

Migration Flows and Small and Medium Sized Enterprise Internationalisation Between Romania and the Italian Veneto Region

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During the '90s, a natural sub rationalisation process took place between European Union Countries and Eastern European Countries. In the case of Italy, industrial districts¹ are trading and investing in Eastern European countries while migration flows are occurring from Eastern European countries towards the same industrial districts. Trade, capital and labour mobility have been complementary in aggregate terms. This is a natural process of economic sub-regional integration, which requires policies for a positive management of migration flows.

A special case study is made up by the Veneto – Romania relationships.

1. Romanian Immigration in the Veneto region

During the '90s immigration in Italy increased substantially. The main immigration flows are from North Africa, East Europe (ex Yugoslavia especially), Albania and Philippine. According to the estimates of Caritas² the Romanians are the fifth nationality of migrants in Italy in 2000.

Among the Eastern European countries eligible for the EU enlargement (of the first and second wave), immigrants with permission to stay in Italy coming from Romania and Poland represent the 80% of the total. 65,941 Romanians and 30,278 Poles with permission to stay were registered in September 2000. Immigrants from Romania increased about 4 times from 1995 to 2000. During 2000 (until the end of September) about 4,729 Romanians legally entered in Italy. These are official figures. The "clandestinity propensity"³ is high in the case of Romanian immigration: "Romanians were nearly 4 times more illegal than in average"⁴.

¹ Industrial districts are Small and Medium sized Enterprise systems concentrated geographically and by economic sector.

² Caritas di Roma (2000), *Immigrazione – Dossier statistico 2000*, Anterem, Roma.

³ The "clandestinity propensity" is measured dividing the number of regularization demands by nationality (during the indemnity granted in 1998) with the legal permission to stay granted to the same nationality.

⁴ Balfour, R. and Pastore, F. (2001), *L'impatto dell'allargamento sui movimenti di popolazione*, in AA.VV (2001), *Allargamento a Est dell'Unione Europea: sfide e opportunità per l'Italia*, Confindustria, Roma.

Generally, immigration pattern in Italy is characterized by three attraction poles: the metropolitan poles of Rome and Milan, the strong labour demand in industrial districts in North Italy and the seasonal labour demand in agricultural zones. The presence of immigrants in metropolitan areas and in industrial districts adds up to about the 70% of the total.

The Veneto region represents the third destination region of migration flows in Italy. Inside the Veneto region, industrial districts and immigrants are concentrated in 3 provinces: Vicenza, Verona and Treviso. Permissions to stay for working reasons in Veneto are higher (62.3%) than on national average (59.7%). In the last years permission for family reunion are increasing, indicating a higher immigrant stability and social integration.

The economic sectors absorbing immigrants are metallurgy and mechanical ones, leather (in Vicenza especially), building, chemical and plastic products, furniture (in Treviso especially). The labour demand is in large proportion for dirty, difficult and demanding (DDD) jobs. However, a labour demand for skilled workers is augmenting more and more. Veneto industrial districts are committed in raising the added value and quality of the production for confronting the competition of emerging areas (Far East).

It is important to stress that the Veneto region is facing a demographic crisis that will increase in the near future. According to local estimates⁵, in 2021 children will represent 7.4% of total population in Veneto, young people (from 14 to 24 years old) 10% and people over 65 years old 25.5%. The development of industrial districts in Veneto will depend on the capacity to attract migrant labour forces and to integrate them in the local productive systems⁶. This fundamental trend along with the changing product specialization of the industrial districts will determine the evolution of the labour demand and the immigration pattern.

In this cadre, Romanian immigrants are concentrated in Rome and in the industrial districts of North Italy. A growing Romanian immigration towards Veneto region is observed in the last years: Romanians with permission to stay have increased about 60% (they were 6,595 in 1999) while the national average increase has been 40% in 1998-1999⁷. The main motivation of Romanian immigration is for labour reasons. In 2000 Romanians working in Veneto enterprises were 5,427 (1,355 female)⁸ and in 1999 they were 4,159 (1,300

⁵ Osservatorio regionale per l'immigrazione del Veneto (1998), *Primo rapporto sull'immigrazione in Veneto*, mimeo, Venezia.

⁶ Diamanti, I. and Marini, D (a cura di) (2000), *Nord Est 2000. Rapporto sulla società e l'economia*, Venezia, Fondazione Nord Est.

⁷ Caritas estimates.

