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Globalization, Recession and the Internationalization of Industrial Districts: Experiences from the Italian Gold Jewellery Industry

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ABSTRACT *Globalization and the recent recession crisis are significantly challenging Italian industrial districts (IDs), leading to deep transformations in their internationalization, innovation and organization strategies. With our empirical focus on a single industry (gold jewellery) and a specific country (Italy) and through the theoretical lenses of the global value chain (GVC) approach, the evidence in this article sheds light on the differences in how three IDs within Italy's gold jewellery sector (Valenza Po, Arezzo and Vicenza) compete in the global arena. Our comparative analysis reveals striking differences among these districts with regard to their upstream and downstream internationalization strategies in response to two industry shocks: increasing global competition in the early 2000s and the world economic recession of 2008–2009. Our explanation for the varied gold jewellery district responses to these two global crises involves both internal and external factors: (1) structural differences between the three IDs; (2) distinct business strategies; and (3) how these districts are linked to the gold jewellery GVC.*

1. Introduction

Global competition and what has been called the great recession of 2008–2009 are threatening Italy's industrial districts (IDs), which have long been considered the engine of Italian economic growth, especially in the so-called Made in Italy sectors. A lively debate about the adequacy of the ID model to face the challenges posed by globalization has developed, with some authors suggesting their unfitness (Nardozzi, 2004; Alberti, 2006; Ramazzotti, 2010) and others claiming that ID firms are still performing better, or at least no worse, than non-ID firms in global markets (Becattini & Dei Ottati, 2006, Chiarvesio & Di Maria, 2009).

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Beyond these opposing views, a rich empirical literature highlights the transformation of IDs, including ongoing shifts in their structural characteristics and innovation and internationalization strategies (Rabellotti *et al.*, 2009; Chiarvesio *et al.*, 2010). These changes are mainly a reaction to dynamics that are external to the district itself, including the rise of new global competitors and shifting export markets, along with the role of global retailers and branded manufacturers in creating international production networks that impose more stringent price, quality and delivery standards for established suppliers. Yet, the evidence from the literature is inconclusive in terms of whether such transformations are affecting Italian districts in similar or divergent ways, and the extent to which factors external to IDs may contribute to or explain their economic performance.

Empirical studies in the Italian setting thus far have mainly analysed single districts or compared districts that represent a wide range of sectors (see Rabellotti *et al.*, 2009; Camuffo & Grandinetti, 2011), despite the fact that the internationalization and upgrading trajectories of districts are heavily affected by industry specificities. Furthermore, little is known about how districts are responding to the recent economic recession, which is responsible for a sharp decline in world trade and production, compared to earlier phases of globalization. To address these lacunae, this article compares three Italian districts in the same industry (gold jewellery) to examine whether and how their distinct patterns of insertion in the global economy affect their competitiveness, and how their export performance may diverge in the face of the "globalization crisis" spurred by the entrance of exporters from large emerging economies in global markets in the early 2000s, and the "recession crisis" that began in 2008.

In our analysis of Italy's IDs, we seek to integrate the ID literature with the global value chain (GVC) framework, adopting a series of GVC-related variables to help explain the transformations of IDs. Unlike the traditional district perspective, which mainly focuses on the internal dynamics of IDs, a GVC approach allows unique insights by highlighting the role of external linkages to global industries in shaping the upgrading opportunities and trajectories of local clusters, thereby making the role of global lead firms and changing end markets more explicit (Bair & Gereffi, 2001; Gereffi, 2005).

We examine three Italian IDs in the gold jewellery industry in the period of 2001–2010, using trade data, secondary information and interviews with district firms and industry experts. The gold jewellery industry is well suited to this approach for several reasons. First, from an ID perspective, gold jewellery production in Italy is highly concentrated; the three districts analysed in this article—Arezzo, Vicenza and Valenza Po—are responsible for 72% of 2010 Italian jewellery exports, making Italy the largest exporter worldwide. Second, from a GVC perspective, this industry has been affected since the early 2000s by intensified international competition and changing consumer markets, which make GVC factors relevant in explaining ID performance. Finally, the focus on gold jewellery in Italy allows for deeper understanding of an industry on which, with a few notable exceptions (Gaggio, 2006, 2007; Simoni *et al.*, 2010), limited comparative research has been conducted, notwithstanding its long history and importance for the Made in Italy sector.

