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## Chinese entrepreneurship in context: specialization, localization and their impact on Italian industrial districts

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# **CHINESE ENTREPRENEURSHIP IN CONTEXT: LOCALIZATION, SPECIALIZATION AND THEIR IMPACT ON ITALIAN INDUSTRIAL DISTRICTS**

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**Abstract.** Chinese migration flows represent a relatively new phenomenon in Italy. Its entrepreneurial nature is reflected in a massive presence of Chinese businessman employed in manufacturing activities, with a high concentration in industrial districts. The manufacturing micro-enterprise is a recognized feature of the district model of industrialization. Therefore, the investigation on the presence of manufacturing micro-enterprises run by Chinese migrants in Italy is an issue of particular interest. The aim of the paper is to shed some light on current localization of Chinese micro-entrepreneurs in Italian industrial districts, and their specialization in ‘personal goods’ (textile, clothing, leather and footwear), one of the main sectors of the district made in Italy. Some measurements of Chinese micro-entrepreneurship in this sector and related business services is carried out to test the hypothesis of their co-localization in industrial districts. Data collected from native-Chinese micro-entrepreneurs represents an innovative contribution of knowledge based on ISTAT-ASIA archives. The exercise of explorative analysis based on data processing at the local labour market area (LLMA) level will finally highlight the model of localization of the Chinese micro-entrepreneurship, and its impact on the Italian industrial districts.

**Key words:** Chinese entrepreneurship; ethnic businesses; textile, clothing, leather and footwear; local labour market area; industrial district; Italy.

## **1. Introduction**

Transnational migrations are one component of globalization. Their impact on industrialized economies is equally important that the impact of capital flows, import of manufacturing components or cheap goods from newly industrialized countries.

In Italy, the effects of transnational migrations are mainly viewed as negative:

- with regard to the country of origin: when migrants come from poor countries (e.g., Nigeria) or countries whose economies are growing rapidly (e.g., China);

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- with regard to motivations: when transnational migration are motivated 'by necessity' (i.e., they are the answer to economic difficulties and poverty affecting places of origin) or 'by opportunity' (i.e., they are the answer to seize advantages of globalization of production or labour market).

In the case of migration from poor countries or motivated 'by necessity', the negative reaction is based on the social distress brought in by migrants because of their customs; when migrants come from fast-growing economies or are motivated 'by opportunity', the negative reaction is based on the potential competition that migrant's work can do for natives. This latter fact is especially true when the migrant becomes an entrepreneur, as his firm can compete on domestic and international markets with firms run by indigenous.

In Italy there is a high pitched discussion about a growing phenomenon known as 'made in Italy by Chinese', that is the production of goods made in Italy by firms run by immigrants (Lan 2011). They are not counterfeit products, but authentic, which are manufactured in specialized manufacturing places by migrants-entrepreneurs who are benefiting - as they have repeatedly said in interviews - the industrial atmosphere of the place where they carry out production. As even critics of this phenomenon (who see migrant entrepreneurship in the same way as illegal economy) acknowledge these benefits include:

- the widespread ability to innovate, the ease with which new ideas circulate and can be learned;
- the presence of business services (e.g., buying offices) that attract flows of buyers from abroad by producing positive externalities.

In the international literature, it is argued, quite rightly, that globalization and localization are two interrelated and simultaneous processes.

As far as the globalisation is concerned, so much has been written that it is pointless to repeat (e.g., Michie 2003).

Instead, as far as the localization is concerned, it is worth clarifying the meaning assigned to it in this paper. It has nothing to do with the theory of industrial location. Rather, it has to do with the Marshallian localized industries. Localization is associated with the importance of knowledge as agent of production, and learning as human faculty that is the basis for economic change. Knowledge acquisition - whichever it is: tacit/personal, contextual or codified - is a place-based process, since it is related to place (and time) where people live, work and socialize.

The importance of places as it follows from these considerations is not, therefore, linked to their potential to be 'industrial platforms' (Markusen 1996) or 'nodes of global networks' (Amin and Trifft 1992), but to set up 'knowledge incubators' (and innovativeness); that is, sources of economic change.

The economic literature accounts industrial districts as a good example of places capable of acting as knowledge incubators. Such capacity depends on the nature of the organisation of production that characterizes the district, based on inter-firm co-operation, each firm being specialized in different stages of the same production process, and the related external economies. This organisation rests upon the frequency and continuity with which traded and untraded interdependencies between specialized firms are produced and re-reproduced over time.

In addition, an industrial district is a local labour market area (LLMA) where both the ‘commodity labour’ is bought and sold and the micro-entrepreneurship is formed (Becattini 1998).

It remains to answer the question to what extent migrants and natives can share the same productive knowledge. Or rather, to what extent the productive knowledge typical of a place is appropriable by migrants (not native entrepreneurs and workers).

