



The Role of Clusters in Local Economic and Social Development: the Italian Experience *Some issues from the Marche Region*

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Summary

- The Marche Region development is often considered as a typical Italian “cluster driven” experience
- The “cluster development path”: main elements and a focus on the Marche Region “model”
- What kind of “knowledge” and “warning” may come from this experience?
- May a cluster be exported to other areas?

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The logical framework of this speech

1. A BRIEF PORTRAIT OF A SMALL BUT STRATEGIC REGION
2. THE REGIONAL ECONOMY TODAY: STRUCTURE AND COMPARISON
3. FIRMS AND CLUSTERS IN THE MARCHE REGION'S DEVELOPMENT
4. AN OPEN ECONOMY: EXPORT AND FOREIGN INVESTMENTS AS A RESULT OF CLUSTERS
5. "PORTABILITY" OF THE CLUSTER DEVELOPMENT PATH
6. QUESTIONS, RISKS AND CHALLENGES FOR THE MARCHE REGION

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1. A BRIEF PORTRAIT OF A SMALL BUT STRATEGIC REGION

- *In Central Italy*
- *On the Adriatic Sea*
- *A gate to South and Eastern Europe*
- *An ancient link to Mediterranean Sea*



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1.1 The Marche Region: a few data

Area: 9,700 km²
Population: 1.48 million
Capital town: Ancona
(~100,000 inhabitants)



4 Provinces
(Pesaro e Urbino, Ancona, Macerata, Ascoli Piceno)

246 Municipalities

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1.2 The Marche Region: the present situation

- ⇒ **Regional GDP:** \$ 40 billion
- ⇒ **GDP per person :** \$ 27,200
- ⇒ **Life expectancy at birth: 81 years**
(male: 78 – female: 84)

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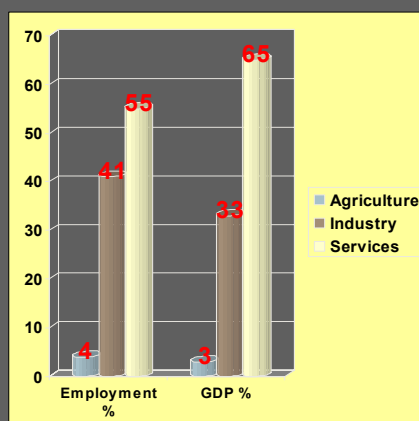
1.3 The Marche Region Political Environment



- The Regional Council has a 57.6% centre-left majority coalition
- The recent regional electoral reform has introduced the direct election of the regional President, thus probably ensuring a higher degree of political stability
- The current political coalition was elected in April 2005
- President of Marche Region: Gian Mario Spacca
- Regional Board (*cabinet*): 10 members
- Regional Council (*local Parliament*): 40 councillors

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2. THE MARCHE REGIONAL ECONOMY TODAY



- ⇒ Low agriculture employment rate and GDP share
- ⇒ Competitive manufacturing industries' sector (the regional rate is higher than the national one)
- ⇒ Extensive services and trade share

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2.1 The Marche regional economy – a comparison to the European context

	Production performance					Labour market			
	GDP pro-head (PPS) EU15=100		Employment by sector (% over total year 2002)			Unemployment rate (%)			Employment rate (% aged 15-64)
	2001	average 1999-00-01	Agriculture	Industry	Services	Total 1990	Total 2002	% long term unemployed year 2002	
Marche	100,7	101,7	4,1	40,7	55,2	5,5	4,4	33,8	62,7
Central It.	108,9	110,1	4,0	35,0	61,0	6,4	4,8	38,6	61,5
North-East	120,9	122,9	4,4	37,2	58,4	3,6	3,3	26,2	63,4
Italy	100,1	101,3	5,0	31,8	63,2	9,0	9,0	59,6	55,5
EU15	100	100	4,0	28,2	67,7	7,7	7,8	40,2	64,2
EU27	87,0	86,8	7,0	28,9	64,1	n.a.	9,1	45,4	62,4