2. Literature Review and Analytical Framework

For many years, IDs have been a major pillar for the success of the Italian economy, especially in the so-called Made in Italy craft sectors, including household goods, textiles and apparel, leather and footwear, and jewellery. According to the conventional view of districts (Piore & Sabel, 1984; Pyke *et al.*, 1990), they represented a successful alternative to the Fordist production model due to their embeddedness in the local socio-cultural context and close spatial ties. Within districts, production processes are divided among many proximate small firms that coordinate production activities through trust and face-to-face interactions and take advantage of a flexible and highly skilled local workforce.

However, the ID model, whose competitive advantage originates in the local dimension, is facing challenges posed by globalization, specifically offshore production, the integration of trade at the global level and the formation of global production networks (Feenstra, 1998). IDs are heavily affected by current changes in the global economy and consequently, their structural characteristics (size and specialization) and internationalization strategies are changing (Rabellotti *et al.*, 2009). In the past, the majority of districts internationalized through the export of final products. Now, a growing number of ID firms are outsourcing parts of their manufacturing and, in a few cases, distribution and branding activities (Nassimbeni & Sartor, 2005; Belussi & Sammarra, 2010). Lower value-added activities are more often relocated abroad by means of foreign direct investment and offshore outsourcing (Corò *et al.*, 2005; Grandinetti *et al.*, 2009). Simultaneously, IDs have experienced an influx of foreign direct investment by multinational enterprises (Sammarra & Belussi, 2006). These outward and inward forms of internationalization have generated divergent outcomes among IDs. In some IDs, internationalization has led to the economic upgrading of firms and the enhancement of local workforce skills, whereas in other districts, it has hindered ID competitiveness (Belussi & Sammarra, 2010). In sum, while there is clear evidence that districts are more internationalized, "the intensity, the strategies and the impact on local systems vary widely" (Rabellotti *et al.*, 2009, p. 29).

In explaining these differences, the GVC perspective offers a valuable framework that links global systems of production and consumption to the economic performance of Italy's IDs. The GVC framework was developed since the mid-1990s to account for the emergence of global supply chains (Gereffi & Korzeniewicz, 1994), and a rich empirical literature has developed since then to analyse how global lead firms in a wide variety of international industries affect local development prospects (e.g. Bair & Gereffi, 2001; Gereffi, 2005). The analysis of GVCs encompasses several dimensions, including an input–output structure of all the activities carried out in the supply chain, their geographical configuration, the institutional context in which they are embedded and the governance structures that coordinate GVC networks (Bair, 2009). Development outcomes are defined as upgrading and downgrading trajectories, defined in terms of the ability to carry out relatively high-value or low-value activities in a particular industry.[1]

Attempts to integrate the GVC perspective to the ID literature have been made in two main directions. Some ID scholars have documented the rising heterogeneity within Italian IDs, as some firms began to differentiate themselves by entering into GVCs via offshore production or global marketing channels, which Chiarvesio *et al.* (2010) coin the "open network" model of ID firms. Other scholars, largely on the GVC side, have highlighted the impact of external linkages on IDs, mainly in the form of learning from global buyers and their control over local suppliers (e.g. Schmitz & Knorringa, 2000; Bair & Gereffi, 2001). Both approaches acknowledge the importance of linkages to GVCs in understanding how ID firms perform in international markets, which was largely neglected in the original ID literature. However, they pay scant attention to variation across IDs within a country in terms of distinct patterns of GVC integration.

Despite these efforts to bridge the global–local divide, the ID literature has yet to fully incorporate the GVC perspective to understand recent ID transformations. We propose a fuller analytical framework, introducing three GVC dimensions key to understanding the economic performance of IDs: (i) different types of global lead firms; (ii) multiple paths to GVC integration; and (iii) the changing structure of production and export markets.

First, the type of global enterprises to which ID firms are linked can be critical to the district's overall performance in global markets. The GVC literature highlights the role played in local upgrading by different types of lead firms, for example, between manufacturers and retailers/marketers (Bair & Gereffi, 2001), between global buyers and regional/local buyers (Bazan & Navas-Aleman, 2004), or by buyers of varied national origins (Gibbon, 2008). Different types of lead firms tend to govern their supply chains in a distinctive manner, with varying consequences for supplier upgrading. Particularly relevant to the gold jewellery GVC is the rise of non-traditional jewellery retailers, such as discount chains like Walmart and non-store retailers like TV home-shopping. Unlike the markets served by importers and distributors, these global buyers present new challenges to suppliers (Gereffi & Lee, 2008).