⁸ Italian Interior Ministry data.

female)⁹. According to Veneto Employment Agency, local enterprises are asking more labour permission for Romanians than for other nationalities (23% of the total in 1998)¹⁰. In 2000, 8,866 labour permits have been granted in Veneto, 25% for Romanians (second are Polishes with 20% and third Slovaks with 7%). The Romanian labour permits are concentrated in industry (63% of the total) and in Treviso province (23%)¹¹. A relatively important flow of Romanian female migration working in personal services (housework) is also reported¹². In conclusion, Romanian migration in Veneto represents the more important flow, which is integrating in the labour market and particularly in local industrial districts.

2. Veneto internationalization in Romania

In general, Italian enterprises show a low capacity to invest abroad. This reflects the industrial structure of the country, which is made up by a high proportion of Small and Medium Enterprises (SMEs). They have structural difficulties in realizing Foreign Direct Investment (FDI) owing to several factors: low capitalization; problems of access to international finance; limited knowledge of internationalization operations and procedures; management linked to family evolution and so on. However 635 "small multinationals" have been registered in an Italian data bank in 1998, which represent the 79% of total Italian multinationals¹³.

During the '90s a growing number of SMEs have increased their internationalisation, especially as regards the simplest way to do business abroad, through export and subcontracting relations, but also via FDI. 97,000 SMEs are exporting manufactured products; 47,000 of them are usual exporters; 10,000 SMEs are involved in "soft" internationalisation (semi-equity operations, license, franchising, subcontracting, research and development agreement, etc.); 1,000 SMEs realize FDI¹⁴.

The majority of SMEs with FDI operations are specialized in "traditional" economic sectors with labour intensive production (textile and clothing, wood

⁹ Istat estimates.

¹⁰ Osservatorio regionale per l'immigrazione del Veneto (1998).

¹¹ Polish labour permits are concentrated in seasonal jobs (agriculture) and in Verona province. Italian Labour Ministry data.

¹² Anastasia, B., Gambizza, M., and Rasera, M. (2000), *Extracomunitari al lavoro in Veneto: lo status questionis*, in Tartufi, I. n.1, Veneto Lavoro, Venezia.

¹³ AA.VV (1999), *Italia Multinazionale 1998*, Documenti CNEL, Roma.

¹⁴ AA.VV (2001), *Risultati preliminari della ricerca Italia Multinazionale 2001*, CNEL, Roma.

and furniture; leather and footwear) and they have a high internationalisation propensity towards East and Central Europe. 33% of small multinationals has FDI in East and Central Europe, 32% in West Europe; 7% in North America and 7% in Latin America. They do labour and resource-seeking investments for exploiting the low labour and raw material costs in Eastern Europe, but they are also considering the potential local market development in the medium and long term.

Italian multinational headquarters are concentrated in 4 Italian regions: Lombardia, Piemonte, Veneto and Emilia Romagna. The number of small multinationals of the Veneto region has increased in the last 15 years and it represents the 12% of the national total. Some of them have grown and now are large enterprises: Benetton, Stefanel, Luxottica, Diadora, Geox, De Longhi, etc.

The external openness degree of Veneto is about 122.5 %¹⁵, which is the second much higher degree among the Italian regions. Veneto export flow towards Central and East Europe increased from 5% of total export in 1991 to 10.4% in 1999 (55% is directed to EU and 13% to North America), and it is concentrated in textile, leather and machinery and equipment products (53% of total export in 1999). In 1999 Veneto export to East and central Europe reached 6,300 billion liras, whom 1,226 with Romania. It is important to stress that Veneto export of 1,098 billion Italian liras has been carried out through outward-processing trade, which has generated a re-importation flow of 1,600 billion liras, whom 1,012 from Romania. Outward-processing trade is linked to soft internationalisation and delocalisation.

Export capacity is concentrated in three provinces with sector specializations: Vicenza (textile and clothing, leather, machinery and gold manufacturing), Treviso (textile and clothing, footwear, machinery, furniture) and Verona (food and wine; leather, marble manufacturing, machinery). 15% of Treviso exports and 12% of Verona exports flow to Central and East Europe, over the regional and national average.

