

Effects of restructuring at regional level and approaches to dealing with the consequences

Prato textile district, Italy



Contents

Abstract.....	1
Regional and sector-specific context	3
The restructuring event	9
Effects of restructuring	13
Approaches to dealing with the regional consequences.....	19
Commentary and conclusions	27
Bibliography	28
Annex 1: Interviewees	30
Annex 2: Number of companies in Prato textile district.....	31

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Abstract

This case study describes and analyses the process and regional impact of crisis-ridden restructuring and job losses in the textile industry in Tuscany, which is concentrated in the industrial district of the Prato province. After 2001, and even before the 2008 global financial and economic crisis had further worsened the market conditions, the textile industry in Prato contracted significantly. The result was that around half of the total number of firms in textile production closed down, and several thousand jobs were lost. This restructuring triggered an application in 2008 for support from the European Globalisation Adjustment Fund for around 1,600 workers affected by redundancies.

The textile and clothing sector in Prato is characterised by certain peculiarities. Firstly, it comprises thousands of micro and small companies, many of them traditional artisan firms. Consequently, rather than large-scale dismissals in a single firm, a smaller number of redundancies occurred in numerous small companies, resulting in a considerable number of job losses in the region. Secondly, the crisis in the traditional Italian textile-producing cluster was paralleled by a remarkable expansion and growth of economic activities and employment in the clothing industry in the province since the mid-1990s, a sector that is owned and run by immigrants from China.

Against this background, this report describes the restructuring process in terms of longer-term underlying factors, the effects on the regional economic structure and social conditions as well as with regard to measures taken by local and regional actors in order to cushion the social effects and stabilise the textile sector.

Regional and sector-specific context

Main characteristics of the region

The Tuscany region in central northern Italy, with about 3.7 million inhabitants (2013), ranks in the middle of the 20 Italian regions in terms of population. However, with 10 provinces/districts, the region has a more decentralised territorial structure. The capital is Florence.

With a GDP per capita of around €28,500 in 2008, Tuscany is also in the mid-range of Italian regions in terms of wealth. The region is below the affluent regions in the north (with an average of more than €31,000) but above the structurally weak regions in the south, which only have an average GDP per capita of around €18,000 (all data according to ISTAT).

Table 1 presents some key economic indicators that show that Tuscany is diverging from the national average, both positively (employment change and unemployment rate, GVA growth) as well as negatively. In particular, the decline in industry employment was significantly above the national average but the population growth was less dynamic than in Italy as a whole.

Regarding population, Tuscany is affected more than the country as a whole by general trends of the ageing of the population, a decreasing share of people in working age/dependency ratio and other aspects. Apart from Liguria, Tuscany is also the region where inhabitants are on average one year older than in Italy as a whole (45 compared to 44 years).

Table 1: Key economic indicators

	Population 2013	Population growth 2000–2012	GVA growth rate 2001–2009	Unemployment rate 2013	Employment change 2008–2013	Industry employment change 2008–2013
Tuscany	3,692,828	4.85%	0.31%	8.7%	–1.4%	–9.2%
Italy	59,585,227	5.76%	0.25%	12.2%	–4.2%	–16.1%

Note: GVA growth rate is the average annual real growth rate of regional gross value added at basic prices, 2001–2009
Source: Eurostat

It is also important to note that the positive population trend throughout the last decade resulted entirely from immigration. Between 1991 and 2001 immigration was not sufficient to compensate for the decline in the natural rate of growth of the Tuscan population and thus the region experienced a population decline, but the situation changed around the year 2000. Today, the region has one of the highest rates of immigration and migrants in Italy. Like many other regions, Tuscany experienced immigration from Albania and Romania in particular. Together, the two national groups make up 44% of the immigrants living in the region.

However, Tuscany is unique in its strong immigration of Chinese citizens, who make up 11% of all Tuscan immigrants. Chinese immigrants are strongly concentrated in the municipality of Prato. In 2005, there were 8,636 Chinese residents in Prato, accounting for 43.6% of all the immigrants resident in the municipality and 4.7% of the total population. According to the Commune di Prato, in the fourth quarter of 2006, there were over 10,000 Chinese residents in Prato (more than in Florence or the large metropolises like Rome and Milan), making up 5% of the population. According to the Italian National Statistical Institute, ISTAT, around 9.5% of the region's population were immigrants, and Prato is the district with the highest share (14.7%).

A key feature of the economic make-up of the Tuscany region is the high reliance on traditional production in some 40,000 small (including micro) and medium-sized enterprises that are export orientated and often based on low-skilled, individually intensive production methods and processes (OECD, 2009).

However, unlike in the already industrialised regions of the north-west (in particular, Piedmont and Lombardy), industrial development in Tuscany was mainly driven by the so-called light industries of textiles, clothing, leather, footwear, wood and furniture (Becattini, 1978). Apart from positive external factors, the expansion of the light industries from the 1950s in Tuscany and in other regions of the

north-east and central Italy resulted from a series of internal factors, such as the presence of a regional craft tradition that dates back to the Middle Ages and a high density of skilled artisans, combined with a noticeable inclination towards entrepreneurship on the part of the population. These characteristics facilitated the rapid formation of small businesses in the various light manufacturing segments as soon as domestic and international demand began to flourish.

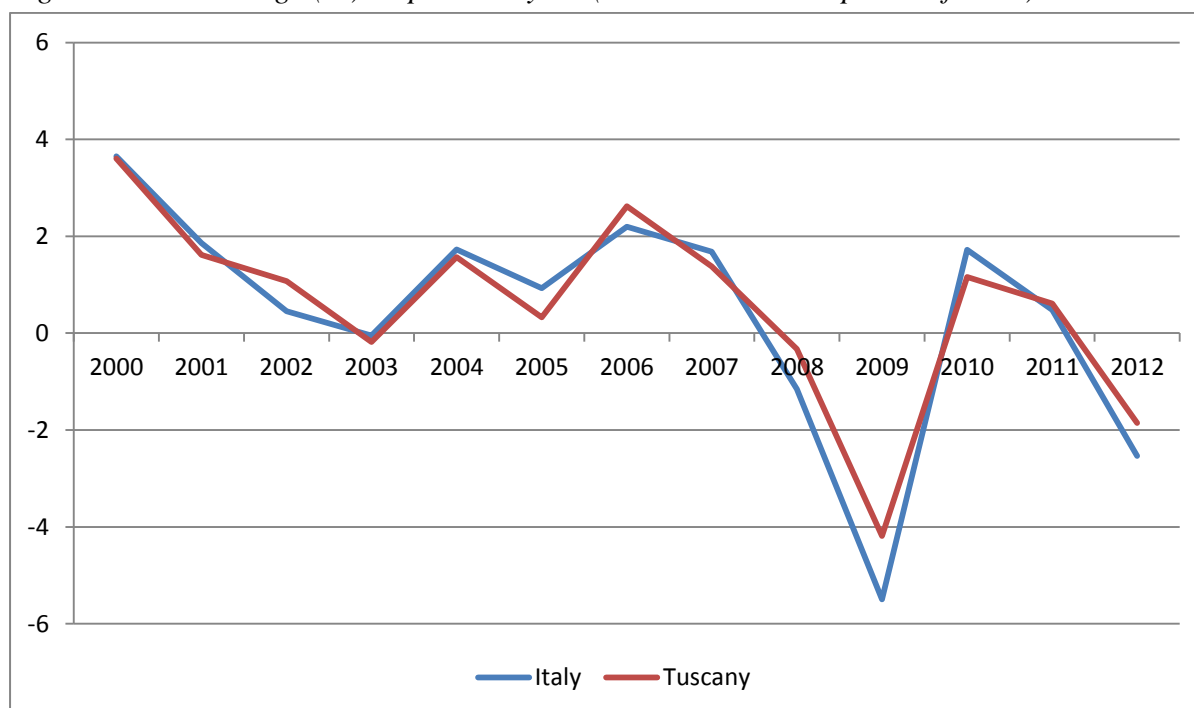
The small firms belonging to the same segment tended to locate themselves in neighbouring geographical areas, thus creating the famous phenomenon of industrial districts. These can be defined as spatial agglomerations of small firms that, over the course of time, tend to specialise in specific phases of the production of different goods and are linked by long-term productive relations based on personal relationships and trust. This division of labour among small productive units linked by a network of stable working relationships meant that the industrial districts were as efficient as the large vertically integrated firms elsewhere. At the same time, the district offered the flexibility required by the variability of demand.

Historically, the main industrial districts of Tuscany have been located close to the city of Florence. In the panorama of Italian districts, the textile and clothing district of Prato is one of the most emblematic cases (Becattini, 2000).

The emphasis on small firms in no way implies that large and medium-sized companies do not exist in Tuscany. The shipbuilding industry in Livorno, the iron and steelworks in Piombino and the chemical industry in Rosignano (with Solvay) are proof of this. However, the economic impact of these isolated experiences was confined to a limited area of the coast, and as a stimulus for setting up new companies, it was not particularly relevant. As a result, the 'golden age' of economic development in Tuscany – which roughly went from the 1950s to the end of the 1970s – mainly depended on the expansion of light industries based on the small business pattern. The most dynamic of these were textiles and clothing and leather and footwear. In the 1970s, about two-thirds of all Tuscan exports were from these industries (Cavalieri, 1999).

Although there were already signs of a less dynamic economic development and structural regional weaknesses during the 1980s and 1990s, over the period 2000 to 2006, Tuscany experienced an extremely favourable employment trend. Employment in the region rose by 8.5% – more than double the increase in the population. At the same time, regional GDP in real terms increased at a much slower pace. This translated into a fall in labour productivity, which in turn indicates that the competitiveness of the region was significantly reduced (Crescini and Pela, 2009).

Between 2000 and 2007, GDP growth on average was 1.2%, which was in line with the rest of the country, at 1.3%. Tuscany suffered greatly from the crisis of 2008 to 2009, with an average growth of –1.5%. After a slight recovery in 2010 and 2011, the region has entered a new phase of economic contraction. In particular, in 2009 the decline of GDP was around 4% in Tuscany and more than 5% in Italy.

Figure 1: GDP change (%) on previous year (values at constant prices of 2005)

Source: Authors' elaboration of ISTAT data

The Prato textile sector

The Prato cluster encompasses the province of Prato (which became autonomous from the Florence province only in 1992), including the city of Prato, with around 180,000 inhabitants, and seven surrounding municipalities in the Florence and Pistoia provinces. It is one of the largest and oldest textile clusters in Europe, going back to the 13th century. Traditionally, Prato was known as the carded wool district, with a clear specialisation in the upstream segments of the textile value chain: fibre preparation, yarn and fabric production. Prato was also known for its unique ability to regenerate used (second-hand) woollen rags as raw materials.