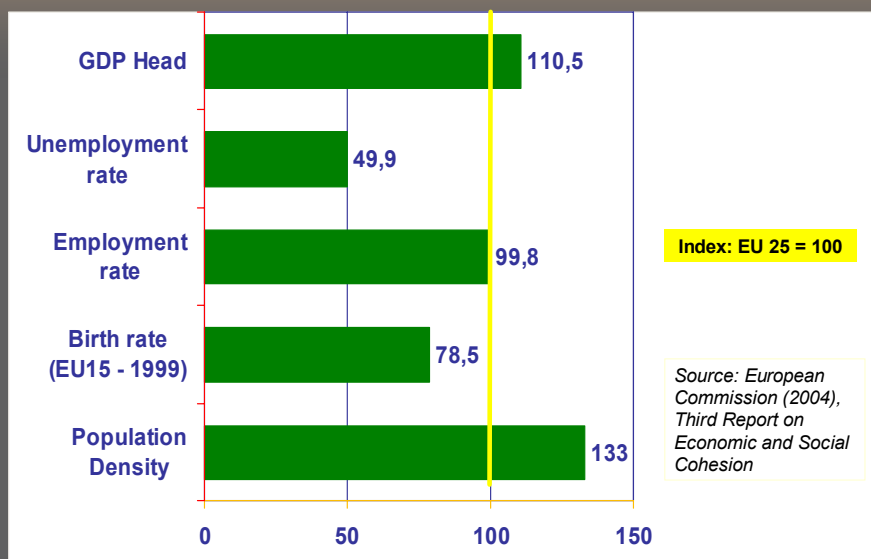
Source: European Commission (2004), Third report on economic and social cohesion.

1 - oversized industrial and manufacturing sector

2 - very low Unemployment and long term Unemployment rate

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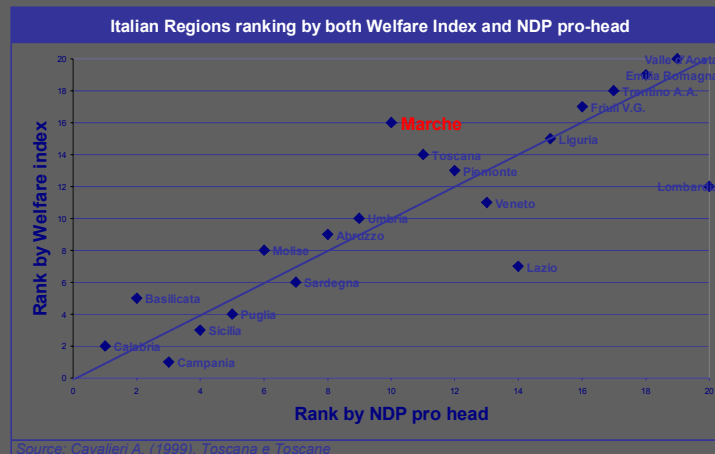
2.2 A Region focused on Europe



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2.3 Welfare and economic performance

The Welfare index rank performs better than the economic index rank!



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3. FIRMS AND CLUSTERS IN THE MARCHE REGION'S DEVELOPMENT MODEL

- As shown in the previous slides, *TODAY* the Marche Region may be considered as a developed and rather well balanced Italian area, with a good population welfare.
- But *UP TO WW2*, the situation was very, very different:
 - the Region was one among the least developed areas in Italy;
 - underfeeding caused infant mortality;
 - thousands of young people emigrated to Latin America's pampas and North Europe's mines.

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3.1 Which reason for such a change?

- Basically, two main reasons have been singled out to explain this development path:
 1. an original blending of creativity and entrepreneurial skill, often provided by the “share-cropper” (*métayer* or *mezzadro*) who firstly transformed himself into a craftsman and later into a small business-man, thanks to community values focused on
 - aid exchange among families
 - emphasis on savings and on hard work
 2. many diffused local systems of Small and Medium Enterprises (SMEs) : the “clusters” or “industrial districts”

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3.2 The first character: a very “entrepreneurial” region

Number of Firms (December 2004) : 175,413 (+1.06% vs. 2003)

Firms each 1.000 inhabitants (2003)	
Marche	90.4
North-Western Italy	82.2
North-Eastern Italy	87.9
Central Italy	93.8
Southern Italy	73.3
Italy	84.9

Source: Infocamere and ISTAT data

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3.3 The “share-crop” or *mezzadria*: why is it so important in regional history?