On the other hand, it is also true that migrants have professional and entrepreneurial skills acquired in their sending-place and in the host country (which migrate to) they look for receiving-places where their abilities can be better exploited.

In this way, they feed the stock of entrepreneurship and accumulated knowledge of the receiving-place. Whether and how migrant-entrepreneurs and native-entrepreneurs integrate, it is a subject that falls outside the purpose of this paper.

Why did we choose to deal with Chinese micro-entrepreneurs? The reason is simple. Among migrant-entrepreneurs in Italy, the Chinese micro-entrepreneurs, unlike others, are active in manufacturing (Blangiardo *et al.* 2011). A large number of Chinese micro-entrepreneurs work in the sector of ‘personal goods’ (textiles, clothing, leather and footwear), which is one of the main sectors of the district made in Italy.

The impact of Chinese micro-entrepreneurship on national economy has a twofold effect:

- for the national economy of the hosting country: they feed the domestic demand of low price goods (under the assumption that at least initially they produce this kind of goods) and increase the export of goods manufactured at the place where they are localized (receiving-place);
- for the national economy of the country of origin: they facilitate international market penetration with positive feedback on sending-place with regard to its export of manufacturing component and finished products (when the manufacturing micro-entrepreneur becomes a manufacturing importer-trader), hence increasing remittances towards the sending-place.

It is largely accepted in the literature that migrants generally have a high degree of potential for local economic development based on their personal characteristics like youth, adaptability, skills and motivation to exploit perceived market opportunities (Coffey and Polèse 1984). The outcome is the creation a new firm. Therefore, their arrival in a place increases the local entrepreneurship capital (Audretsch 2007). To what extent this process has occurred in the Italian industrial districts with regard to Chinese micro-entrepreneurship specialized in personal goods is the subject of this paper.

The paper is organised as follows. After this introduction, Section 2 reviews the main literature on Chinese entrepreneurship in Italy; Section 3 provides information on the data source and measurement of localization and specialization of Chinese entrepreneurship in industrial districts; Section 4 comments on the results; Section 5 concludes the work with some final remarks on the localization model of Chinese micro-entrepreneurship in Italy.

## 2. The literature

The rise of China as international economy since the late 1970s has been accompanied with a massive outflow of migration over the last two decades. Relaxation of legal restrictions to internal and external migration over the 1980s has generated a twofold migration phenomenon with deep international effects.

On the *internal* migration side, it brought about the labour market basis of coastal industrialization. In fact, a surplus of rural labour released from farming, and the emergence of the ‘floating population’ (Solinger 1999) are employed in both the rising coastal rural non-farm industries and urban non-state sector<sup>1</sup>. The distribution of labour force across urban and rural areas was subject to migration constraints due to legal restrictions to labour mobility, which forced farmers to be employed in rural non-farm enterprises. They constituted the growing new Chinese industry.

On the *external* migration side, China’s adoption of reform policies and opening up since 1978 brought about a relaxed approach to international migration, promoted by the legal reforms of 1986 and 2001 (Liu 2009). Despite the massive nation-wide outflow of migration, over the last two decades especially coastal provinces of Zhejiang and Fujian have originated extensive outflows of migration towards Northern America and Europe (Pieke 2004). Different working conditions as well as migration attitudes drove migration paths of natives from these provinces, and their generalization would misrepresent reality as well as it goes well beyond the object of the present work. However, the effects of reforms of international migration in Europe show country-specific patterns of migration in the 1980s and the 1990s. Since the 1980s, in Southern Europe Italy hosted mainly migrants from Zhejiang province, Wenzhou prefecture in particular.

Zhejiang province is the main origin place of Chinese communities in Italy<sup>2</sup>. The local economic development of this coastal area of China is based on industrial clusters, and shows many similarities with Italian industrial districts. At a first glance, sector specialization in manufacturing goods is the basic similarity. Beyond it, however, the structure of production based on small family workshops in the first phase of industrialization (1980s) has evolved in the formation of highly specialized SMEs industrial clusters. The similar organization of the division of labour, together with the entrepreneurial attitude devoted to manufacturing activities and trade, has

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<sup>1</sup> The growth of the non-state sector during the reforms era refers to the a set of ownership structures different from the State Owned Enterprises (SOEs), which are the categories of: collective enterprises as the ‘Township and Village enterprises’ (TVEs), foreign capital enterprises as ‘Joint Ventures’ and, most importantly, domestic privately owned ‘private enterprises’.

<sup>2</sup> Within the Italian scenario of Chinese migration, Johanson *et al.* (2009) examine the remarkable case of the industrial district of Prato (Tuscany) from sociological and economic points of view, and try to point out the dual challenge generated by Chinese entrepreneurship (Dei Ottati 2009) and the specific case of Prato as declining textile district (Toccafondi 2009). On the labour conditions side, Wu (2008) explores working conditions of native Chinese community in Veneto, a region of Northern Italy.

determined a connection point for the establishment of Chinese entrepreneurs within similar socio-economic textures in Italy, like industrial districts.