For a very long time, this area has been functioning as a cluster of SMEs (micro and small) that cooperate along the chain in an articulated system of specialised subcontractors. The system is efficient (low costs) because of competition among subcontracting firms with the same specialisation; high effectiveness (outputs) is ensured by the cooperation along the textile chain between contractors and subcontractors.

Until the mid-1970s, this business model positioned Prato as the cheap, low-end wool cluster in Italy. Large companies have been – and still are – absent in Prato. By the end of the 1970s, Italy had become a major global player in fashion and many Italian brands positioned themselves at the top end of the markets. Prato, with its ‘poor and heavy’ carded products, had to reinvent itself if it wanted to share in the international success of Italian fashion.

Taking advantage of the high flexibility of its carded technology combined with widespread technical know-how in the cluster and the natural cultural attitude in the surrounding area towards creativity, Prato quickly changed its output and became an innovative supplier of yarns and fabrics for the fashion industry worldwide. The use of regenerated yarns was almost totally abandoned and wool was partially substituted by, or combined with, other kinds of materials (natural, artificial, synthetic fibres). Sophisticated techniques for dyeing and finishing became a specific feature of the cluster. Prato's market repositioning was facilitated by the nearby presence of Florence as a strong textile/clothing international marketplace, with the Pitti Exhibitions attracting buyers from around the world. This vicinity facilitated a growing presence of the fashion/apparel segment, which, by tradition, was absent or negligible.

Though the main products and the market positioning changed significantly, the cluster maintained its structure of a system composed of a very large number of micro and small firms and maintained its vitality until the year 2000, when there were 10,000 firms in an area of 360km², and a total population in the province of about 250,000 people in 2012. Total employment was about 48,500, which was only a small reduction compared to 50,333 in 1991. This indicated a strikingly different development pattern compared to that of many other European textile/clothing regions, which were already facing a protracted decline (Pellizari et al, 2011).

According to the employer organisation of the district (Unione Industriale Pratese), in 2013 there were approximately 7,250 registered textile and clothing companies in the Prato district, of which 60% make garments. Taking into account the additional number of more than 4,500 craft companies (up to a maximum of 38 employees), it is estimated that around 34,500 people are employed in the sector. Thus, textile and clothing is still the backbone of the Prato district's economy, contributing to nearly 75% of the industrial labour force and more than 50% of total export turnover.

Table 2: Companies active in the textile and clothing sector in the Prato textile district

Activity	Sole ownership	Partnerships, joint stock companies and others	Total companies	Employment (2010)	Craft companies
Textile total	1,221	811	4,905	18,700	1,801
Yarn	239	262	1,193		416
Fabrics	442	318	1,872		692
Finishing	296	97	909		355
Other textiles	244	134	917		338
Clothing total	3,740	308	7,349	11,000	2,806
Garment items	3,482	171	6,483		2,488
Fur apparel	11	7	41		16
Knitting products	247	130	821		302

Source: Pellizari et al (2011), based on figures from the Prato chamber of commerce

The significant immigration of Chinese textile businessmen and workers since the second half of the 1990s is a migration and business phenomenon that is unique in Europe. Whereas in 1990 there were only 170 Chinese residents in the Prato district/province (Unione Industriale Pratese, 2013), around 10 years later, Prato, and in particular the city of Prato, hosted the largest Chinese community in Europe, only exceeded by Paris in quantitative terms. According to an analysis commissioned by the Prato provincial government (IRPET, 2013c) in 2012, around 17,000 Chinese citizens were registered in the province of Prato (of which 15,000 were in the city of Prato). In addition, it is estimated that an additional 17,000 Chinese are living in the province on the basis of visitors' or other temporary permits – that is, a total number of around 32,000. Thus, around 13% of the province's total population in 2012 was Chinese. In the municipality of Prato, the share is even higher. According to an interview with the mayor of Prato, around one-quarter of the city's population is of Chinese origin (Tagesspiegel, 2010).

The Chinese immigration to Prato is not only deeply linked to the textile and clothing sector, but it also took place at a time when this sector went through a deep crisis at the end of the 1990s and afterwards. The Chinese business expansion in Prato thus contributed in an outstanding way to the stabilisation of the economic and fiscal situation of the province in times of accelerated restructuring and the decline of the traditional textile cluster (as described in more detail in the next chapter). According to the chamber of commerce, in June 2012, one-sixth (4,830) of all registered enterprises in the province had a Chinese owner. According to IRPET (2013c), the Chinese enterprises

contributed between 11% and 13% of the total added value of the Prato province in 2010, thereby filling the gap that was due to the crisis and decline of the traditional textile cluster.

The first influx of the Chinese presence in Prato is characterised by their presence in the district as subcontractors and then their transformation into final producers of *pronto moda* (fast fashion). Towards the middle of the 1980s, following over 30 years of industrial development based on the production of carded wool textiles, the demand for these products dropped. The industrial district of Prato experienced a period of crisis from which it emerged, at the start of the 1990s, by operating a scaled-down production system of fewer textile firms (especially subcontractors) and fewer workers and transforming its products from textiles of regenerated wool of a low/medium quality to textiles in wool and other fibres of a medium/high quality. Furthermore, its organisation also partly changed through the use of components made outside the district and, not infrequently, abroad (Dei Ottati, 1996). When the local industry recovered during the early 1990s, these firms encountered more and more difficulties in finding local homeworkers and subcontractors to sew knitwear items (Dei Ottati, 2009).

It was at this point that the first Chinese arrived in Prato. They had already been present in Tuscany since the early 1980s. Prato provided a favourable context for the Chinese immigration, as those who had basic homeworking skills (such as how to use a sewing machine), a modest amount of money (to purchase a few second-hand sewing machines) and labour from family members or friends could immediately fulfil the aspiration of setting up their own business. Thus, in a decade the number of Chinese in Prato grew considerably, as witnessed by the municipality of Prato resident register, which showed 169 Chinese residents in 1990, climbing to 4,806 in 2001. During the same period, the Chinese firms registered in the province of Prato increased to 1,499 (Colombi, 2002). Initially, there were no obstacles to Chinese immigration into Prato. First, it filled a gap in the supply of subcontracting work required by local knitwear firms and in the few clothing firms present in Prato. Second, Chinese immigrants starting up a workshop could rent or buy premises from local ex-artisans who had closed down during the previous textile industry crisis or were closing their business due to a lack of younger generation entries, and who took the opportunity to supplement their income substantially. This situation, together with the positive experience of immigration into Prato from the centre and south of Italy during the years of major development (Giovani et al, 1996) and a receptive policy adopted by local authorities, resulted in an initial perception of the Chinese immigrants (in Prato) as a resource. Thus, throughout the 1990s, the incorporation of Chinese immigrants into the district of Prato proceeded smoothly and was largely similar to the course of events in other Italian industrial districts. The socio-cultural features specific to this group of migrants (aspiration of self-employment, importance of family ties and solidarity between fellow countrymen) were matched by opportunities that arose in the host economy. This encouraged the process of business formation and the related migration chains (Waldinger et al, 1990).

Nonetheless, there were some differences compared with the situation in other Italian industrial districts, foreshadowing later developments. A first difference involves the time and the size of the migratory phenomenon: Chinese immigration into Prato began at the end of the 1980s, a decade earlier than in other Italian districts, and grew during the industrial recovery of the 1990s. Hence, the agglomeration of Chinese firms that formed in the Prato area was notably larger than that formed in other districts (Intesa Sanpaolo, 2010). Another difference is the fact that in Prato, the Chinese did not enter into the main local industry (textiles), but into a secondary sector (knitwear), which at that time was experiencing a shortage of homeworkers. In addition, the Chinese favoured the introduction of a new way of organising production, called *pronto moda*, or fast fashion, which did not exist in Prato before they arrived; this novelty fostered the growth of clothing, a sector that had been relatively overlooked by local entrepreneurs (Dei Ottati, 2014).

Inquiries of the Italian fiscal police demonstrate that the Chinese firms operate in a sort of self-contained industrial enclave, with most engaged, either totally or partially, in illegal practices such as unregistered workers and tax evasion. The number of unregistered Chinese-owned companies is estimated to be high, indirectly witnessed by a yearly replacement rate of over 60% that makes it possible for companies to avoid compliance with Italian and European laws (Pieraccini, 2008).

Chinese business is based on low labour costs, which depends on using Chinese workers with tourist visas and poor working conditions and security. Earnings and profits were repatriated to China – the

Italian fiscal police estimate that €4.5 billion was remitted to China during the years 2006 to 2010 from the Prato area through money transfer bureaus. Out of the annual estimated turnover of the Chinese cluster in Prato of about €2 billion per year, the fiscal police estimate that more than half was from unregistered companies (Pieraccini, 2008).

Thus, due to the crisis of the traditional textile industry in Prato, which is based on the chain of spinning, weaving, finishing and top-end clothing, a parallel Chinese cluster has emerged during the last two decades that is mainly operating in the low-end clothing segment.

As stressed by various interview partners in the context of this study, against these differences but also due to cultural barriers, the two Prato clusters have led separate lives, with very few contacts between companies as well as with professional institutions and other actors within the sector.

The restructuring event

The focus of this case study is the restructuring within the textile sector of the Prato province that took place throughout the last decade and took the form of business closures and massive job losses. In 2008, the Italian authorities decided to seek support from the European Globalisation Adjustment Fund (EGF) in 2008 in order to assist the labour market reintegration of around 1,300 workers who were made redundant in hundreds of small companies within the textile sector in the province of Prato.

However, as already indicated above, restructuring in the textile industry in the Prato district is not characterised by a definitive 'starting' or 'ending' point, but should be regarded as a permanent feature of change and adjustment of business and labour due to internal as well as external factors. In this context, various forms of restructuring, such as internal reorganisation, outsourcing and changes in the value chain, are taking place continuously.

Between the post-war period and the early 1950s, for example, the links of many Italian textile companies to low-level standard production markets (India, Africa) disappeared, and as a result the large vertically organised companies quickly dissolved. The production system underwent a rapid evolution, and the result was a reorganisation of the sector that was largely based on the widespread distribution of work within the textile and clothing value chain among small-scale enterprises (the so-called industrial district).

During the 1970s, the emergence of fashion as a mass phenomenon, together with higher salaries and changing fashion trends, resulted in an increased diversification and fragmentation of demand, which also became more differentiated, unsteady and seasonal. These variables disrupted the production and distribution chain, forcing the structures to become more flexible, responsive and agile. During that period, the Prato district underwent a fundamental transformation from a product-oriented, wool-processing district to a market-oriented, fashion/textile district. The second half of the 1980s was a difficult time. The district was forced to dispose of the excess investments in carded wool made during the previous decades, since the market for those products was rapidly dwindling.

