant to all of our EIDs. Increased international competitiveness is usually regarded as beneficial. Some product and technology development do occur, especially in cases in which local safety and quality standards are lower than the international ones.

Sometimes new machinery and techniques are imported from the client or the parent firms to supplement local production. However, some concerns were expressed as to the unequal distribution of investments within the country (e.g. Romanian ID) and strong competition for access to new opportunities and markets (e.g. Slovenian IDs, Polish ID).

General conclusions of the paper

In our study, relocation has been undertaken predominantly as an instrument for improving production costs under strong control by the firms, rather than an instrument of extending market shares abroad (i.e. export-related), or upgrading innovative knowledge capabilities. Domestic factors relating to conditions in WIDs have also facilitated and/or provided incentives for firms to relocate abroad, such as increasing wages and overall cost of production. Vertical integration of EIDs activities into the networks of international subcontractors and MNCs results in the significant external control of EIDs' subcontractors and affiliates, making them potentially more dependent on the decision of foreign-owned businesses and international economic changes. Strict control of quality standards, technical specifications and prices seems to be the norm rather than the exception. Affiliates and subcontractors in CEECs are also still perceived as being of lower performance and quality overall when comparing them with their counterparts in WIDs.

A recurrently observed motive for subcontracting and investing in the EIDs is indeed access to cheaper production inputs, usually referring to cheaper labour (relative to its productivity). As it has been observed, growing EIDs may take advantage of additional skills and mechanical equipment being imported from WIDs and utilised in the ID. However, most of research and development, design and highly specific activities have remained established in the Western home locations of the businesses involved. Some transfer of knowledge related to higher productivity, use of machinery and quality has occurred, but the nature of activities that are carried out in CEECs has not changed and remains low to medium value-added activities. Some EIDs, and CEECs, may indeed directly (and increasingly) compete with non-EU countries such as China, India, etc for the production of similar goods.

Motivation for relocation from WIDs to EIDs does not seem to have undergone any changes. However, it can be argued that this phenomenon has recently developed further in terms of depth and breath, even when some ventures have been unsuccessful and some are, or may be, re-directed to competing non-EU countries in the East such as China, India or Vietnam. One of the characteristics of EIDs, when compared to other regions that are predominantly favoured as locations for their cheaper labour cost, is the high level of education, skills and other qualities of their labour force.

It can be asserted that in the case studies firms tend to follow each other into foreign locations. This is true of many suppliers that follow their larger clients when they relocate in CEECs. There are no clear examples of horizontal collaboration or agreements between firms to relocate in CEECs and abroad in general; subcontractors in Italian IDs, however, follow each other into CEECs.

Although in most cases the larger firms are responsible for relocation strategies, this has not been the case in the Italian district of Montebelluna for which many SMEs and entrepreneurs have migrated to CEECs, particularly Romania, in order to survive.

The findings of this research do not demonstrate any sequential development path of internationalisation, in which firms start exporting and using different market entry modes to CEECS and then develop foreign direct investment (FDI). MNCs from Western EU countries already play a significant role as investors in CEECs, and firms often have no time for gradual internationalisation when they face the decision to invest abroad or risk losing their business. There is finally some evidence that the different modes of entry are unlikely to be substitutes for each other in CEECs, but rather serve different purposes in the strategies of firms, or reflect the size of firms.

Internationalisation and existing relocation has proven to be more 'spontaneous' or 'bottom-up' activities than specifically planned strategies supported and/or organised by the countries and local governmental agencies of IDs. Firms more generally relied on informal channels of information and/or exhibition fairs to find necessary information about their host CEE location and/or potential partner, rather than formal collaboration or agreements with other firms or support from specific institutions. Relocation is also often perceived as a recent phenomenon by many local firms. Many firms, especially SMEs, in the UK and Germany still only feel indirectly concerned by the trend despite the possible competitive threat that it may represent.

WIDs local actors and businesses have nevertheless expressed some concerns about relocation issues and are wary of its impact on local development. Access to increasingly qualified and productive human resources in CEECs poses a direct threat to domestic labour in WIDs, particularly that involved in the most labour-intensive activities and the least qualified. With only very few exceptions, no support from policy-makers was offered to businesses that wish to relocate activities in CEECs or abroad more generally. Most internationally focused policy initiatives focus on promoting exports and inward investments. Other initiatives promote the industrial restructuring and upgrading of activities in the WIDs.

EIDs policies welcome relocation from WIDs for employment and growth, although it was not - or not yet - relevant to all studied EIDs. Increased international competitiveness is usually regarded as beneficial. Some product and technology development do occur, especially in cases in which local safety and quality standards are lower than the international ones. Sometimes new machinery and techniques are imported from the client or the parent firms to supplement local production in EIDs. However, some concerns were expressed as to the unequal distribution of investments within the country (e.g. Romanian IDs) and strong competition for access to new opportunities and markets (e.g. Slovenian IDs, Polish ID).

The EU enlargement process is positively regarded by most firms and local actors in both Western and Eastern IDs, although in many cases its impact is not regarded as imminent. Many WIDs were indeed more worried about competition from other non-EU countries such as China and India than CEECs.

All IDs have to face renewed challenges and complex restructuring processes in the context of internationalisation at European but also global level. The internationalisation and globalisation processes involve both exports and imports, inward and outward investments although the target of policy initiatives often focuses on only one or the other aspect. WIDs policy-makers and institutions overall remain reluctant to help and support relocation in that context.

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