Second, recent evidence on Italian IDs corroborates multiple ways to participate in GVCs. Italian firms in jewellery manufacturing have adopted two types of internationalization. The "upstream" path involves importing jewellery parts and components for further domestic processing, while "downstream" internationalization refers to exporting final goods or establishing marketing channels overseas. The form and intensity of internationalization can depend on the type of GVC they are embedded in. For instance, IDs serving low-end market segments, who face strong international competition, are more likely to outsource a high percentage of their production abroad, whereas high-quality districts continue to favour local manufacturing with limited delocalization of low value-added tasks (Nassimbeni & Sartor, 2005; Amighini & Rabellotti, 2006; Belso-Martinez, 2008).

Finally, the latest wave of globalization has incorporated large emerging economies into GVCs, initially as producers and exporters and recently as end markets. The global recession has accelerated pre-existing trends and driven important shifts. On the supply side, geographic and organizational consolidations are taking place both at country and firm levels (Cattaneo *et al.*, 2010), challenging the ability of ID firms, mostly small and medium enterprises (SMEs), to compete in GVCs. On the demand side, the recession spurred the diversification of export markets as emerging economies like China, India, Russia and the Middle East countries are becoming more attractive as consumption centres. This entails changes in terms of governance, upgrading and innovation trajectories for SMEs as well as larger companies in GVCs (Kaplinsky *et al.*, 2011).

3. Globalization and the Gold Jewellery GVC: Recent Trends

The global gold jewellery industry has undergone significant changes over the last decade in terms of the ID and GVC dimensions outlined above. Distributors and retailers are typically the actors that capture the highest share of value produced along the chain, and their role has increased in recent years as the consolidation of jewellery chains and the vertical integration of suppliers and retailers occurred in the global jewellery industry. Moreover, retail channels have become more diversified and non-jewellery discount chains and non-store retailers (e.g. TV home-shopping and online jewellers) have gained importance in key markets such as the US, forcing producers to adjust their strategies (Gereffi & Lee, 2008).

Traditionally the most important segment of Italy's jewellery industry, gold jewellery lost its preeminent position during the last decade: the global demand for gold jewellery dropped by 45.5% in 2000–2009 (Thomson Reuters GFMS data). This slide was caused by the rising price of gold, a general reduction in consumption and a change in the consumers' habits and taste, such as the growing popularity of silver jewellery and items that combined elements of different quality levels (Corò, 2006; Gereffi & Lee, 2008).

Meanwhile, global trade of gold jewellery increased dramatically from $16 billion in 2001 to $44 billion in 2010, according to UN Comtrade data. As shown in Table 1, the geography of the global production and consumption of jewellery changed dramatically. The hegemony of the US and Italy on the consumption and production sides, respectively, has been replaced by an oligopoly of both Western and Eastern countries. On the demand side, the main change is the declining importance of the US market (passing from 33.6% of the world's total jewellery imports in 2001 to 14.6% in 2010), which was offset by advanced and emerging economies such as Switzerland, the United Arab Emirates (UAE) and Hong Kong. On the supply side, Italy's dominant position with a 22.3% market share in 2001 has been sharply eroded, to the advantage of developing countries, notably India and China, which accounted for 20.5% of exports in 2010, compared to 13.0% in 2001.

Having been the world's leading exporter of jewellery for years, Italy was deeply affected by the impacts of global competition and the recent economic recession on its jewellery production and competitiveness in foreign markets. According to ISTAT (Istituto nazionale di statistica) data, jewellery production dropped severely in two periods: the first between 2002 and 2003, with an annual decrease by 18.7%; and the second starting in 2007, following an intervening period of stable production levels. After hitting the bottom in 2009, when production levels were 53.8% lower than in 2001, Italy's jewellery industry recovered in 2010 even if output levels were still much lower than in pre-crisis times (25.8% lower than in 2007).

Italian jewellery exports followed a similar path, feeling the first shock in 2003 and then the second in 2008, and recovering in the intervening period, with rising exports led by the

Table 1. The world's leading jewellery exporters and importers and their market shares, 2001 and 2010

Top five exporters				Top five importers			
2001		2010		2001		2010	
Italy	22.3%	Italy	10.4%	US	33.6%	Switzerland	15.4%
Thailand	7.8%	China	10.3%	UK	11.0%	US	14.6%
US	7.7%	India	10.2%	UAE	8.9%	UAE	13.8%
India	7.3%	US	8.2%	Japan	7.2%	Hong Kong	13.6%
Hong Kong	5.9%	France	7.5%	Hong Kong	6.4%	UK	7.0%