During that period, around 28% of the workers lost their jobs and 37% of the firms went out of business (Unione Industriale Pratese, 2013). However, the crisis was cushioned by changes in the regional economy in the 1990s, in particular a strong tertiary sector (with the fast growth of business services), a shift towards the production of greater added value and to differentiation of supply (for example, fleece and chenille).

The devaluation of the lira and the favourable international outlook (especially from 1993 onwards) prompted the district to invest heavily in production facilities, particularly in the finishing process, which became one of the most important sectors of the local production chain.

Textiles remained the driving force of the Prato area all through the 1990s. A comparison between 1991 and 2001 census data shows how important the textile industry continued to be in Prato's economy: the number of workers in the textile and clothing sector was 50,333 in 1991 and 48,098 in 2001. Thus, at the end of the 1990s, the Prato textile district appeared vital, competitive and in good working order, with a strong tertiary sector and considerable experience in product diversification, even in related sectors such as textile machinery.

This has changed dramatically since then. Between 2001 and 2009, the turnover of the textile and clothing industry in the Prato district contracted by more than one-third and export turnover contracted by more than 40% (see the table in the annex). Between 2001 (48,100) and 2012 (34,500), employment in the textile and clothing sector in the Prato district decreased by around 15,000, or 28%.

As a result of this crisis, the fashion industry that is concentrated in the Prato district is no longer the leading industrial segment of the Tuscany region; it has been replaced by the mechanical engineering industry (including metal products, electrical, electronic and mechanical machinery and means of transport), which since 2005 has accounted for around one-third of the regional manufacturing added value, while the textile and clothing industry ranked second, with around 27% of the added value of manufacturing (Crescini and Pela, 2009).

Background and drivers

During the 1970s, the small Tuscan firms seemed better equipped than the large ones to tackle the effects of the international crisis thanks to their flexibility, but from the early 1980s the traditional advantages of the small firm began to disappear.

Economic growth in Tuscany slowed down from the second half of the 1980s, mainly due to a loss of exchange rate advantages when Italy joined the European Monetary System in 1979. As a result, although it had not yet reached the same level of per capita GDP as the more developed Italian regions, in 1985 Tuscany interrupted its process of catching up (Varaldo et al, 1997).

The light manufacturing sector in Tuscany tends towards the high-quality/high-price businesses. However, as in many parts of western Europe and North America, this tends to be a low-innovation sector, which has made it vulnerable to globalisation in general and to the more recent economic crisis in particular. Thus, the crisis in the Tuscan fashion industry is much older than the current economic downturn, but is exacerbated by both this and other more 'homemade' disadvantages.

These structural problems contributed to a continuous decline in manufacturing employment that was mainly based on the small firms' networks. Over the course of the 1990s, most of the small firms and the manufacturing sector as a whole did not adopt any important changes of strategy compared to previous decades. This meant they were not prepared to face the difficulties arising from the globalisation of the markets and thus to the international competition that increased rapidly at the beginning of the new century.

By then, however, the situation became worse due to a combination of effects that accelerated structural changes in the textile/clothing sector worldwide. There have been both broad general economic and structural factors that fostered restructuring of the textile sector on a global scale, and hence also affecting Prato's businesses. In particular:

- the fall in demand caused by one of the longest post-war periods of stagnation/recession, which particularly hit major markets in Europe (first of all Germany) and the demand for medium-to-high price clothing and textiles;
- the abrupt fall of the US dollar against the euro (and connected currencies, especially the Chinese), which gave non-European competitors a competitive advantage compared to Italian manufacturers;
- the global economy at the start of the century experienced a new round of internationalisation, with an increasing international integration of emerging economies with strong manufacturing capacities (not only in textiles) and lower costs;
- after 2001, distribution networks and brand names played a stronger role in the textile sector, which favoured the concentration of operators, the international expansion of their range of action and the downstream shift of the processes that produced value and thus gained economic power in the supply chains;
- as a result of both globalisation and reorganisation of value chains, large retailers and garment makers started to implement global-scale delocalisation and looked for supply strategies that would offer any opportunity to cut costs;
- at the same time, the delocalisation strategies applied by textile operators were also oriented towards seeking lower cost factors and logistic proximity to the garment-making establishments.

For the Prato textile industry, these broader trends triggered a massive downsizing, with bankruptcies, liquidations and closures that mainly resulted from three sets of causes:

- Lower margins and consequent financial problems due to vertical competitive pressure from large buyers (strong vertical competition) combined with a loss of competition due to extra-EU imports (horizontal competition) emphasised (according to widespread opinion) by various unfair practices and no reciprocity in international trade rules.
- Low or stagnant final demand in traditional markets, particularly in Europe, hit two segments where Prato holds a leading position: fashion (lower social value of fashion since the mid-1990s) and woollen products.

- Local issues such as the presence of a large Chinese *pronto moda* cluster, which is perceived as damaging the image of the cluster and of the ‘Made in Italy’ label, and the cultural lock-in that hinders the appreciation of non-fashion opportunities, such as technical textiles, that could take advantage of the extreme flexibility of carded technology.

A recent analysis of the Prato textile cluster on both its strengths and difficulties of managing restructuring (Pellizari et al, 2011) has underlined the ‘polymorphic characteristics’ of the restructuring and crisis of the Prato textile sector as well as the overlapping of newer and long-standing causes and structural weaknesses.

The restructuring process

The diversity of the textile sector in the Prato district has resulted in quite a broad variety of corporate responses to the factors described above. Apart from the firms that decided – or were forced – to close their business, enterprises have adopted a number of strategies to restructure in order to stay in the market.

Closures and bankruptcies

Since 2001, and in parallel to the expansion of the Chinese *pronto moda* clothing industry in the province, thousands of traditional Prato companies went bankrupt or closed down (see the table in the annex). Whereas in 2001 the provincial chamber of commerce had nearly 6,400 member companies in the textile manufacturing sector, the number decreased by more than 3,000 by 2010, and in 2012 was less than 3,000.

However, roughly half of the textile manufacturers in Prato survived the last decade and it is interesting to describe how these firms responded to the challenges and causes of crisis.

Passive strategies and struggling for survival

According to interviews carried out in this case study with employers’ representatives, it seems that the overwhelming majority of the smaller companies of the sector have carried out a passive and responsive approach to restructuring, whereby the objective has been mere survival. Unable to design a response, either because of a lack of resources or due to a psychological attitude, these entrepreneurs have decided simply to resist until new opportunities appear or a new scenario arises. This strategy is based on simple factors: cost cutting and, sometimes, a markedly reduced personal income of the entrepreneurs. Passion for their work, attachment to the company and a sense of responsibility for the workforce and the local community are important aspects of this strategy.

Nevertheless, the strategy to just ‘sit the crisis out’ may have a positive outcome, as market developments in recent years indicate that the strong low-cost competition from Chinese-made products is decreasing. In addition, other high-competition areas are currently experiencing difficulties and losing attractiveness, in particular the south Mediterranean countries, due to political and social unrest.

Thus, the Prato enterprises that managed to resist and survive may now be ready to take advantage of the new opportunities.

Offshoring and relocation strategies

Some companies, especially medium-sized enterprises, tried to reduce costs by offshoring parts of their production to China or low-cost countries in Europe, in particular Romania. This resulted in redundancies and dismissals of workers in the Prato district.

An alternative approach to maintain cost/price competitiveness was to reduce production phases by limiting them to the finishing phase both for yarns and fabrics, which were mostly bought in China in their raw, untreated form. However, this strategy is significantly impoverishing the business model, as it is based on radical downsizing and dismissals and disrupts the traditional value chain linkages. In its extreme form, this strategy will end up reducing a company’s activities to outsourcing and trade.

Long-term strategic change

Proactive strategies that try to implement strategic changes are those which react to crisis situations by trying to take advantage of new opportunities. Once again, successes and failures can be found, and according to the opinion of local experts, failures are mainly due to size but also management capacities.

According to representatives of the employer organisation of Prato (Unione Industriali di Prato), most successful companies are those that have adopted strategies that build on core competencies, that is, concentrating resources and strengthening fields and tasks where the firm has distinctive competencies. Focusing on core competencies can take different forms. It could mean concentrating on fewer well-known markets and customers as well as narrowing the production scope and focusing on the products where one's own technical know-how is outstanding. Long-term strategic change could also result in reducing the size of the collection in order to better match customers' choices and reducing supply redundancy as well as costs. Finally, a key aspect of all these strategies has been the effort to increase the quality of the products and solve quality problems.

An interesting aspect that is linked to more radical change strategies has been highlighted by representatives of the Prato chamber of commerce: the presence of younger-generation members of the owner family in the management of a company tends to be a common feature of successful companies.

Examples of success and failure of change strategies

About 10 years ago, Lenzi Egisto Spa, a typical Prato company in its fifth generation of entrepreneurs, shifted its production to technical textiles. In a few years the company was able to patent several products and processes. Today they have a strong market position in protective apparels and medical fabrics, in particular fabrics for hospitalisation and for skin disease (psoriasis). The company did very well even in the years of the global financial and economic crisis. In 2010, Lenzi Egisto Spa's turnover was €27 million, nearly a quarter higher than a year before.

There are also successful examples of Prato textile companies that have reacted to global market changes by diversification and entering into new markets, but these strategies often fail due to external factors as well as internal 'overstretching'. An example is the company Sasch, which went bankrupt at the end of 2010. The owner of Sasch, who is also a well-known politician and business representative in Prato, applied a diversification strategy in order to respond to the challenges of globalisation and the liberalisation of the textile and clothing market in Europe. He diversified his business downstream by creating an own fashion brand (Sasch), including an own brand retail chain. Furthermore, he partially moved production to China in order to save costs. However, the Sasch strategy failed. Overextending the business – geographically as well as in terms of product diversification and marketing activities – was not sustainable for a company of this size (in 2008, it had turnover of €120 million and fewer than 200 direct employees in Prato). Finally, the fall in demand, in particular in western Europe, in the context of the 2008 crisis contributed to the bankruptcy.

Source: Pellizari et al (2011)

Effects of restructuring

From a quantitative point of view, the crisis in the textile district of Prato began well before the financial crisis of 2008. In the period 2001 to 2008, the number of enterprises decreased by 12%, with a loss in absolute terms of over 1,000 companies and 26% of turnover according to data from the Italian statistical institute, ISTAT. Exports from the district also decreased by about one-third during 2001 to 2008. The year 2009 is called '*horribilis*' ('the horrible'). The entire Tuscan economy has been affected by a heavy reduction across almost all sectors, but particularly in the manufacturing sector. Obviously, this process has also affected the textile district of Prato. From 2009 to 2013, the active enterprises decreased by an additional 24%. After a brief recovery in 2011, turnover decreased again, following the same trend as exports. During the same period, however, the textile machinery industry increased its turnover.