- The “share-crop” (*métayage* or *mezzadria*) is a job contract between the land owner and the head of a family (often a large family) providing the labour. All the products coming from the labour had to be shared on a fifty-fifty basis between the two “partners”
- The farmer house was on the land property (not in the village) and it was provided with a stable, a small machinery and a joinery shop
- As a result, in order to increase his own “half gain” from agriculture and other rural activities, the farmer was stimulated to improve the yield

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3.4 The second character: the “cluster” of SMEs

- The “cluster” (or *industrial district*) is an area where the “scale economies” (typical of bigger industries) are efficiently replaced by “external economies”
- Costs are cut down, thanks to a peculiar social and economical situation (such as workers availability, context knowledge, a diffuse entrepreneurship, frequent spin off, enhanced competition but also co-operation among firms, wide process innovation, wide imitation and emulation effects)
- This *way of production* allows to make up for vertical integration of bigger industries keeping safe the quality of life

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3.5 The “cluster” impact

- A cluster involves a distribution of production phases among many firms, highly specialized in every step
- The firm specialization is usually linked to either a technological or an operating area
- Many industries are traditional and not hi-tech: this situation involves low entrance barriers, due to low plant costs
- The innovation jump is often allowed by a plant renewal
- The firm dimension remains small, but the high specialization allows good earnings

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3.6 Cluster and firm dimension: “most Italian industries are keeping *small* dimension, nevertheless they are growing !”

Employees in the industrial sector by firm-size in some OECD Countries (%)			
Countries	Small	Medium	Large
Italy	54,3	19,5	26,3
Spain	51,1	21,2	27,7
France	33,2	20,0	46,8
Germany	24,4	15,8	59,8
United Kingdom	27,4	20,5	52,1
Ireland	21,9	14,1	64,0
EU 15	34,8	19,8	45,5
Czech Republic	33,6	21,9	44,4
Poland	20,2	16,3	63,5
Hungary	32,1	25,0	42,9
Japan	39,7	32,2	28,0
Canada	29,3	9,9	60,8
USA	32,4	15,5	52,1
OECD Countries	34,5	20,0	45,5

Source: Proceedings of the OECD conference on SMEs, June 2000

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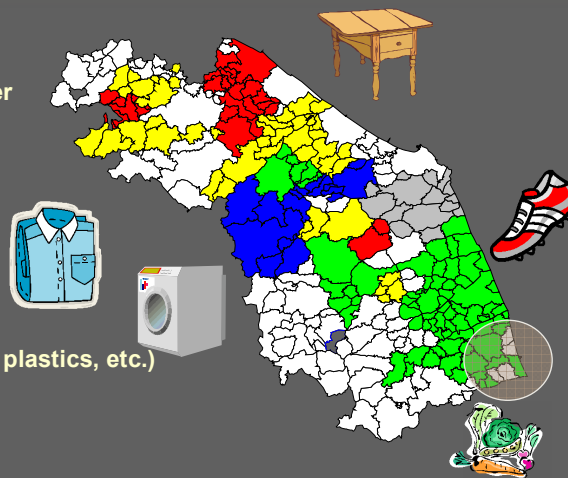
3.7 Cluster and development routes: a "valley" model ?



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3.8 Main clusters in the Marche Region

- Mechanics
- Footwear and leather
- Wood-furniture
- Textile-clothing
- Food-processing
- Others (electronics, plastics, etc.)



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4. AN OPEN ECONOMY: EXPORT AND FOREIGN INVESTMENTS AS A RESULT OF CLUSTERS

- An open economy is a policy target for a Region focused on high production clusters
- The Marche economy is today very open, thanks to her manufacturing industries mostly involved in the “made in Italy” production
- An open economy may be a great opportunity, but it may also be a risk, if there isn't a “control” on the foreign capital used in the national territory

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4.1 An economy open to international markets

Index	Value	Description
GDP (2002)	2.6	% on total Italy
Exports (2002)	3.1	% on total Italy
Exports per employee	88.9	Index value compared to Italy = 100
Enterprises participated by foreign capitals (2002)	0.7	% on all Italian industrial plants, partially or totally owned by foreign capitals
Foreign enterprises participated by Marche's capitals (2002)	2.9	% on all Italian Foreign Direct Investments
Degree of openness to foreign markets		Index value compared to Italy = 100 (Exports / Value added from Agriculture and Manufacturing)
	2002	108.4
	2003	115.3

Source: Elaborations by Italian Institute for Foreign Trade on ISTAT data

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4.2 The regional Export and the clusters' impact

% on total Marche's export in the five main export industrial sectors				
	1993	1995	2000	2003
Mechanics and machinery	29.4	32.7	34.7	37.8
Footwear	29.9	26.2	25.0	21.0
Furniture	8.6	9.8	9.7	7.4
Clothing	8.8	7.1	7.4	7.5
Metals	7.6	7.4	7.9	7.0

Source: Marche Regional Statistical Office Report on data by ISTAT (2004)

80% of regional Export is due to main production cluster !