Italy is the more important economic partner for Romania. Bilateral trade has increased 10 times from 1991 (747 billions liras of export+import) to 1999 (7,478 billions liras of export+import) with a balance in equilibrium. Italy exports leather and shoes, textile products, machinery, domestic appliances, cars, and imports footwear, clothing, iron and aluminium products. Romania ranks second in Italian import of clothing from all the world (first is China and third

¹⁵ It is the ratio between the regional openness degree and the national one. The openness degree is the ratio between export and total added value. It is a measure of the regional external orientation. Sistema Statistico Nazionale and Istituto per il Commercio Estero (2000), *L'Italia nell'economia internazionale – Rapporto ICE 1999-2000*, Roma.

is Tunisia) and first in Italian import of shoes. That confirms the importance of outward-processing trade in economic relation between Italy and Romania.

Italian FDI towards Romania has increased 6 times from 1995 (11,051 millions liras) to 1999 (59,371 millions liras), exceeding the FDI towards Poland, according the data of the Italian Balance of Payments. Another data bank on stakes abroad of large and medium Italian enterprises¹⁶, registered the presence of 54 Italian FDI in Romania (82 in Hungary, 65 in Poland and 39 in Russia) in 1998, with an employment of 17,336 units. During the period 1996-1998 Italian FDI in Romania increased of 35% while FDI in Hungary diminished of 1.2% and in Russia of 7.1%. Their sector specialization is on textile-garment products, leather and footwear, wood and furniture. FDI are labour seeking and resource seeking (wood for furniture). Another information originate by the Italian-Romania Bank, whose majority shareholder is Venetobanca from Treviso, it reports about 500 enterprises with Italian stocks.

These figures don't cover all the real Italian FDI, and particularly don't take into account those of small entrepreneurs and soft internationalisation. In fact, many Italian newspapers report an important delocalisation process of small entrepreneurs who move their industrial plant from Veneto in Romania, while others spread subcontracting relations and outward-processing trade. Some of them live in Romania for long periods.

Unindustria Treviso (association of industrial enterprises in Treviso province) gathered data on Italian enterprises registered in the Romanian Chambers of Commerce: there are about 9,500 Italian enterprises, 3,780 are in Bucharest area and the others are scattered in the country with a relative concentration of 1,000 enterprises in Arad-Timisoara area. Italian FDI generates directly about 150,000 employed and indirectly about 500,000 employed¹⁷. 80% of Italian enterprises in Romania come from the Italian North-East Regions and 1,800 from Treviso province.

But, these data comprise all kind of enterprises not only the productive ones. Furthermore Italian researchers hold these data overestimate Italian and Veneto FDI in Romania because they report investment operations¹⁸. However, even if the number is lower, the Italian presence of SMEs in Romania is substantial and it influences economic as well as social and cultural local development.

¹⁶ Banca dati Reprint, Cnel –R&P – Politecnico di Milano in AA.VV. (1999), *Italia Multinazionale 1998*, Documenti CNEL, Roma.

¹⁷ Deaglio, M. (2001), *La fine dell'euforia – VI Rapporto annuale sull'economia globale e l'Italia*, Guerini e Associati, Milano.

¹⁸ A single enterprise may realize several FDI during years.

3. Management of migration in sub regional economic integration

3.1 Complementarity and/or substitution?

Aggregate data show a clear complementarity among trade, FDI and migration flows between Italy and Romania, and particularly between Veneto and Timisoara-Arad area, during the '90s. However, the picture might be different if disaggregate data could be analysed, taking into account internal migration among Romanian districts and between different Romanian districts and Italy. Migration from the poorer Romanian districts might not have been complemented by trade and FDI as well as no substitution phenomenon would be evident. Furthermore a contra factual hypothesis of substitution effect may be put forward: Romanian emigration would have been higher without FDI.

But another hypothesis may be assumed: FDI may induce new migration flows. That may be the case of Veneto FDI, which have augmented the Romanian awareness on the important labour demand and well being existing in Veneto. In the same time Veneto enterprises are knowing better Romanian labour supply and are interested in the recruitment of skilled workers.

The vision of Unindustria Treviso support the thesis of complementarity between FDI and migration: "*Unindustria Treviso must activate an alliance network with local institutions and societies for reaching the following objectives: to create a greater availability of workers by supporting delocalisation, making a selective attraction of new human resources, coordinating programs for immigrant housing and education*"¹⁹

Enterprise organizations in Veneto are lobbying for a mixed policy of controlled opening to migration flows and of public support for improving a selective recruitment and training of migrants. In 2000 they obtained an extra quota of 3,000 labour permits that the Italian Government opened for Romania immigration. Some entrepreneurs ask for the elimination of visa for Romanian who should be trained in Veneto plants²⁰.