Effects for the sector and its workforce

According to a study on restructuring in the textile manufacturing sector in the province of Prato between 2001 and 2007 commissioned by the Prato chamber of commerce, a total of around 8,700 jobs were lost due to bankruptcies, closures of firms or other forms of restructuring that included dismissals (Camera di Commercio Prato, 2010). In the same period, the enterprise population contracted from nearly 6,400 to 4,290 according to figures from the chamber (see the table in the annex).

While thousands of companies left the market during this period, there was a shift of activities as well as employment from the textile manufacturing sector into other sectors, namely the service sector. Former textile workers were also absorbed by other manufacturing sectors, such as machinery production, and some may even have moved to the production of clothing. In fact, the manufacturing of clothing – based on the expansion of Chinese businesses in the province – experienced quite a strong positive development. During the same period, the number of companies in the clothing sector increased by more than 1,000, from around 2,100 to 3,100, and employment increased by 2,800 (Camera di Commercio Prato, 2010).

Thus, a drastic shift took place within the textile and clothing sector: while the traditional Italian textile cluster in the Prato province went into a deep crisis, the new Chinese cluster in the clothing industry expanded. Neither trend changed significantly due to the 2008 global crisis, but continued, including the growth of the Chinese *pronto moda* sector (see the enterprise figures in the annex table).

However, from the perspective of workers who lost their job in the textile manufacturing sector, transition into the clothing sector has not been a real option, as the workforce within clothing is mainly either Chinese or of other origin, and working as well as pay conditions are clearly below the standards of textile and other manufacturing sectors.

However, at least until the outbreak of the 2008 crisis, textile workers who lost their job seemed to move to other employment rather than becoming unemployed. Though quantifiable transition figures are missing, this conclusion can be drawn from the development of the unemployment rate as well as from results of the mid-term evaluation of the European Globalisation Adjustment Fund, which found a comparatively high labour market reintegration rate of around 65% (Pavlovaite et al, 2011).

It also seems that the recent global financial crisis did not substantially weaken the textile and clothing sector as a whole. Aggregate data show that the recovery from pre-crisis results is almost complete and the whole of Prato is still capable of generating a yearly turnover of €4.5 billion and exporting more than half of it; this means that except for the closures and liquidations, a significant number of firms have been able to react to structural as well as contingent challenges (Pellizari et al, 2011).

Effects on the region

Economic effects

In 2000 the share of industry employment in Tuscany was higher than for Italy as a whole, but by 2006 the situation was reversed due to the decline of the manufacturing sector. In terms of added

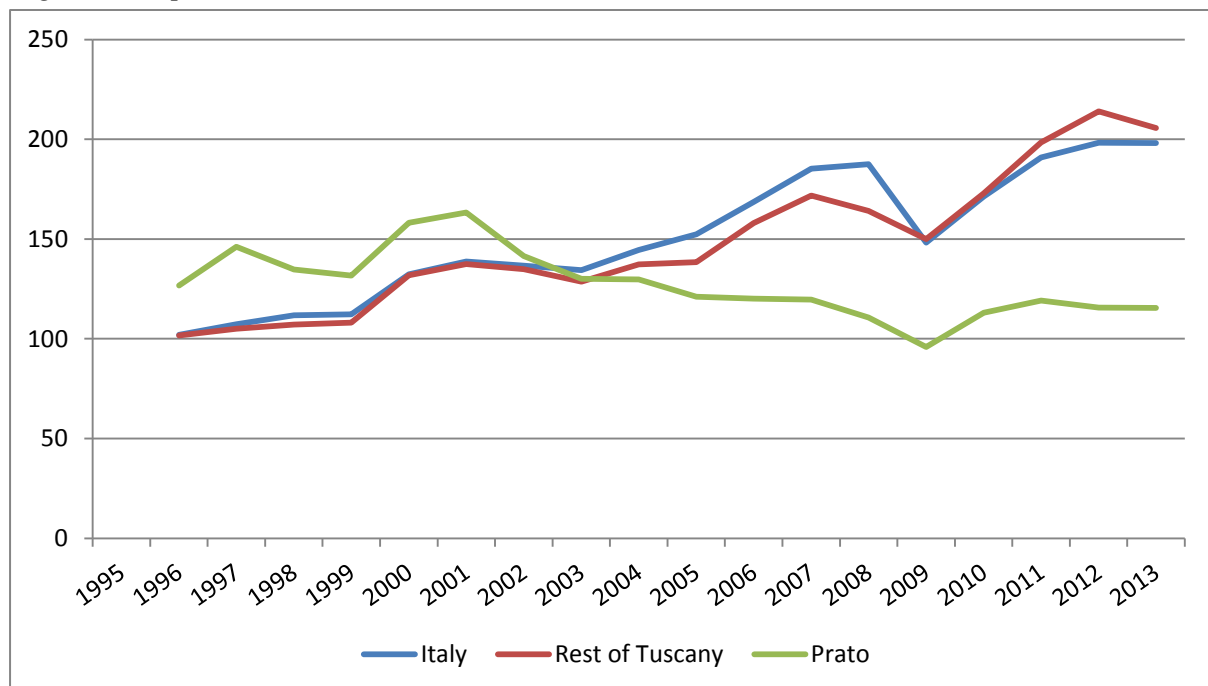
value, the percentage weight of manufacturing fell by two points between 2000 and 2004, while in Italy the drop was just 0.4% (Crescini and Pela, 2009).

The decline in the manufacturing sector can mainly be attributed to the downsizing of the fashion industry. According to the Bank of Italy, between 2001 and 2006 the number of industrial firms in Tuscany fell by 3,315 (a drop of 5.6% compared to the number of firms at the beginning of the period) and this reduction can be largely attributed to a high rate of closures in the textile sector.

As highlighted in a study on structural change in the regional economy of Tuscany (Crescini and Pela, 2009), this process of firms leaving the market has brought considerable change to the manufacturing specialisation. Based on its contribution to the regional total added value of manufacturing, the fashion industry is no longer the leading manufacturing segment of the region; it has been replaced by the mechanical industry. According to figures from the Bank of Italy that are presented in the study, between 2001 and 2005, the added value of the regional fashion industry (textiles, clothing, leather and footwear) contracted by 4.4%, while in the same period the mechanical industry (metal products, machinery and means of transport) increased by 3.9% and contributed around 33% to the region's added value of manufacturing (the share of the fashion industry in 2005 was about 27%). This trend seems to have continued at least until 2007 when manufacturing export figures are analysed. Between 1999 and 2007, the share of the mechanical industry increased by more than 10% – up to nearly 40% of the region's industry exports – while the export share of the fashion industry decreased from 29% to 26%.

Although the exact contribution is difficult to quantify, the decline of manufacturing in Tuscany during the last decade seems largely due to the crisis of the textile sector in the Prato province. This is illustrated by the development of export turnover, which clearly illustrates that Prato lost significant ground in comparison to the national average as well as Tuscany after 2001.

Figure 2: Export turnover, 1995–2013 (1995 = 100)



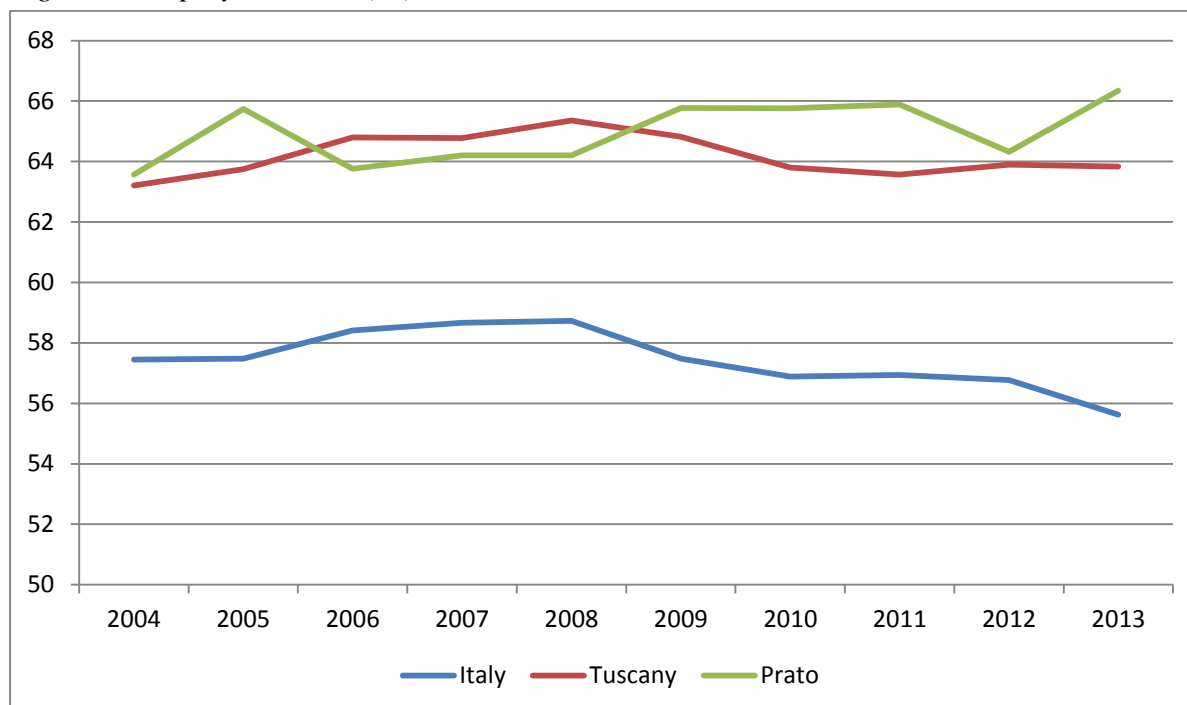
Source: Authors' elaboration of ISTAT data

Labour market and social effects

As already mentioned above, the contraction of the textile manufacturing sector has not resulted in a significant worsening of employment in the Prato province since other sectors seem to have absorbed the workers who were made redundant. This is illustrated both by the development of the employment as well as unemployment rate in Figures 4 and 5.

While both Prato and Tuscany as a whole perform better than the Italian national average (thus reflecting the better economic and labour market conditions in north and central Italy compared to the south), the employment rate in Prato compared to Tuscany was higher until 2006, and since 2009 it is above the regional average again.