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4.3 The regional Export: national weight and geographical targets

Marche's export compared to total Italy				
	1993	1995	2000	2003
Million Euro	3,608	5,612	7,122	8,694
% Italian export	2.6%	2.9%	2.8%	3.4%

Source: Marche Regional Statistical Office Report on data by ISTAT (2004)

Marche's export markets by geographical areas (million euro)			
Geographical Areas	1 st half 2003	1 st half 2004	% change
European Union (EU 25)	2,210.3	2,503.0	+ 13.2 %
Central and South America	53,6	69,2	+ 29.1 %

Source: Marche Regional Statistical Office Report on data by ISTAT (2004)

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4.4 Foreign Direct Investment in regional development path

- In 60's and 70's, many firms came and settled in the Marche Region from other Italian regions or foreign countries, because of low labour costs
- The know-how acquired over time, the capability to set out small but incremental innovation, the relationship among local businesses (clusters) made a real new "model", often named with the region's name: "the Marche Region model"
- In 90's many regional firms began participating in foreign businesses, most of all in their own manufacturing sectors, such as metal-mechanics industry, agricultural and industrial machinery, clothing and footwear, electrical material and supplies

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5. "PORTABILITY" OF THE CLUSTER DEVELOPMENT PATH

- ⇒ The Marche Region development path, in the last 60 years, appears to show some similarities with the present situation of many other geographical areas:
 - A post-war situation
 - Rural territory
 - Large labour forces percentage in the agricultural sector
 - Manufacturing and "hand labour" capability

BUT

- ⇒ What kind of "knowledge" and "warning" may come from this regional experience?
- ⇒ May a cluster be "exported" to other areas?

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5.1 Some policy remarks (1)

- ⇒ The cluster is mainly based on a *cultural* approach:
 - creativity and entrepreneurship are the ground skills for the spin-off
 - imitation and emulation effects push the newcomers
 - competition & cooperation allow distribution of production phases among many firms
 - traditional and not hi-tech industries involve low entrance barriers
 - high specialization in each production step needs a low plant cost

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5.2 Some policy remarks (2)

- ⇒ The cluster is an endogenous and self-governing phenomenon: the public role is rarely a decisive start-up factor
- ⇒ Nevertheless, the policy maker may offer a strong support to strengthen the external economies (the core of a cluster!)
- ⇒ External economies change continuously: establishment areas, basic services, workers availability and suitable education, material and immaterial infrastructures, quality and environment certificates...
- ⇒ As the cluster grows, the governance becomes more and more relevant: in the Marche Region the “District Council” (COICO) are composed by all local stakeholders (such as representatives of Public Boards and social and economic actors)

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5.3 May a cluster be “exported” to other areas?

Not likely!

- The cultural effects are strong: no public policy is able to change it in a short period
- A cluster is a typical *local* and *bottom-up* phenomenon
- The production sharing in many specialized steps depends on local needs

Probably yes?

- A main household appliances firm, in Marche Region, is trying to “export” to Russia a cluster based on her local experience. However, this involves mainly a *one-(big)-plant* export, at least in the start up
- Public policies may try to “reproduce” each individual item composing the cluster-system, but single investments are unlikely to result effective

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6. A “CLUSTER BASED REGION” DEVELOPMENT: QUESTION MARKS, RISKS AND CHALLENGES

The following items are presently the focus of our regional policy

Question Marks

- Territorial integration
- Qualitative consolidation
- Functional interdependency
- Programmed and concerted management

Risks

- Periphery effect
- Fragmentation
- Stagnation

Challenges

- Project methodology
- Feasibility
- Cohesion

Source: Alessandri P. (2000), Economic Development in a small region, between localism and globalisation

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6.1 A “sustainable local development” with care on Welfare and Environment

- ⇒ **Cluster:** collective identification with territory and community
- ⇒ **Social and environmental sustainability:** pivotal for quantitative and qualitative performance of “industrial districts”, through a diffuse commitment to high quality-economy, according to EU policy and new market opportunities
- ⇒ **Need for partnerships** among enterprises, public utilities, business associations, trade unions and local authorities
- ⇒ **Welfare projects:** settlement of nurseries, primary schools, cultural centres, healthcare services close to productive areas
- ⇒ **Environmental projects:** district-based environmental management systems and quality marks aimed at certifying the quality of the territory and its products by involving its main private and public actors

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WWW contacts

International presentation of Regione Marche
www.marcheworldwide.org

Marche Regional Board
www.regione.marche.it

Marche Legislative Council
www.consiglio.marche.it

Exporting firms database
www.impresa.marche.it/english

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