Zhejiang industrial clusters are featured by a complimentary linkage between industry and market (Wang 2006). Being a post-planned economy institutional framework, post-reforms rural China lacked market institutions, which were therefore substituted by private actions of local entrepreneurs endowed with deep traditions in both artisanship and long distance commerce (Bellandi and Lombardi 2010). Traditionally, Chinese economic literature acknowledges a powerful role to local traders in the process of industrial take-off and industrial growth of Zhejiang province (Ke 2009). Furthermore, networks of migrant businessman sustain long distance trade and enhance distribution channels of locally produced goods.

The structure of extra-local trade takes the forms of a frame of markets specialized in trade of local production, which create their branches all over China and abroad. Recently, Wang (2009) asserts that the core of ‘Chinese *going out* model’<sup>3</sup> is based on export penetration and the establishment of distribution channels. Within such general tendency, international operations of Zhejiang SMEs industrial clusters show a specific character. The first step is composed of the attraction of strong overseas buyers within domestic specialized markets. The second step is the establishment of overseas branches of specialized markets. As a matter of fact, Italy shows well known cases of wholesale markets established in as much well known high-density industrial areas (e.g., the case of EUROINGRO in Prato).

The tight linkage between industrial production sphere and distribution channels in Zhejiang industrial clusters and entrepreneurs has strong social basis. International economic literature highlights the importance of network capital for Chinese family businesses (Sato 2003) and business networks engaged in trade (Yang 2002). In sociological terms, relationships of overseas Chinese with their homeland (and their home town in particular) are largely explained by the role of *guanxi*<sup>4</sup> networks in both business relations and labour markets, especially in a context of institutional uncertainty (Bian 2007). The mix of the above mentioned socio-economic aspects constitute no doubt part of the explanation of the growth of the Chinese (Zhejiang) community in Italian realities.

Beyond migration-oriented contributions on the Chinese presence in Italy, international economic literature has so far paid uneven attention to Chinese penetration under the commercial, industrial (manufacturing) and financial flows points of view. In fact, while Pietrobelli *et al.* (2010) investigate Chinese outward FDI to Italy and point out the concentration of technology seeking FDI in the north of Italy, limited attention has focused on the concentration and the increasing specialization of manufacturing activities across Italian local economies (i.e., local labour market areas - LLMA), as well as the constitution and the expansion of

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<sup>3</sup>The *go out* policy was established in 2007 by Chinese central government. It marks a standing point in international investments policy, since it declares the intentions not only to attract foreign investments but also to promote Chinese firms’ internationalization abroad.

<sup>4</sup> *Guanxi* describes the feature of Chinese interpersonal relations based on long-term mutual obligations.

Chinese-based wholesale and retail markets as offshoot of home-land markets. In particular, economic literature on Chinese FDI has identified in the need of advanced technologies and other key competences as design skills the motivation of Italy and FDI destination, which however constitute a limited amount of overall Chinese stock of FDI in Europe.

Particularly relevant to the purposes of the present work is the interest shown by giant Chinese going global companies over positive external economies generated within some Italian industrial districts due to the specialized LLMA's knowledge on final markets and advanced technologies (Pietrobelli *et al.* 2010). By contrast, an in-depth and robust investigation on Chinese presence within Italian LLMA's has been limited to remarkable yet specific case studies. Unexplored, so far, is the analysis of the connection between the Chinese manufacturing base in Italy and the frame of distribution channels, as well as their integration/rejection/competition effect over industrial districts.

### 3. Data source and target measurement

The explorative analysis of localization and specialization of Chinese entrepreneurship in industrial districts is based on ISTAT-ASIA archives for the year 2007, that is, Chinese micro-enterprises active in year 2007. Data collected for native-Chinese micro-entrepreneurs represent an innovative contribution of knowledge, which exploits administration data sources. In order to provide a dynamic of the phenomenon, we analyze Chinese micro-enterprises started before 1999 and 2004, and still active in 2007.

The unit of analysis is the local labor market area (LLMA). In particular, we analyze Chinese micro-entrepreneurs localized in industrial districts, statistically a sub-set of LLMA's (Sforzi, 2009). We also focus on the production of personal goods (i.e., textile, clothing, leather and footwear) and related business services (i.e., commission agents and wholesale traders).

Cartographical representations are used in order to show both localization Chinese micro-entrepreneurs across Italian industrial districts and their specialization in 2007, as well as their change over time. Each district is represented by a specialization index defined as follows:

$$PSI_{p,i,j} = \frac{E_{p(i=C)j} / E_{.(i=C)j}}{E_{p(i=C).} / E_{.(i=C).}}$$

where  $p$  ( $p = 1, 2, \dots, P$ ) is the economic activity considered (i.e. personal goods and related business services),  $i$  ( $i = 1, 2, \dots, I$ ) indicates the origin of entrepreneurs ( $E$ ), being  $C$  China as 'country of birth', and  $j$  ( $j = 1, 2, \dots, J$ ) the LLMA where entrepreneurs are localized. Standard deviation is calculated with respect to 2007 data on sectors considered in this study. Classes of representations are determined by the standard deviation from the central value given by Italy 2007.