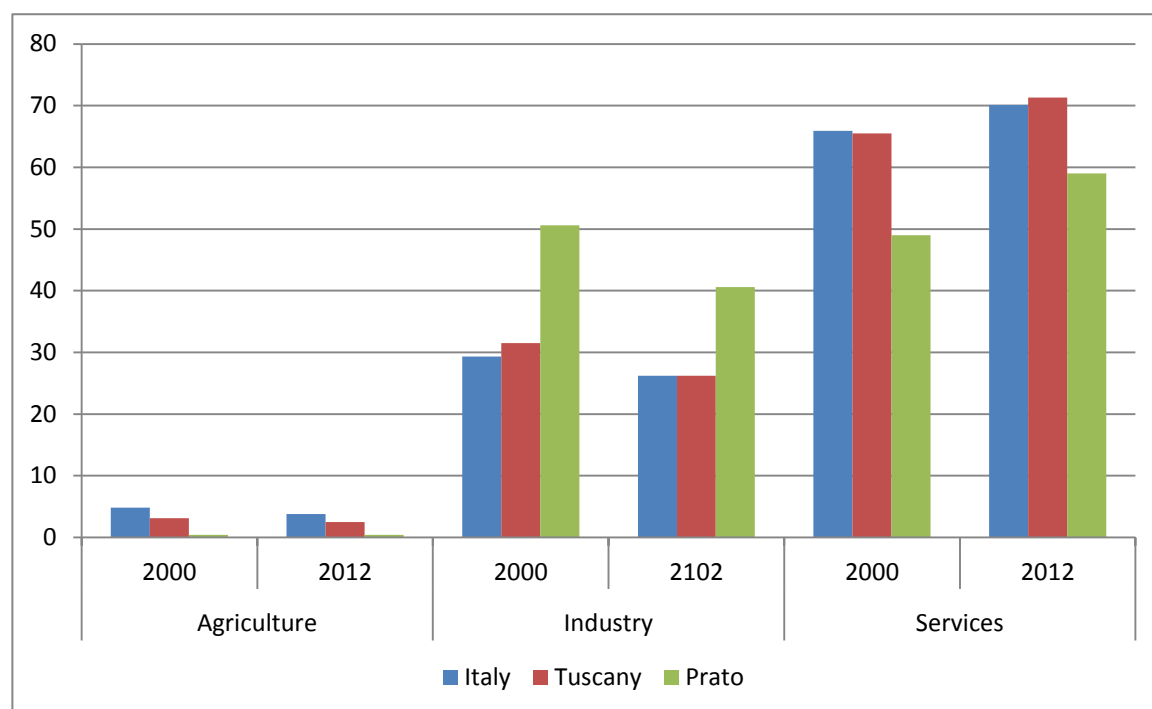
Figure 3: Employment rate (%), 2004–2013



Source: ISTAT data

The positive development of the employment rate in Prato in 2013 and the above average regional level may be due to the potentials of service sector employment, which have not been fully utilised in the province. As Figure 5 shows, although the shift from industry employment towards the service sector in Prato during the last decade is clearly visible, the share of employment in services is still significantly lower than in Tuscany as well as in Italy as a whole.

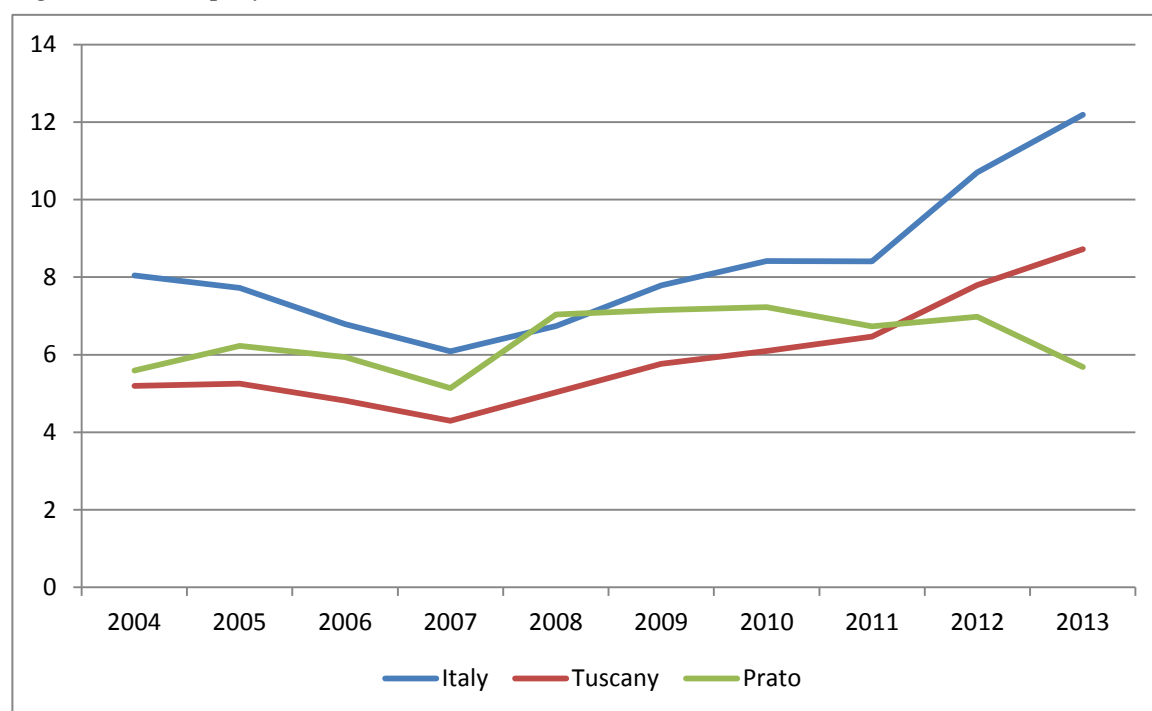
Figure 4: Distribution of employment by economic sector (%)



Source: Authors' elaboration of ISTAT data

In regard to unemployment, throughout most of the last decade Prato was characterised by a rate that was above the regional average in Tuscany. This pattern only changed from 2011 – the unemployment rate in Prato has been falling since then and is now quite clearly below the regional average.

Figure 5: Unemployment rate (%), 2004–2013

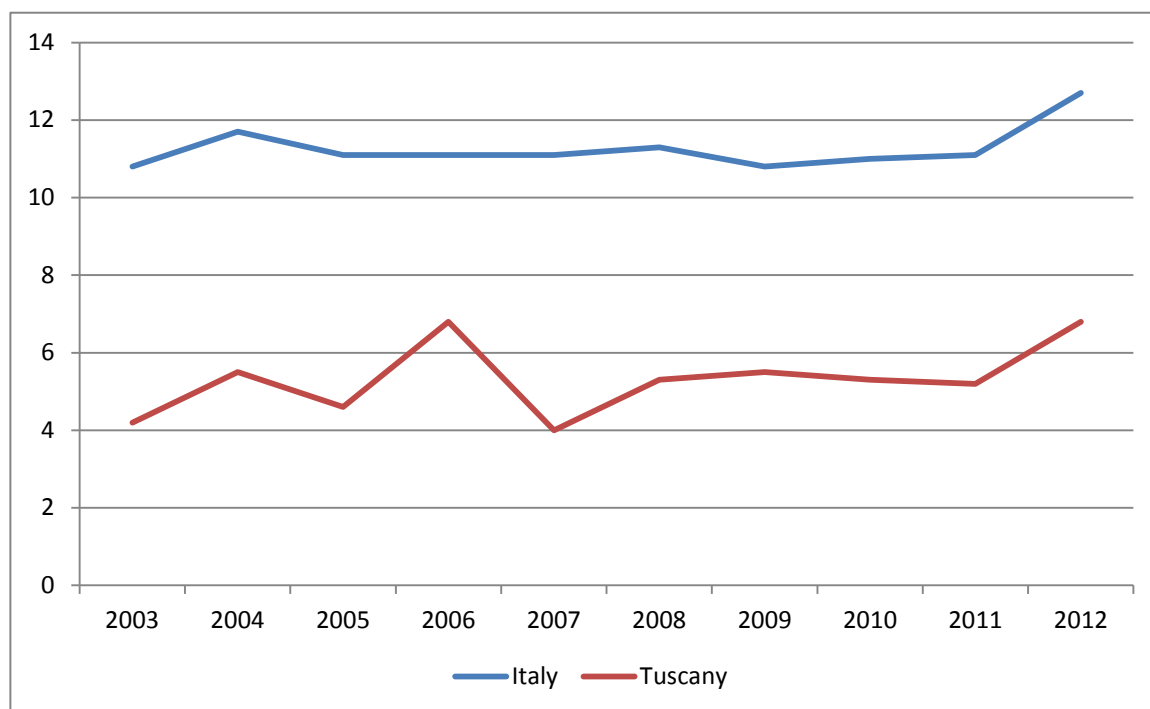


Source: ISTAT data

Even though detailed figures are missing, the social effects of the loss of manufacturing jobs in Prato as well as in Tuscany as a whole in terms of household income losses and poverty are evident.

Between 2004 and 2012, the percentage of people who were not able to face unexpected expenses doubled and between 2010 and 2011 it grew by 12%.

Figure 6: Household relative poverty incidence (%)



Source: ISTAT

Table 3: Ability to save and to cope with unexpected expenses, Tuscany (%)

	2004	2005	2006	2007	2008	2009	2010	2011
Households unable to save	62.6	60.3	61.2	59.9	62.3	61.3	58.5	68.1
Household unable to cope with unexpected expenses	21.4	19.9	21.3	26.1	25.6	26.6	30.6	42.6