Sources: Our elaboration from UN Comtrade data. Data refers to Harmonized System code 7113, including jewellery of gold, silver and platinum and other base metal products.

increased price of gold. To a great extent, Italy's struggle in exports relates to the growing competition with China, India and Turkey in the shrinking US market, once the biggest export market for Italian jewellery (32.1% in 2001) and now just the third largest export destination (10.2% in 2010), behind Switzerland and the UAE (see Table 1). The growing popularity of low-end, mass-market jewellery and the shrinking of the middle market, which coincides with the rise of low-cost retailers as a new type of GVC lead firm, have favoured lower-end suppliers from emerging countries (Assicor-Aaster, 2008; Gereffi & Lee, 2008), undermining Italy's competitiveness in global markets. The low capacity of Italian jewellery firms to control commercial functions, such as marketing, the scarcity of qualified workers and the inability to deal with the standards (especially in terms of timing) required by global lead firms further weakened Italy's international competitiveness (Assicor-Aaster, 2008).

Despite a similar impact on exports and production, the "globalization crisis" in 2002–2003 and the "recession crisis" of 2008–2009 have affected the jewellery GVC in distinct ways. The first involves a supply-side shift brought by the entry of new emerging country exporters, while the second entails a demand-side change involving a reduction of consumption in export markets, particularly advanced economies. Both of these global-scale crises, however, prompt a greater role for external, GVC-related variables in analysing the evolution of ID competitiveness.

4. The Italian Gold Jewellery Districts: Main Characteristics and History

In Italy, gold jewellery is one of the most important Made in Italy industries in terms of international trade,[2] with an export propensity as high as 70% in the early 2000s. Production is mainly concentrated within three IDs—Valenza Po, Arezzo and Vicenza—which together are responsible for 72.5% of Italy's jewellery exports in value (2010 ISTAT data). As discussed later, these IDs have distinct market niches and specialize in different types of production.

The history of gold jewellery production in Valenza Po, located in the North-West of Italy, is relatively recent compared to that of the other two districts. It was in the 1890s that jewellery production became the most important revenue source of the area (Gaggio, 2006; Assicor-Aaster, 2008). The traditional specialization of Valenza Po is the production of gold jewellery and the processing of precious stones for high-end markets. Its jewellery-makers are artisans, world famous for their manual and creative skills and their high quality productions (Assicor-Aaster, 2008; Gereffi & Lee, 2008). The majority of Valenza Po's firms are very small; they do not have their own brands but rather work for the few big well-known branded jewellery firms in the district; and they lack managerial and marketing skills (Federazione Distretti Italiani, 2010). The genesis of this form of local production organization was based on small enterprises and the rise of strong collective institutions to facilitate the internationalization of SMEs.

Starting in the 1920s, the most successful firms shifted their focus from production to trade, which fostered subcontracting to smaller firms and the fragmentation of production (the average firm's size decreased by one-third from 1911 to 1927) (Gaggio, 2006, 2007). Also the political and institutional setting of the district supported the development of jewellery specialization, entrepreneurial ventures and inter-firm cooperation, which still characterize the district today (Unicredit & Federazione Distretti Italiani, 2011). In this soil, collective institutions played a key role in the entry of Valenza Po's firms, including small artisans, into foreign markets starting in the 1950s, and they shaped the competition and coordination among firms. During the 1970s–1980s, private companies played a more prominent role in district production dynamics; local lead firms like Damiani and Bulgari, which developed close ties with foreign wholesalers as well as their own branded chains, are still major players in shaping the district's dynamics (Unicredit & Federazione Distretti Italiani, 2011).

Unlike the artisan-based jewellery production in Valenza Po, firms in Arezzo specialized in the production of chains, bracelets and rings for low-end sales. Their success in foreign and domestic markets is attributed to their ability to keep prices low, assisted by the mechanization of production and the use of silver and other materials to lessen the impact of rising gold prices, along with product and process innovations (Lazzeretti, 2003; Assicor-Aaster, 2008). The average size of Arezzo's firms is small, but almost half of the firms own a brand and a distribution network. In contrast to Valenza Po, where the entrepreneurial activities of multiple local firms and collective institutions played a key role, the Arezzo district spun-off from one lead firm, Gori & Zucchi (now Uno-a-Erre).