### 4. Results

The presence of micro-entrepreneurship in industrial districts is shown in the following descriptive statistics (Table 1). In 2007 almost half of overall number of micro-entrepreneurs (Italian and foreigners) specialized in personal goods were localized in industrial districts. Such a share is slightly higher than previous years 2004 and 1999, since the number of micro-enterprises started before 1999 and before 2004 kept stable, highlighting a natural rate of micro-entrepreneurship in industrial districts.

In 2007, as far as Chinese manufacturing micro-entrepreneurs is concerned, 64% of them were localized in industrial districts. Their presence has increased since 1999 due to relaxation of legal constraints over international migrations. Furthermore, the increase of the number of Chinese micro-entrepreneurs after 2004 (from 42% to 56%) is related to the expiry of the Multi Fibre Arrangement in January 2005 and to its effects on international trade. In fact, as quotas on exports from developing countries towards developed ones were no longer active, China has shown a sharp increase in export.

Tab. 1 - Micro-entrepreneurship in industrial districts (IDs) and other Italian local economies (non-IDs), 1999 - 2004 - 2007

TOTAL (Italians + Foreigners)

Economic activities	1999			2004			2007		
	IDs	Non-IDs	Total	IDs	Non-IDs	Total	IDs	Non-IDs	Total
Absolute Values									
Personal goods <sup>1</sup>	8.729	9.978	18.707	13.241	15.224	28.465	19.259	19.905	39.164
Business services <sup>1</sup>	4.081	11.132	15.213	5.697	15.845	21.542	7.054	19.310	26.364
Others	359.66 5	1.189.30 3	1.548.96 8	523.63 9	1.752.53 9	2.276.17 8	656.39 5	2.189.30 0	2.845.69 5
Total	372.47 5	1.210.41 3	1.582.88 8	542.57 7	1.783.60 8	2.326.18 5	682.70 8	2.228.51 5	2.911.22 3
Percentage Shares									
Personal goods <sup>1</sup>	47	53	100	47	53	100	49	51	100
Business services <sup>1</sup>	27	73	100	26	74	100	27	73	100
Others	23	77	100	23	77	100	23	77	100
Total	24	76	100	23	77	100	23	77	100

CHINESE

Economic activities	1999			2004			2007		
	IDs	Non-IDs	Total	IDs	Non-IDs	Total	IDs	Non-IDs	Total



	Absolute Values								
Personal goods <sup>1</sup>	348	473	821	2.201	1.711	3.912	6.028	3.453	9.481
Business services <sup>1</sup>	17	210	227	81	817	898	272	1.503	1.775
Others	262	1.004	1266	1.363	5520	6883	2.866	10.425	13.291
Total	627	1.687	2.314	3.645	8.048	11.693	9.166	15.381	24.547
	Percentage Shares								
Personal goods <sup>1</sup>	42	58	100	56	44	100	64	36	100
Business services <sup>1</sup>	7	93	100	9	91	100	15	85	100
Others	21	79	100	20	80	100	22	78	100
Total	27	73	100	31	69	100	37	63	100

<sup>1</sup> Personal goods include: Manufacture of textile (13), Manufacture of wearing apparel (14), Leather and related products (15)  
 - Business services include: Agents involved in the sale of textiles, clothing, fur, footwear and leather goods (46.16), Wholesale of hides, skins and leather (46.24), Wholesale of textiles (46.41), Wholesale of clothing and footwear (46.42), Wholesale of leather goods (46.49.5) (ISTAT-ATECO, 2007).

Source: The data have been processed on ISTAT-ASIA archives (2007).

This share is even more interesting if we consider the share of Chinese micro-entrepreneurs out of the overall number of micro-entrepreneurs. In 2007 the proportion was 31.3%, meaning that almost one third of micro-entrepreneurs producing personal goods in industrial districts were Chinese. Such entrepreneurs, active in 2007 and who started their business before 1999, were only 4% of total in 1999; entrepreneurs who started their business before 2004 grew up to 16.6% in the same year.

From a descriptive statistics point of view, Chinese manufacturing activities, devoted to the production of personal goods in particular, develop along with commercial activities of such goods. Micro-enterprises of business services related to the commercialization of personal goods, in fact, show a significant increase from 2004 to 2007 (from 8% to 15%) mainly due to the expiry of the Multi Fibre Arrangement. In 2007, the proportion of Chinese micro-entrepreneurs active in business services was equal to 3.8%, while it was equal to 1.5% and 0.4% in 2004 and 1990 respectively.