Source: ISTAT

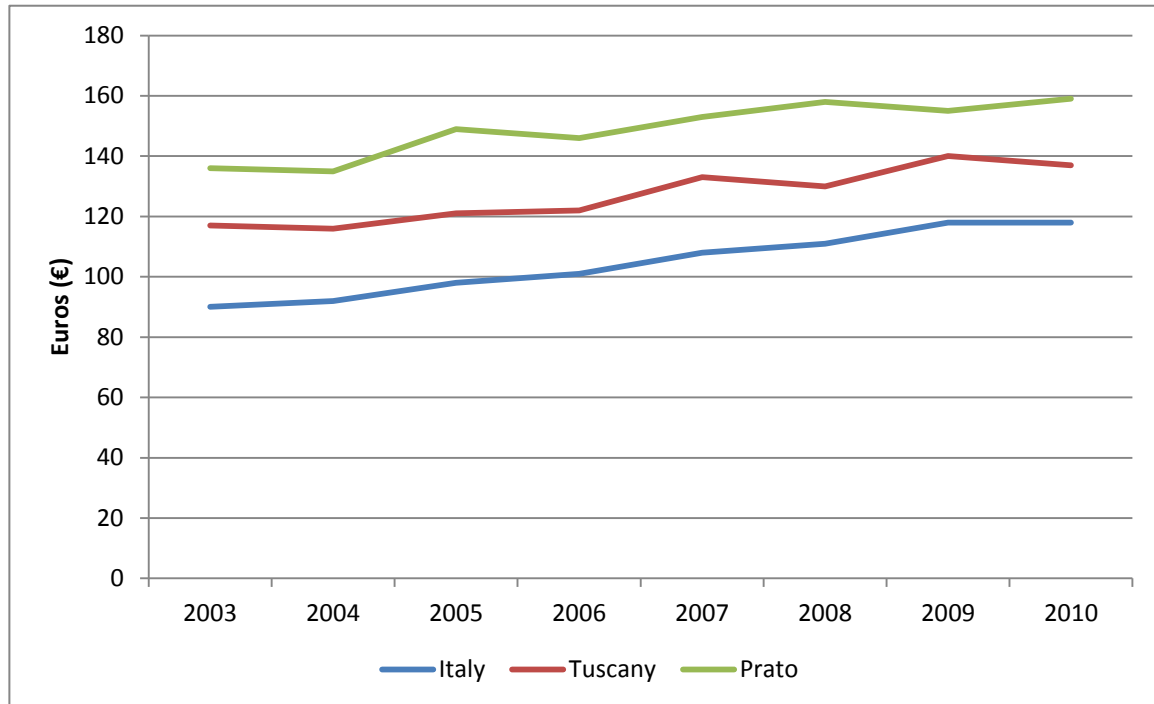
The problem of families' worsening economic conditions (mainly due to job losses) has mostly been dealt with through governmental benefit in the form of cash transfers based on unemployment benefit (*indennità di disoccupazione*).¹ The high unemployment rates that Italy faced since the 1980s made unemployment benefits the fastest-growing component of social security spending. In the period 2008 to 2012, the number of beneficiaries of unemployment benefit in Italy increased considerably (18.4%) and in Tuscany by almost 13%. On the other hand, in the same period the number of beneficiaries of unemployment benefit in Prato increased only by almost 6% – half of that of the region.

Figure 8 shows the trend of the social service and other benefit expenditure incurred by municipalities and their various associations. The social service expenditure has increased steadily over the last decade in Italy because of the growing poverty. For political and cultural reasons, they are higher in Tuscany and Prato than in the rest of the country. During the period 2008 to 2010, social service expenditure increased on average by 3.10% in Italy, 2.66% in Tuscany and 0.32% in Prato. However,

¹ To obtain up to 40% of the previous wages (for a maximum of around €1,000 monthly in 2007) for up to seven months, a worker must have previously been employed and enrolled for the insurance and he or she must have made contributions for at least 52 weeks in two years.

from 2009 to 2010 there was a slight upswing for Prato in contrast to the national average in Italy and in Tuscany.

Figure 7: Per capita expenditure on social services and benefits



Source: ISTAT

Approaches to dealing with the regional consequences

Overview and broad concepts

The following description and assessment of various measures focuses on various types of measures and activities that address the regional crisis from different angles and which are oriented towards different objectives.

As described above, restructuring in the textile and clothing sector has been a continuous process that has accelerated since the 1990s. At the same time, restructuring resulting in significant job losses and firm closures reached a new dimension after 2001. This is also reflected by the nature of different approaches, in particular:

- approaches developed by the regional and provincial authorities as well as chambers and social partners in order to modernise the textile and clothing sector and foster the sustainable development of the sector;
- approaches that mainly address the social consequences of redundancies and support the workers affected.

Whereas the first type of approaches do not necessarily focus only on the textile and clothing sector but target the whole regional/provincial economy in the long term, the social policy measures have clearly targeted the ‘jobs crisis’ that has accelerated since 2001 and also resulted in the decision of regional actors to seek support from the European Globalisation Adjustment Fund in 2008.

Regarding approaches that address various stages of the restructuring process – anticipation, management/implementation and preparation for future change – the following overview illustrates that the focus has clearly been on the implementation/management aspect, which has been addressed by most measures and initiatives developed at the provincial as well as regional level during the last decade. However, the fact that it is difficult to identify a single most important ‘restructuring event’ also makes it difficult to clearly separate measures, for example according to anticipation of restructuring and preparation for future change.

Table 4: Main initiatives for anticipating and managing restructuring in the textile sector

Type	Initiatives and measures
Anticipation and preparation	<ul style="list-style-type: none"> - Most of the anticipatory and preparation measures occurred at the regional level. - An initiative that tried to prepare the textile sector and the firms in the Prato district for restructuring and addressing the challenges the sector was facing was an integrated project (<i>Progetto integrato sul sistema moda della Toscana</i>) that was implemented by the Tuscany region from 2002 until 2005.
Management and implementation	<ul style="list-style-type: none"> - Structures for the consultation between employers and trade unions (round table) were established in 2002. - There was a public campaign and action by both the employers and the trade unions (March 2005) with the slogan ‘<i>Prato non deve chiudere</i>’ (‘Prato must not close’). - Several active labour market measures (<i>Rapporto sul Mercato del Lavoro</i>) were launched by the regional Tuscany government. - The social partners undertook a collective initiative to reform and extend the coverage of the temporary unemployment scheme through the use of the Wage Guarantee Fund in Derogation CGID (<i>Cassa Integrazione in Deroga</i>). - Solidarity contracts (<i>contratti di solidarietà</i>) were used to provide support for job security measures by reducing working hours for the companies’ fund for companies undergoing restructuring (2009).
Anticipation of and preparation for future change	<ul style="list-style-type: none"> - Integrated development programme for the fashion industry in Tuscany (2003). - Initiative of the employer organisation Unione Industriale Pratese to strengthen the innovation capacity of textile companies (<i>Proposte di intervento per il futuro del distretto pratese</i>) (2007). - The Integrated Project for the Development of the Prato Area (PIS) was launched by

the Tuscany region in 2011.

- Regional law n. 38/2012 to improve the competitiveness of the Tuscany textile sector was implemented.
- A stronger collaboration of companies in the textile sector was supported by 'network contracts' that were established by the regional law n. 33/2009.

Main actors, their interest and motivation

Apart from the regional employer organisations in the region (such as the Unione Industriali di Prato), key actors involved in the management of restructuring, and in particular the cushioning of economic, employment and social effects, are the regional, provincial and municipal authorities, professional organisations in the textile sector and the chamber of commerce as well as the employer organisations and trade unions.

Before we talk about the actors involved in the restructuring process, it is important to remember that most of the enterprises in the Prato district are small or very small. It should be highlighted again that the restructuring cases that triggered Tuscany's EGF application in 2008 happened in more than 460 companies within the Prato district. Due to limited financial and economic resources, the small companies face constraints to implement specific measures to cushion the effects of restructuring. On the other hand, it can also be argued that the absence of structures for employees' representation in SMEs with fewer than 50 employees in Italy, in accordance to Italian law, limits companies' requirement to establish social dialogue with workforce representatives during the restructuring process. This situation makes it difficult to create and implement provisions of support for individual employees who face change, such as instruments and opportunities to increase their capacity to collect the information needed to understand the situation; review their skills; strengthen their employability and mobility and make professional transitions that are feasible; and exercise their right to education and training. In light of these weaknesses at company level, local/provincial and regional instruments and measures (often reflecting national practice) for employees as well as employers in small companies are much more important than for larger companies.

Regarding regional and local-level actors and organisations, the interviews carried out for this case study showed that from the perspective of various groups, including trade unions, the climate for social dialogue, joint understanding and interests is regarded as very cooperative. The prevalent attitude was 'we are all in the same boat'. An example of this joint attitude is the broad strike action in March 2005, where trade unions as well as employer organisations were actively involved under the joint slogan 'Prato must not close' (*Prato non deve chiudere*). In this context, it has to be mentioned that Prato (like other historic industrial districts in Italy), and the textile and clothing sector in particular, is characterised by a strong and old tradition of social concertation and tripartite dialogue.

Detailed description of measures taken

Immediate measures and social concertation

Based on the strong tradition of social dialogue and cooperation amongst social partners and other key actors, in 2002 the local trade unions, craft associations, Prato Employers' Organisation (Unione Industriale Pratese), the chamber of commerce, the municipality and the province formed a round table for the analysis of the district's economic situation and identified actions to be taken in order to stabilise the textile industry. As a result of the discussions and consultation, the actors signed a protocol that highlighted the need to foster qualitative growth and reorganise the processes of the sector's enterprises, promote internationalisation and innovation and support networking for the companies. The round table also requested that company investments should be supported, for example by reducing interest payments in the context of credits.

Though the outcome was the expression of joint interests and general orientations, it had an influence on practical approaches and concrete measures. One result was the development of the Integrated Project for the Tuscany Fashion System (*Progetto integrato sul sistema moda della Toscana*), funded by the Tuscany region with €150 million over three years (2002–2005).

One key objective of the project was to prepare the textile sector for further unexpected and expected effects of the crisis. This initiative should be seen as a support programme fostering innovation. It involved the need to create actions in order to sustain and improve the innovativeness and competitiveness of the firms in the sector. In particular, the measure aims at strengthening the competitiveness of the local production systems through innovation; organisational and financial consolidation of production processes; and improving the adaptability of the workforce. This was pursued by involving all public and private stakeholders and a series of actions that were integrated with each other, such as incentives for business investment, investment in infrastructure and actions in the field of active labour market policies.

The structural policies represent the most significant action, for a total of €45.3 million. Here, the largest item concerns the initiatives for company competitiveness (€39 million), which includes financial incentives for investments in innovation, support for innovative collection samples (aesthetic research, prototypes) and incentives for energy efficiency.

An estimated investment of €3 million is devoted to the promotion of internationalisation, of which €2 million will be used to create a guarantee fund for the enterprises that wish to improve their penetration into foreign markets.

Through consulting and integration projects and also through participation in venture capital, the supporting initiatives for companies' mergers (€2.8 million) are aimed at consolidating the Tuscan textile sector financially.

Measures in favour of innovation are also very important – €4.5 million will be for the dissemination and transfer of technological innovation, the recovery and restructuring of settlements for research and advanced services.

Among the political initiatives, the most significant is the definition of a platform to ask the European Commission for support for the determination of international trade agreements and the protection of Italian products in international markets.

Among the instruments established in the context of the overall project was the creation of an economic observatory in collaboration with Unioncamere that focused on the development of the craft sector and the development of a database on subcontracting.

There are also more recent initiatives of concertation and multistakeholder dialogue. In 2011, the Tuscany region, the province of Prato and the municipalities of Prato, Cantagallo, Vaiano, Poggio a Caiano, Vernio, Carmignano and Montemurlo signed a protocol for the development of an integrated project for the area of Prato (*Progetto Integrato per lo sviluppo dell'area pratese*, PIS) that also involved the establishment of a permanent institutional table (*Tavolo istituzionale progetto Prato*, TIPP), chaired by the president of the Tuscany region.