Unindustria Treviso organized its annual conference in Timisoara in February 2001 with Italian and Romanian government ministries asking public support for the improvement of infrastructure, setting up of technologic and industrial

¹⁹ <http://www.unindustria.treviso.it/unity/nuovo/unity/news1/impred/impred.htm>

²⁰ Interview to Polegato, M., owner of Geox, in Meoni, G. (2001), *Romania, ingresso senza visto*, in *Il Sole 24 Ore*, 25 January 2001.

parks, reduction of red tape on trade, diffusion of entrepreneurship. Unindustria Treviso sustains a long-term strategy of local development for the Romania access to EU.

This complementarity may be positive for Romania if it helps in building local development and economic integration with EU and it may conduct to substitute migration in the long run. However, this is not to take for granted. Romania is passing a migration hump, which may be exacerbated by economic adjustment and re-organization. Trade and FDI may substitute migration in the long run with a positive balance for sending and receiving countries, but there are also cases (for instance South Italy, *il Mezzogiorno*) where migration was not substituted and economic depression resulted in the sending areas.

An economic policy for local development and integration in international markets is essential. Italian delocalisation could favour local development: "*Delocalisation implies a skill delocalisation which may generate a dynamic factor in remote locations ... one of the criteria used by leader enterprises in identifying locations for subcontracting is the presence of craftwork traditions, which may assure production with more quality and may represent a skill basis for the development of complete manufacturing cycles*"²¹. Replication of the Italian industrial district model may represent an important factor for Romanian local development by means of cultural entrepreneurship diffusion, the spreading of enterprise network organization, technology transfers and improvement of human capital.

3.2 Will first wave enlargement of EU reduce Veneto FDI in Romania?

The first wave of EU enlargement doesn't probably comprise Romania and it may cause a diversion of trade and FDI towards Hungary or others Eastern European countries. Labour and resource seeking FDI will not divert if Romania will maintain cost differences per product unit (raising marginal productivity with a parallel less increase in salary) with a gradual harmonization to EU standards.

However, there is the danger that Romania could remain a simple export platform without increasing the integration of the local market in the EU. That is the case of Tunisia. This country is now committed in increasing the added value of local productions via technological and marketing modernization in order to improve the integration in the Euro-Mediterranean market.

Furthermore, it is difficult for Veneto small multinationals move swiftly their plants in other locations. They do FDI, not portfolio investments. Their low

²¹ Corò G. e R. Grandinetti (1999), "Strategie di delocalizzazione e processi evolutivi nei distretti industriali italiani", in *L'Industria*, n.4.

financial capacity doesn't allow fast capital mobilization. A certain number of small entrepreneurs live in Romania and are socially integrated. Even Veneto large enterprises like Zoppas and Geox are interested in increasing their investments provided that Romanian institutions improve an enabling environment²². "Time of spontaneous and adventure behaviour has finished, time for a coordinated and rational presence has started"²³. As sustained by Unindustria Treviso, Italian enterprises are interested not only to exploit low labour cost and low taxes but in the development of local and regional market. A recent survey reports the radication and adaptive strategy of Veneto SMEs in Romania²⁴.

From the other side, Veneto entrepreneurs specialized in subcontracting are more able to change location of their suppliers. That is true especially for the simpler and standard production of clothing, while it is not feasible for just in time and flexible productions. Geographic proximity represents an important element for the working of flexible production²⁵.

SMEs are investing in Romanian human capital. Veneto entrepreneurs train workers inside the plant and they trust in young workers who are more willing to learn and to take initiative²⁶. Romanian women are very valued as they are more reliable and flexible. Veneto entrepreneurs recruit workers of different ethnic group and favour the reduction of discrimination²⁷.

3.3 Migration Management Programs inside the replication of the Veneto Economic Development Model in Romania

The Veneto Region is implementing economic cooperation and aid. Romania is a "target" country. Veneto Region has stakes in *Finest S.p.A.*, a public company specialized in joint venture finance, and in *Centro di Documentazione Internazionale Informest*, a public agency which offers training, information and advisory services for trade and FDI in East European countries.

Veneto Region proposes the SMEs diffusion and growth as a reference model for Romania development. The Regional aid (about 1 million US\$ a year) is

²² La Tribuna di Treviso (2001), *Ma questa non è la terra dell'oro*, 27 February 2001.

²³ Interview to Polegato, M. in Pasqualetto, C. (2001), *Unindustria Treviso inaugura l'anno produttivo in Romania*, in *Il Sole 24 Ore*, 27 February 2001.