The localisation of Chinese micro-entrepreneurs overlaps almost entirely with industrial districts specialized in personal goods (Figures 1 and 2). Areas of highest concentration (i.e., over and above the national average) are found in regions of the 'new' Third Italy, that is the Marches, Tuscany, Emilia-Romagna, Lombardy and Veneto. Below the Marches, that is in Southern Italy, Chinese micro-entrepreneurs are localised in two specialised districts only: Solofra (Campania), which is above the national average, and Barletta (Apulia), which is though below the national average, despite other districts specialized in personal goods are in both regions.

This geographical pattern is not substantially changed compared to previous years except as regards the stock of entrepreneurship that has gradually increased from 1999 to 2004 until 2007 (Figures 2, 3 and 4). Changes worthy of note are the

growth in non-specialized districts of the North-western Italy (Piedmont) and the penetration from the Marches into specialized districts of Umbria, in the Central Italy.

Chinese specialization in business services varies greatly according to its localization either in industrial districts or in non-industrial districts. In fact, in the former case clusterised industrial districts of Chinese micro-entrepreneurship specialized in business services are well visible (but with values below the average) in the regions like Tuscany, Emilia-Romagna, Lombardy and Veneto in the year 2007 (Figure 5). Interestingly, these areas correspond to manufacturing industrial districts (those black in Figure 2) hence confirming the potential co-localization of manufacturing activities and commercial ones in the Chinese model of micro-entrepreneurship. The only exception to this tendency is the case of Barletta, which shows high concentration of business services micro-enterprises but no concentration of manufacturers.

In the case of Chinese micro-entrepreneurs specialized in business services but localised outside industrial districts, it is noteworthy to highlight metropolitan areas (Rome, Naples, Florence, Milan) showing very high values and large urban areas (Verona, Padoa) showing above the average values of specialization index. This is explained also (probably, in some cases in a large extent) by the correlation of metropolitan areas to logistic poles (i.e Naples), which facilitate gathering and re-distribution of imported goods even for micro-enterprises. Buying offices may explain the cases of Milan and Florence. Finally, the area around Prato is of remarkable interest, since it shows proximity to industrial districts due to linkages between trade and industry (localized in Prato).

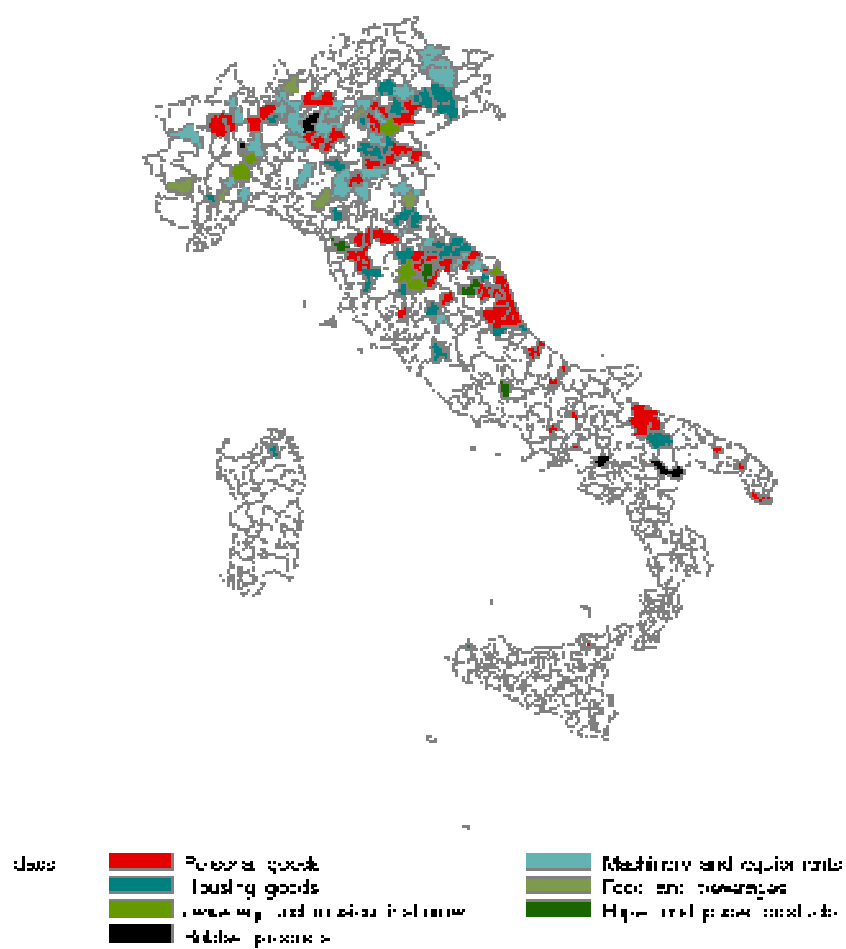


Fig. 1 - Italian IDs according to their manufacturing specialisation, 2001  
Source: Istat (2006).