Similar to the round table that was created nearly 10 years ago, this regional initiative and the provincial integrated project is aimed at coordination, networking and bringing together key actors in order to foster economic development, innovation and the capacity of the regional business structure to cope with change and restructuring. The textile sector is of course important, but it is not the only sector that is addressed by the initiative. As a high-level round table, the TIPP brings together a broad spectrum of actors and addresses a similarly broad field of topics, ranging from improving the quality of textile products manufactured in the region (and thus addressing the emergence of two distinctive clusters in Prato), energy and resource efficiency, innovations, precarious forms of work and the informal labour market to social welfare issues and youth employment.

Rather than creating concrete measures, the round table functions more as a promoter and initiator of activities that are regarded as crucial for the region's future and as a door-opener for financial funding, networking and synergies.

Measures to cushion the social effects of restructuring

The crisis-ridden restructuring of manufacturing, and in particular the textile industry, in the Prato province resulted not only in the mobilisation of national frameworks and schemes to cushion the social effects on workers, but also the extension of these instruments in order to make the coverage of support funds more suitable for enterprises and their employees.

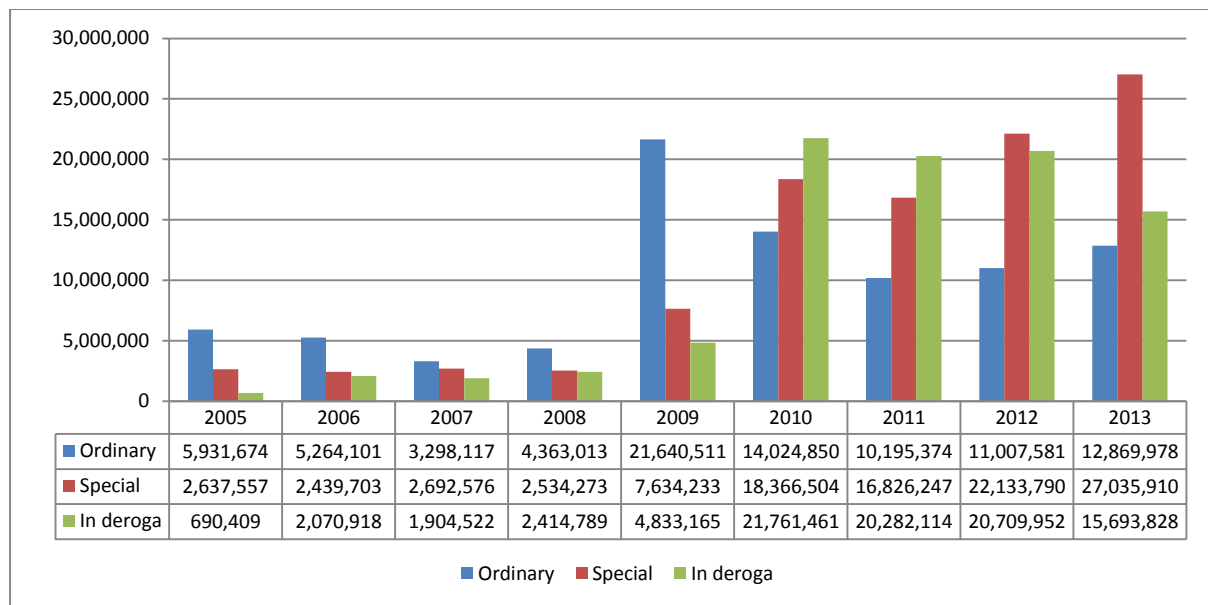
The most common financial instrument to support workers affected by company-based restructuring and to sustain income is the Wage Guarantee Fund (*Cassa Integrazione Guadagni*). This fund, which is jointly financed by contributions from the companies as well as public sources and is administered by the National Institute of Social Insurance (INPS) in times of crisis, is able to co-fund up to 80% of the wage costs in order to stabilise income as well as employment until the company's economic or financial situation improves.

Figure 9 shows the dynamic of the Wage Guarantee Fund. Until 2008, this instrument had been used quite moderately in the Tuscany region – the total number of working hours that were substituted by the wage fund was less than 10 million. In 2009, the drop in the labour demand led to a significant increase in the number of hours supported by the Wage Guarantee Fund.

There has also been a marked shift of the relative importance of the three different types of funds that exist within the CIG scheme. Until 2009, the 'ordinary' fund (*Cassa integrazione guadagni ordinaria*, CIGO) was the most utilised one, but since then, funding from two specific funds (the 'extraordinary' *Cassa integrazione guadagni straordinaria*, CIGS, and the CIG in derogation, *CIG deroga*), which were created in order to better address the company needs, has been used much more than the ordinary CIG fund.

In Tuscany and Prato, the number of working hours supported by the CIG increased by 266% and 109% respectively between 2008 and 2009; in the period 2008 to 2013, it increased on average by 43% and 23% respectively.

Figure 8: Number of working hours supported by the CIG fund in the Tuscany region



Source: Istituto Nazionale Previdenza Sociale (INPS)

The establishment of the 'CIG in derogation' was a direct result of the worsening of the labour market situation in Italy as a result of the 2008 crisis. It mainly resulted from a joint initiative of the social partners. In order to better address the special situation of small enterprises, the Italian social partners asked the government to extend the scope of the Wage Guarantee Fund (CIG) in order to also cover firms with fewer than 15 employees. At the same time, the persistence of the crisis and the increasing difficulty in finding a new job pushed the social partners to ask for the extension of the Extraordinary Wage Compensation Fund from 52 to 104 weeks.

The resources provided by the national government are based on the number of job losses at regional level, whereby the regional authorities decide on the allocation and design their own training policies and employment services. The regions, which are responsible for the management of the actions, were also asked to give a financial contribution through the activation of ESF resources.

Several social and institutional actors are involved in the system. After specific negotiations with trade unions, firms apply for CIG to the regional administration, which examines and approves the

demands and authorises INPS to pay the benefits for each laid-off worker, according to the monthly application forms sent by the employers, stating the number of non-worked hours and providing all other required data.

The focus of this intervention was to ensure the use of the Wage Guarantee Fund '*in deroga*' – and the mobility allowance for certain categories of workers laid off without income support – in accordance with the agreements between the state and regions which have followed since 2009 and the annual framework agreements signed by the region and social partners (and since 2013, INPS as well). On the basis of the new agreement between the state and regions of 20 April 2011, the continuation of the Wage Guarantee Fund and mobility schemes '*in deroga*' was confirmed for 2011 to 2012. The agreement between the Tuscany region and social partners signed on 22 April 2011 updated the guidelines for interventions '*in deroga*' and active policies related to them, financed by the ESF (DGR 303 of 26 April 2011).

In 2012, around 7,000 enterprises representing about 38,000 workers concluded agreements with the regional authority on public support for a total of 20 million unworked hours, which amounted to a total budget of €230 million.

In the crisis period of 2008, many restructuring cases resulted not in recovery, but in dismissal, so the workers were also increasingly supported by the so-called mobility allowance (*Indennità di mobilità*) in order to support workers' re-employment and professional transitions.

Workers are eligible if their employment is dissolved after a period of support from the Wage Guarantee Fund. The duration of support depends on the worker's age upon dismissal and on the location of the company. It is longer for elderly workers as well as for companies located in the south. However, the allowance cannot be paid for a period exceeding the length of service of the worker in the company. If specific characteristics concerning age and social security contribution apply, it is paid until the statutory pension age is reached. In 2012, around 2,500 workers benefitted from the mobility fund, which spent a total of about €30 million on income support measures.

As Table 5 shows, in the period 2008 to 2012, the number of beneficiaries of the mobility allowance increased on average both in Italy and in Tuscany, but not in the province of Prato. This is because in the textile industry, social partners preferred to make use of the 'ordinary' CIG in order to stabilise employment and keep workers within the affected companies.

Table 5: Number of beneficiaries of mobility allowance (at 31 December)

	2008	2009	2010	2011	2012	Average growth 2008–2012
Prato	489	558	520	463	535	–2.7
Tuscany	4,027	5,329	5,588	6,329	6,746	16.6
Italy	94,706	127,088	142,863	160,020	194,904	19.4

Source: Istituto Nazionale Previdenza Sociale (INPS)

EGF support

The region also benefited from the support of the European Globalisation Adjustment Fund (EGF). The application for the support was submitted in February 2008 and approved in November, but the stakeholders believe the application process took too long (Pavlovaite et al, 2011). A reason for this insufficient communication and coordination between the regional, national and European Commission has been identified, related, for example, to discussions on the eligibility of some workers included in the application. Nevertheless, the delay did not have any significant impact on the beneficiaries, as national provision was in place to offer immediate assistance and EGF funding arrived later to supplement the total resources available.

Between March 2007 and February 2009, about 1,350 workers participated in measures that were co-funded by the EGF, with an EGF contribution of about €800,000 (or about €600 per beneficiary) (Pavlovaite et al, 2011). Compared to the planned support level, this constitutes only 21% of the

approved EGF amount, but 85% of the planned number of beneficiaries. Of the beneficiaries, 82% were aged 25 to 54, 11% were aged 55 to 64 and 7% were aged 15 to 24; 52% of them were male and 48% were female. Two-thirds had primary or lower secondary education, while the remaining third had post-secondary non-tertiary education.

The vast majority of EGF co-funded measures referred to job search assistance and general information and job search allowances. Other fields of activity relate to training and training allowances (Pavlovaite et al, 2011). Overall, it was assessed that the level of innovation in the nature of and ways measures have been implemented was low, that is, the offered instruments were very much in line with the traditional public sector response to restructuring. Consequently, it is not surprising that beneficiaries were often not aware that the services provided were co-funded by the EGF.

After the conclusion of the EGF co-funded measures, almost two-thirds of the beneficiaries (with only small differences by gender) were in employment or self-employed (only 0.2% of the EGF beneficiaries), which is quite remarkable bearing in mind the high proportion of beneficiaries with lower educational levels. This is attributed to workers in the Wage Guarantee Fund being re-employed by their former employer after the EGF assistance (Pavlovaite et al, 2011). On average, it took them one to three months to find new employment.

Measures to manage change and restructuring

Apart from measures to cushion income losses and social hardships for workers affected by crisis-ridden restructuring and to support their employability and professional mobility, regional actors also developed a number of measures to support the local and regional business. In this context, the pre-existing national instrument of network contracts (*Contratto di rete*) was applied as well as adjusted. In addition, regional as well as provincial actors adopted measures to provide specific support and orientation for the manufacturing sector, some of them established quite recently.