²⁴ Turato, F. (2001), *Il Nord Est nell'Europa dell'Est*, in *Quaderni FNE*, Collana Ricerche n.1, March 2001.

²⁵ Interview to Paolo Crestanello, professor of Industrial Economics in Modena University and expert in textile and garment productions.

²⁶ Turato, F. (2001).

²⁷ Turato, F. (2001).

concentrated in Romania and it supports the training of local small entrepreneurs and social programs (aid to hospitals and to orphans).

Entrepreneurs are critics on Veneto Regional policy²⁸. They claim that public institutions and aid don't interrelate with needs and interests of Veneto SMEs in Romania. Entrepreneurs are "making by themselves as usual", establishing new associations in Romania for representing their interest and mediate with local culture and institutions. Unindustria Treviso launched a new enterprise association in Timisoara. The *Circolo delle imprese italiane* is running in Arad as well as the *Centro Servizi Formativi* (training service center). These are forms of auto-regulation for managing local development.

Veneto entrepreneurs are aware of exporting the industrial district model in Romania. They are investing in Timis district, in the training of workers, in the creation of new infrastructures. "They have replicated the starting model, realizing a critical mass sufficient in augmenting contractual power in relation to local institutions"²⁹. According the vice president of Confindustria³⁰ and ex president of Unindustria Treviso, Mr. Nicola Tognana: "Italian internationalisation in Romania is a organized process of development"³¹. The Conference organized by Unindustria Treviso in Timisoara in February 2001 is the manifestation of Italian enterprise willingness to count in Romania politics.

The Padua University is launching with Arad University *Vasile Goldis* a research program "Enterprise Networks and Governance Networks". It studies how Veneto small entrepreneurs are stimulating local development, through the replication of auto-regulation relationships. The thesis to test is if Veneto cultural values and auto-organization capacities are spreading in the Arad-Timisoara area. If Veneto entrepreneurs and workers are hybridizing Romania social capital and local development. That moulds a special territorial partnership between Veneto and Arad-Timisoara area, composed by cultural, political, economical and social relations. In this sense, Treviso and Padua Provinces are launching institutional and twinning agreements with Arad and Timisoara districts in order to set up governance measures to improve economic and social relations. In this framework, migration management is an important pillar.

²⁸ Messina, P. (2000), *Domanda di regolazione e lavoro di rete: il caso delle piccole e medie imprese venete in Romania*, in *Foedus*, n.1 – Passaggio a Nordest.

²⁹ Rullani, E. (2001), *Delocalizzare serve ma non basta*, in *Il Sole 24 Ore*, 27 February 2001.

³⁰ Italian national association of enterprises in the industrial sector.

³¹ Il Gazzettino (2001), *Unindustria a Timisoara*, 28 February 2001.

In 2001 Veneto Region signed an Agreement Protocol³² with Enterprise Associations and Trade Unions in order to establish a coordination for programming actions to manage migration: housing, social services, training, lobby for quota planning, setting up office network for labour and social migrant integration. The Protocol contemplates agreements with countries of origin for recruitment and training of migrants. In fact, Enterprise Association and Trade Unions are interested in implementing project of Recruitment Agencies for managing labour immigration. Veneto enterprises complain difficulties in the recruitment of migrants and in training Romanian migrants in Veneto who should return for working in delocalised plants.

Veneto Employment Agency is monitoring a pilot project³³ designed to manage migration in a way that it might sustain the development of sending countries. The project foresees:

- selective recruitment, training and economic and social integration in destination areas
- support to circular migration, returns and internationalisation.

The project analyses labour and production market in countries of origin for identifying economic complementarities with destination regions and support a migrant training and mobility which might be useful for bilateral economic integration and local development.

The Italian Ethical Bank, whose headquarter is in Veneto, is planning new financial schemes to incentive formal and productive remittances, linking them to SME internationalisation. A project has been carried out by an agency of a Veneto Trade Union: Albanian migrants trained in Veneto SMEs returned in the origin country for implementing investments linked to Veneto SMEs.

These projects are only in a pilot phase and it is too early to view them as good practices. However, what is more interesting is to monitor the effects of Veneto SMEs internationalisation on Romanian local development and migration behaviour.

³² Giunta Regione del Veneto (2001), *Tavolo unico regionale di coordinamento sull'immigrazione. Protocollo d'Intesa*, allegato alla deliberazione n.246, 2 February 2001.

³³ This project is sustained by the Emilia Romagna Region and it deals with migrants from Morocco and Senegal.

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