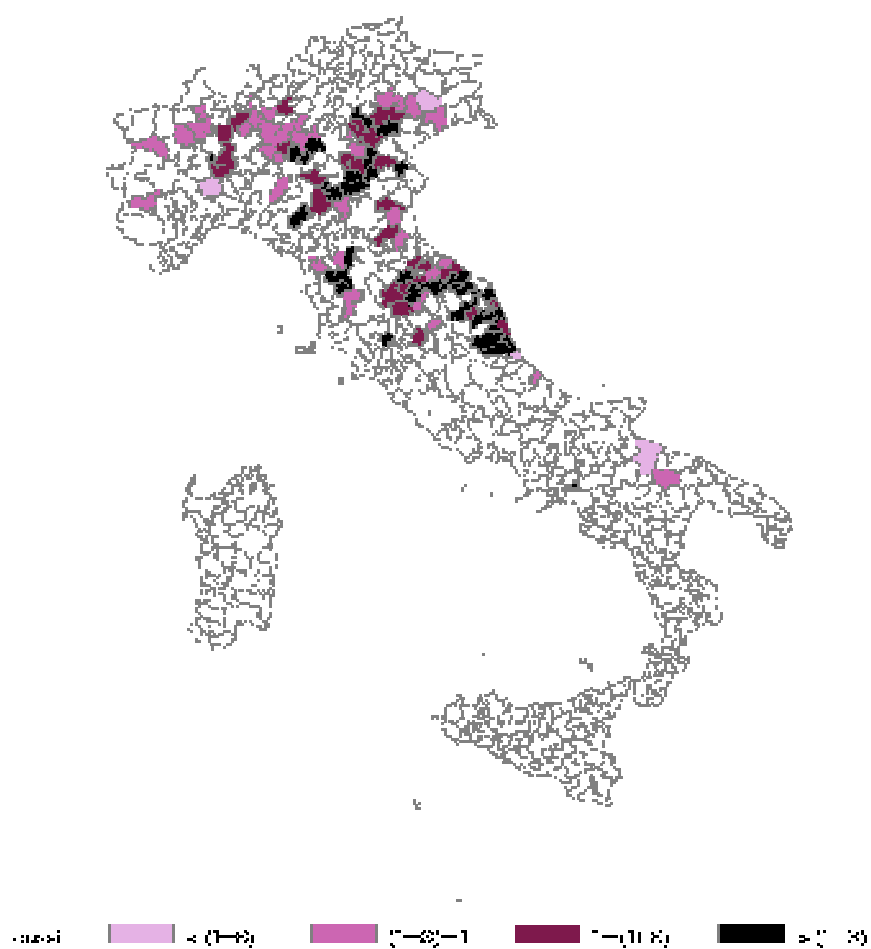


Fig. 2 - Specialization in personal goods of Chinese micro-enterprises in Italian IDs, 2007  
Standard deviation from the 2007 national average (Italy = 1)

Source: Elaborated by authors on data from ISTAT-ASIA archives (2007).