While jewellery production in the area, located in central Italy, dates back to the fourteenth century (Lazzeretti, 2003), it was in the early twentieth century that the district took on the industrial structure for which it became internationally famous, mainly thanks to the development of Uno-a-Erre (Gaggio, 2006, 2007). Founded in 1926 and specialized in low-quality products, it grew ten-fold in less than a decade thanks to the mechanization of several production phases, and in the 1960s became the largest gold jewellery exporter in Europe and the largest producer in the world. At that time, societal and political pressures forced the company to decentralize, favouring the development of small businesses and a splintering of production (Gaggio, 2006; Assicor-Aaster, 2008). The decision-making role of collective institutions in Arezzo was concentrated in one firm, Uno-a-Erre. Arezzo's institutions emerged after the district developed, as an initiative of a few lead firms and the public authorities to regulate activities within the district and to support the entrance of smaller firms in international markets.

The Vicenza district's evolution assumes characteristics of both of the prior districts: its long tradition in jewellery manufacturing originates from the entrepreneurial venues of several firms, like in Valenza Po, but its more recent development through industrialization is similar to Arezzo. Jewellery production in the Vicenza province in the North-East of Italy has two main centres: one is the city of Vicenza, where the industry was born; and the other is the area of Bassano and Trissino, located 40 kilometres northeast of the provincial capital. Firms in the capital area are more artisan-like, whereas firms in the Bassano and Trissino area are specialized mainly in chains production. These are bigger and their competitive advantage lies in economies of scale rather than product differentiation.

Historically, gold jewellery manufacturing in the Vicenza district flourished in the Renaissance, and the industry expanded in the mid-1800s and boomed in the 1960s, thanks to the diversification of its product range and investment in high-performing machinery, which allowed the district to enter international markets (Assicor-Aaster, 2008). Vicenza is embedded in a very dense and lively industrial area, where several districts specializing in other fashion industries and mechanics are located, and important institutions, like the Vicenza Fair, the most prestigious jewellery fair in Italy and among the most important in the world, have promoted the development of local firms and attracted foreign buyers (Assicor-Aaster, 2008). Traditionally, chains, watchstraps and components for watches were among the most common products made in the Vicenza district, but in recent years its product range significantly expanded to higher quality production and silver jewels (Federazione Distretti Italiani, 2010).

5. District Patterns of GVC Integration and the Globalization and Recession Challenges

Having entered international markets in the 1950s and 1960s, Italian districts became one of the most important centres for jewellery production worldwide and continued to grow throughout the 1990s. Starting in the 2000s, however, global markets presented Italian jewellery districts with tough challenges that undermined their global competitiveness. Spurred by the entry of producers from emerging economies like China and India, and recent changes in the global demand for jewellery, new patterns of international competition caused a significant downturn in Italy's IDs, but they impacted Italy's three jewellery districts in different ways.

According to ISTAT and Chamber of Commerce data, in 2002–2010 the number of firms decreased in all three districts: the declines were 22.5% and 24.0% in Arezzo and Valenza Po, respectively, and the largest drop of 38.6% occurred in Vicenza (see Table 2). The reduction of employment has been even sharper. Especially in Vicenza, the number of employees was almost halved, and it has become the district with the fewest firms and workers. While the average size of the firms in Valenza Po remained almost the same, in Arezzo and Vicenza the number of employees fell faster than the number of firms, indicating a process of downsizing. Despite the overall downsizing across the three IDs, their export performance and internationalization strategies diverged significantly. In the following sections, we discuss how these three IDs differed in terms of downstream and upstream internationalization in the face of the twin globalization and recession crises.

5.1 *Downstream Internationalization*

Vicenza was the worst performer in jewellery exports.[3] Its share of Italian jewellery exports dropped sharply, from 35.5% in 2001 to 26.7% in 2010. Vicenza's exports fell in value by 27.2% in 2001–2004, and by 20.3% in 2007–2010 (see Table 3). Valenza Po was the best performer during the globalization crisis, registering the lowest reduction in exports with respect to pre-crisis levels (13.9% in 2001–2004), but in the face of the

Table 2. Recent transformations of the Italian jewellery districts

	Valenza Po	Arezzo	Vicenza
Number of firms (2010)	879	1220	713
Variation, 2002–2010	−24.0%	−22.5%	−38.6%
Number of employees (2010)	6767	9077	6547
Variation, 2002–2010	−25.8%	−35.5%	−43.9%
Average number of employees (2010)	7.7	7.4	9.2

Source: Our elaboration on Chamber of Commerce data.