As a forerunner in Europe, in 2009 Italy adopted a law on the network contract that was also one of the first concrete measures to implement the objective of the European Small Business Act (SBA) to enhance collaboration among enterprises to increase their potential for innovation, research and development.

Though it does not exclusively target SMEs, the network contracts focus on providing support for interfirm collaboration as a source of increasing competitiveness and innovation. Network contracts can help SMEs in particular to overcome limitations of cooperation and collaboration due to size and cultural barriers.

The network contract allows two or more enterprises, on a purely contractual basis, to jointly perform one or more economic activities in order to increase their potentials for innovation and competitiveness. The regulation provides a framework scheme identifying the essential content of the contract, leaving the companies free to define specific clauses according to their needs and to the circumstances in which they operate. The essential elements of the network contract include the following aspects:

- The contract must be in writing and it must be filed with the register of enterprises where the participants have their headquarters.
- The contract should involve at least two companies, but there is no limitation on an increased number of participants. It therefore also encompasses multi-party agreements.
- Through the network contract, enterprises pursue the common goal of improving their potential for innovation and competitiveness. These strategic goals should be expressly indicated in the contract together with the economic activities to be jointly performed.
- Through the network contract, the firms perform a network programme as defined in the contract, which specifies rights and duties of each participant and ways and means to achieve the common goal. The participants to the network contract commit themselves to jointly perform one or more economic activities within their business scope. The law requires some sort of functional link between the economic activities performed via the network contract and the business scope of each firm.

- The firms should create a common fund aimed at pursuing their common goal and make contributions to it, according to what is defined in the contract. This fund is supported by tax advantages (up to a maximum of about €1,000,000 in profits that are allocated to the fund are suspended from tax duties).
- Finally, enterprises that use the network contract for the strategic goal of improving their potentials for innovation and competitiveness are given access to specific financial aid measures, simplified procedures for access to finance and simplified administrative procedures.

In Tuscany, the implementation of network contracts (by regional law no. 33/2009 and the modified law no. 122/2010) focuses on the small business sector of the region. According to the eligibility criteria, there should be a minimum of five partners coming from the micro, small or medium-sized business sector. According to the regional funding rules, joint network funds and investments that may have a volume of between €400,000 and €1.2 million may receive public co-financing that has different levels, depending on the nature of activities and investments (for example, 50% for consultancy services, 35% for the registration of trademarks and patents and 20% (micro and small companies) or 10% (medium-sized companies) for other investments).

The regional government also supports SMEs in the textile sector by providing financial support and public infrastructure development activities through a regional law of 2012 (No. 38/2012). This legal framework revised a pre-existing law (regional law no. 35/2000) that aimed at the improvement of the competitiveness of the region's textile industry by supporting activities such as infrastructure development, recovery of disused industrial sites, simplification of administrative procedures, subsidies for training activities in micro and small enterprises and monitoring of economic development and conditions, in particular for craft and small companies.

Such financial support programmes at regional level are also reflecting and building upon requests and initiatives of the regional employer organisations. An example here is the Unione Industriale Pratese, which in 2007 developed a proposal for a new governance framework for providing support for the textile sector (*Proposte di intervento per il futuro del distretto pratese*). According to the employer organisation, such a support framework should target the value chain in the textile sector, in particular to strengthen overall competitiveness and adaptability. Main measures of support should be the encouragement of networking and partnerships between different actors in the value chain, the promotion of innovation and R&D and measures to improve the competences and skills of the sector's workforce.

Given the quite recent nature of these measures that target the textile industry and the small companies that are its backbone, it is not possible to identify concrete outcomes and effects. However, it is evident that key regional actors are concentrating their efforts on enhancing the inherent industrial potentials and competences of the region and the textile district in Prato.

In this context, activities that aim at improving the relationships and cooperation between the two textile clusters in the Prato region are also highly relevant. Today, they are regarded as an important element of the recovery of the more traditional Italian cluster.

According to interviews carried out for this case study, but also as documented in a more recent regional analysis of the Prato textile cluster (Pellizari et al, 2011), there are signs that the boundaries between the two clusters have become at least slightly more permeable. Although very few traditional Prato entrepreneurs would openly admit it, it seems that some of them have started supplying the Chinese cluster companies. Indeed, the image of the Chinese-made products is of such low quality and low cost that until now, any association with them was considered dangerous for a reputable company. Closer interaction also reflects a diversification within the Chinese cluster. Some companies today are targeting higher market segments or are trying to differentiate their business. In addition, increased supply problems for inputs sourced from China has affected also Chinese-owned companies in Prato and has made local suppliers more attractive, especially those in the middle/low range.

Elements of good practice and lessons learned

Regarding elements of good practice, the Prato case of textiles and clothing certainly reflects the added value of social concertation and of developing measures and initiatives in response to crisis and restructuring in mutual understanding.

In particular, the experience of installing round tables and other joint activities has resulted in a number of measures in support of local and regional manufacturing sectors, both immediate measures as well as longer-term ones. At the same time, social partners have significantly contributed to the extension of generally available social support measures, in particular the revision and adjustment of the Wage Guarantee Fund.

Another experience of good practice that can be identified in the Prato case and in the measures established and promoted by the regional government has been the strong orientation of policies and initiatives towards the needs of small companies, for example the support activities that promote the collaboration and networking of companies within the textile value chain.

However, the Prato case and measures deployed by public authorities and other key stakeholders at regional and provincial level also result in a number of lessons learned. The crisis of the traditional textile sector after 2001 was far from unexpected (actors were well aware of the structural weaknesses and risks). However, the actions taken on anticipation and preparation for restructuring were carried out only at the regional level. Against this, the focus of the measures developed and implemented after 2001 was on coping with the social and economic effects on the region and as such they were responsive rather than proactive.

It was in this context that political actors, in close consultation with social partners and professional organisations, started to reflect on what would be necessary to overcome the structural weaknesses of the sector and increase the competitiveness and adaptability potential of the textile sector with in the future.

Commentary and conclusions

There are a number of conclusions that can be drawn from this case study on the regional effects of restructuring, which took the form of a huge number of job losses spread amongst hundreds of small companies within one sector.

- The Prato textile sector illustrates very strongly that both the potential as well as the capacities of small companies to anticipate, be prepared for and manage restructuring that results from external factors in particular are very limited. In most cases, the responses applied are just passive reaction and a struggle for survival.
- In such a context, the provision of support (both for the companies as well as for the affected workers) is crucial. As such, the social concertation that exists in the Prato industrial district as well as at the regional level in Tuscany certainly has favoured not only the development of a broad and stable consensus between political actors and social partners at the local level, but has also contributed to a number of measures that were developed, adjusted or invented during the decade of accelerated restructuring and crisis that was analysed in this case study. However, if there had been a more stable national situation regarding Italian politics, things may have turned out differently for Prato's economic situation.
- Apart from strengthening the social safety net and measures providing financial support for workers, the measures analysed in this case study were mainly of a 'soft' character – establishing round tables, initiating joint campaigns and drafting joint proposals, and supporting networking and collaboration between companies.
- Regarding more concrete actions (for example, the network contracts or industrial policy orientation), this case study indicates that during the last decade, key regional actors went through a learning process – the need to develop strategies and concrete measures to more proactively influence and shape the sector has only emerged more recently.
- There is a striking need for more proactive practice that would address the unique phenomenon of the Prato textile district: the coexistence of the two parallel clusters of the traditional Italian textile manufacturing sector and the Chinese clothing industry. These are not only characterised by quite different economic development trends (business contraction on the one hand and expansion on the other), but also substantial differences in the working conditions, labour relations and industrial relations.
- Against this and due to the time lag between the initiation of measures in response to restructuring and effects becoming visible, it would be necessary to revisit the Prato textile sector in a few years and analyse both the effects of the initiatives on cluster and industrial policy for the textile sector as well as the development of the relationship of the two different clusters.

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Annex 1: Interviewees

Interviews with representatives of the following institutions and organisations were carried out between November 2013 and March 2014:

- Confederazione Generale Italiana del Lavoro (CGIL) – FILCTEM, Prato, textile sector trade union
- Confederazione Generale Italiana del Lavoro (CGIL) – FILCTEM, Firenze, textile sector trade union
- Unione Italiana Lavoratori (UIL) – UILTA, Prato, textile sector trade union
- Unione Italiana Lavoratori (UIL) – UILTA, Firenze, textile sector trade union
- Confederazione Italiana Sindacato Lavoratori (CISL) – FEMCA, textile sector trade union
- Public Employment Service – Prato
- Unione Industriale Pratese
- Regione Toscana

Valeria Pulignano, Katholieke Universiteit Leuven

Giovanni Passarelli, University of Calabria

Eckhard Voss, Wilke, Maack and Partner

Annex 2: Number of companies in Prato textile district

Table A1: Number of active companies in the manufacture of textile and wearing apparel in the Prato Textile District, 2001–2013

		2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
C13	Manufacture of textiles	6,372	5,968	5,530	5,365	4,931	4,602	4,290	4,094	3,862	3,143	3,027	2,918	2,919
C130	Manufacture of other textiles n.e.c.			82	69	62	7	7	11	14	15	14	14	14
C131	Preparation and spinning of textile fibres	1,584	1,465	1,382	1,314	1,196	1,126	1,030	965	866	795	755	721	707
C132	Weaving of textiles	2,541	2,390	2,163	1,977	1,783	1,624	1,469	1,391	1,289	1,211	1,136	1,063	1,058
C133	Finishing of textiles	458	433	413	653	630	645	639	609	577	551	542	539	547
C139	Manufacture of other textiles	657	635	631	604	591	571	566	559	574	571	580	581	593
C14	Manufacture of wearing apparel	2,168	2,260	2,320	2,150	2,342	2,807	3,105	3,396	3,734	4,476	4,438	4,347	4,427
C140	Manufacture of other textiles n.e.c.			3	3	4	2	2	3	4	4	4	4	3
C141	Manufacture of wearing apparel, except fur apparel	2,061	2,207	2,275	2,109	2,307	2,775	3,074	3,366	3,700	3,907	3,895	3,836	3,932
C142	Manufacture of articles of fur	100	48	42	38	31	30	29	27	30	27	25	24	23
C143	Manufacture of knitted and crocheted apparel	1,030	950	859	748	669	629	579	559	542	538	514	483	469
	Total manufacture of textile and wearing apparel	8,540	8,228	7,850	7,515	7,273	7,409	7,395	7,490	7,596	7,619	7,465	7,265	7,346

Note: 2013 figures are estimated.

Source: Camera di Commercio di Prato, Unione Industriale di Prato (UIP)