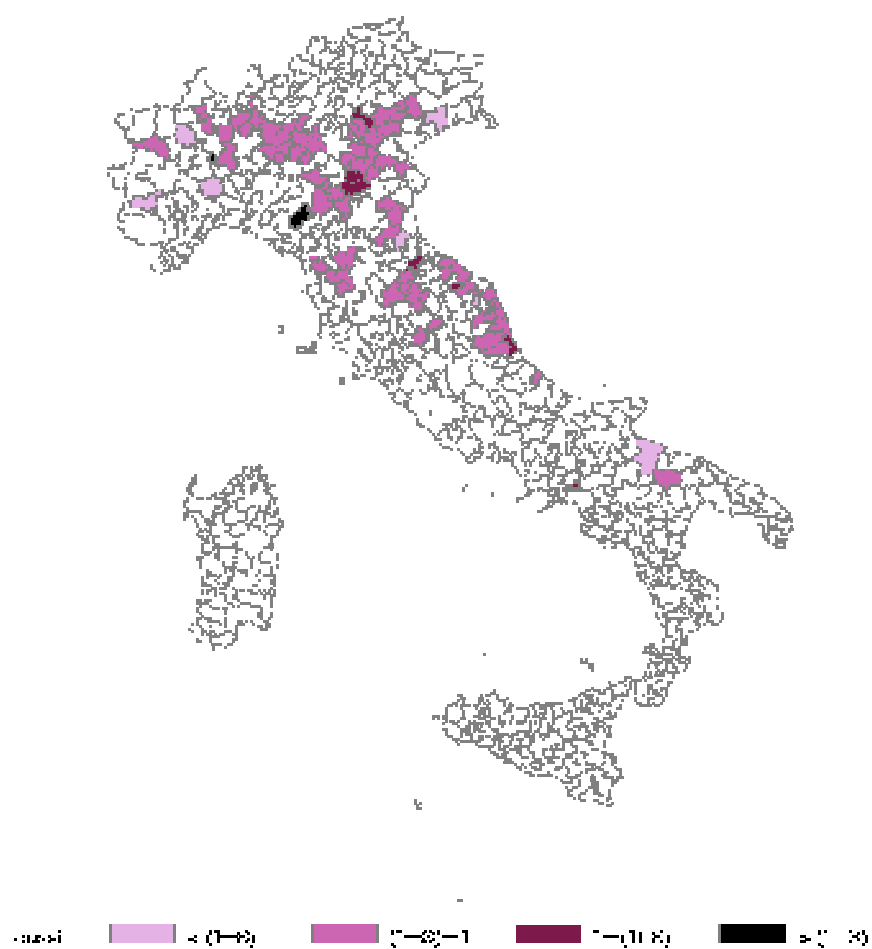


Fig. 3 - Specialization in personal goods of Chinese micro-enterprises in Italian IDs, 2004  
Standard deviation from the 2007 national average (Italy = 1)

Source: Elaborated by authors on data from ISTAT-ASIA archives (2007).

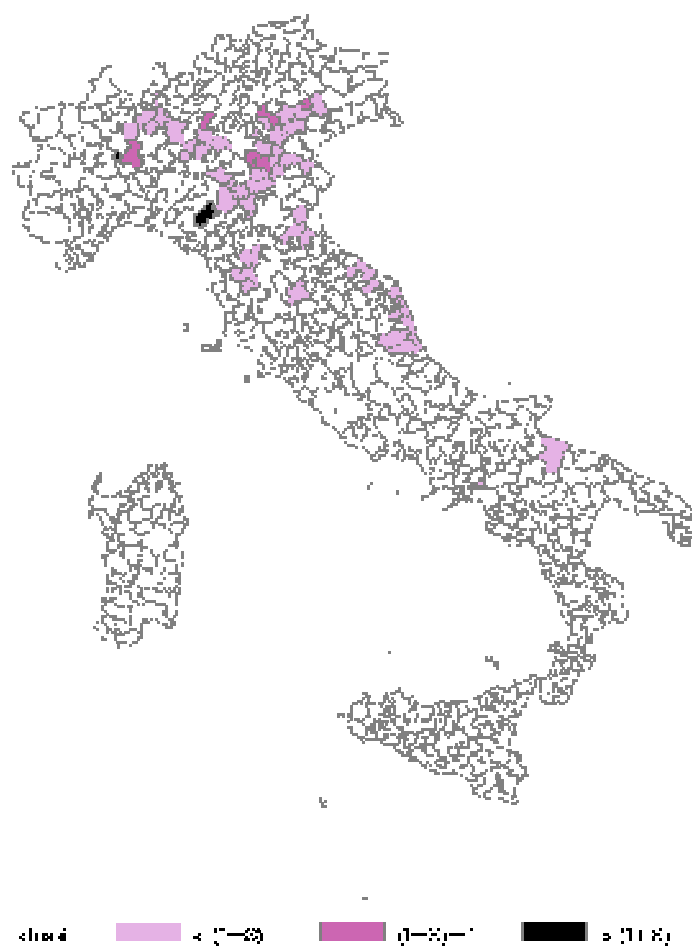


Fig. 4 - Specialization in personal goods of Chinese micro-enterprises in Italian IDs, 1999  
Standard deviation from the 2007 national average (Italy = 1)

Source: Elaborated by authors on data from ISTAT-ASIA archives (2007).

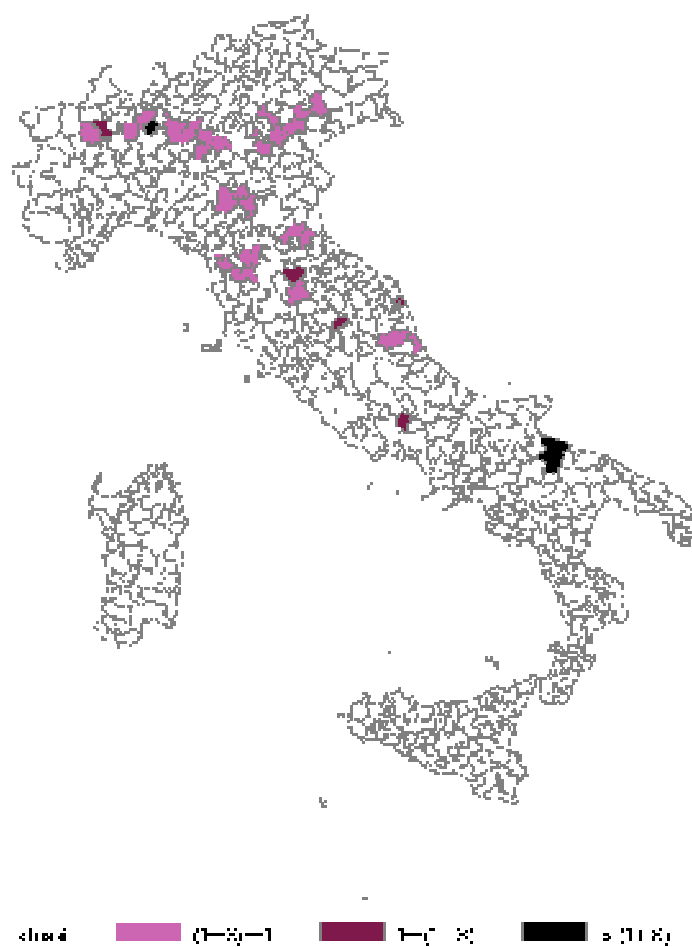


Fig. 5 - Specialization in business services of Chinese micro-enterprises in IDs, 2007  
Standard deviation from the 2007 national average (Italy = 1)

Source: Elaborated by authors on data from ISTAT-ASIA archives (2007).

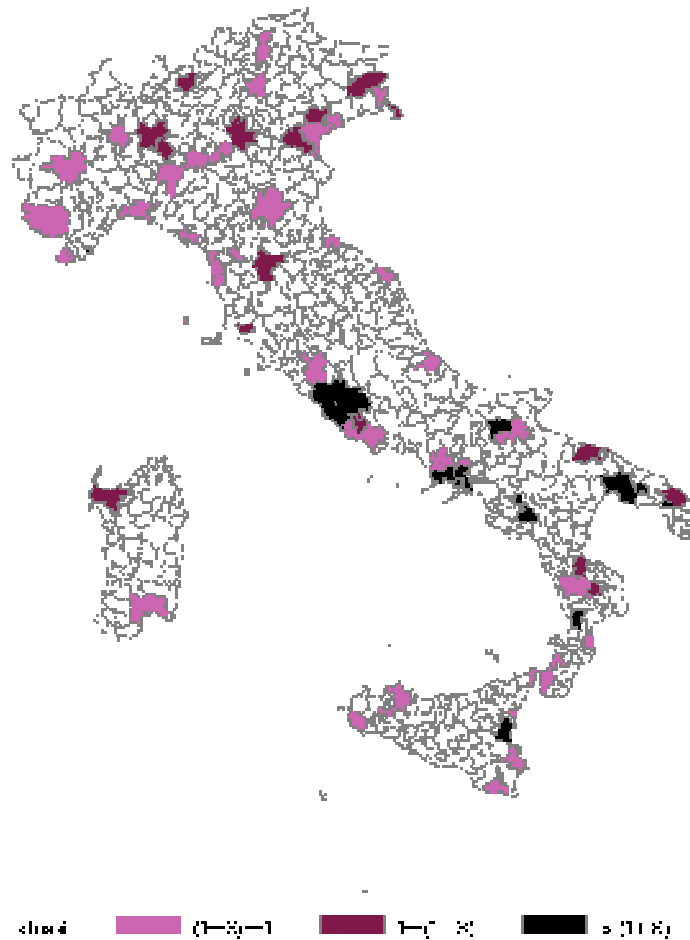


Fig. 6 - Specialization in business services of Chinese micro-enterprises in non-IDs (other Italian local economies), 2007

Standard deviation from the 2007 national average (Italy = 1)

Source: Elaborated by authors on data from ISTAT-ASIA archives (2007).

## 5. Some final remarks

The sector of personal goods (textile, clothing, leather and footwear) is one of the most important made in Italy sectors and, particularly, among productions realized within industrial districts (Figure 1). The localisation of Chinese micro-entrepreneurs working in the same sector and district has proved to be remarkable; and it has been growing over the years of last decade, as evidenced by cartographical representations (Figures 2, 3 and 4).

In 2007 Chinese micro-entrepreneurs counted 31.3% of overall number of all micro-entrepreneurs (Italian and foreigners) producing personal goods, and contributed to their turnover by 29.3%.

This paper aimed to shed some light on the co-localization of personal goods production and related business services in a single industrial district. When these



two activities are carried out by Chinese micro-enterprises the hypothesis is not verified. As a matter of fact, Chinese micro-enterprises are localised outside the districts rather than inside; with very few exception, among which Barletta in Southern Italy is the most noteworthy (Figures 5 and 6).

However, the alternative hypothesis that the commercialization of personal goods is carried out by larger enterprises – such as small (10-49 employees) and medium-sized (50-249 employees), or even bigger (more than 249 employees) – seems contradicted by Figure 6. This figure shows a high concentration of business services Chinese micro-enterprises in metropolitan areas like Rome, Naples or Florence and Milan. Nevertheless, it seems reasonable to explain the phenomenon with the correlation effect of some metropolitan areas to logistic centres. Therefore, the issue deserves further consideration, and makes a suggestion for future research.

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