Table 3. Italian jewellery districts' export performance during the globalization and recession crises

	Valenza Po	Arezzo	Vicenza
2001	465	1756	1980
2004	400	1143	1441
2007	646	1440	1531
2010	562	1532	1220
2001/2004	−13.9%	−34.9%	−27.2%
2004/2007	61.4%	26.0%	6.2%
2007/2010	−12.9%	6.4%	−20.3%

Source: Our elaboration on ISTAT data on ATECO industry code 32.1.
Note: Data are in millions of Euros.

recession crisis of 2008–2009, it lost ground to Arezzo. Meanwhile, Arezzo was particularly hard hit by the globalization crisis. However, in 2007–2010, while the other districts registered a decline in exports, Arezzo displayed an increase of 6.4%. It is interesting to notice, however, that Valenza Po exports increased considerably in the intervening period (2004–2007), differently from the other districts, so that its export values in 2010 were still higher than in 2001.

The analysis of export destinations suggests the existence of both inter- and intra-district heterogeneity: the three IDs followed different export strategies and changed their international trading partners in the face of the recession crisis as compared to the globalization one. During these two crises, all the jewellery districts have lessened their dependence on the US, traditionally their main market: in 2010 Valenza Po's and Vicenza's exports to the US were 59.7% and 78.9% lower, respectively, than 10 years before. Arezzo firms faced a similar shift. The decrease in the US market, following the industry shock in the early 2000s, was offset by increasing exports to the UAE from Arezzo's and Vicenza's companies. In terms of exporting to new markets, Valenza Po targeted advanced economies in Europe (Switzerland, the UK and France) and Asia (Hong Kong), whereas Arezzo and Vicenza firms steadily increased the share of exports in emerging economies (see Table 4). Markets that grew particularly for Arezzo are Turkey—which rose from its 21st largest export destination in 2000 to the fourth largest one in 2010—and Tunisia, which became an increasingly important export market for the district starting in 2006 (see Nomisma & Istituto S. Anna, 2006). Meanwhile, Jordan, China and Libya grew the most as Vicenza's export destinations in the mid-2000s.

Firms in all IDs changed their strategies in the face of the global recession crisis of 2008–2009, with developing economies, mainly China, playing a growing role and becoming one of the largest export destinations for Arezzo and Vicenza. It is notable that during the recession crisis, the Arezzo district's firms increased their exports towards more advanced markets (mainly European countries, but also Asian ones), whereas Vicenza's firms kept serving developing economies (Central Asia, Latin America and Northern African), although different ones than those Vicenza served in the face of the globalization crisis. The two crises also spurred an increasing fragmentation of the export market, mainly in Vicenza, where in 2001 the largest export destination (the US) was responsible for 39.6% of the overall exports in value versus 14.3% (to the UAE)

Table 4. Italian jewellery districts' downstream internationalization strategies

	Valenza Po	Arezzo	Vicenza
Top export markets			
2001	Switzerland (23.4%)	US (32.2%)	US (39.6%)
2004	Switzerland (35.8%)	US (31.4%)	US (26.8%)
2010	Switzerland (47.7%)	UAE (31.9%)	UAE (14.3%)
% of developing economies among the top 10 export markets			
2001	0%	13.0% (Panama, French Antilles)	3.1% (China)
2004	0%	8.4% (Panama, Turkey)	12% (China, Jordan)
2010	0%	14.6% (Turkey, Panama, Tunisia)	19.4% (China, Libya, Jordan)
Fastest growing export destinations			
2001–2004	Central-western Europe (+37%); Central Asia (+16%)	Central Asia (+334%); Central-western Europe (+47%)	Central Asia (+123%); Mediterranean Area (+102%)
2007–2010	Mercosur (+305%); Central Asia (+265%)	Central Asia (+251%); Mercosur (+236%)	Northern Africa (+153%); Mercosur (+133%)

Source: Our elaboration on ISTAT data for the ATECO industry code 32.1.

in 2010 (see Table 4). In contrast, a consolidation took place in Valenza Po, as shown in the increasing share of Switzerland, the largest export market for the district throughout the 2000s.

5.2 *Upstream Internationalization*

Internationalization also took place in the upstream segments of the jewellery value chain, i.e. producing and importing parts for further processing. Table 5 reports, for each district,

Table 5. Italian jewellery districts' imports (millions of Euros)

		Total imports	Imports for production (IfP)	IfP/exports
2001	Valenza Po	298	284	61.0%
	Arezzo	34	18	1.0%
	Vicenza	106	66	3.3%
2010	Valenza Po	430	412	73.2%
	Arezzo	98	92	6.0%
	Vicenza	129	94	7.7%
2001/2004	*Valenza Po*	*−16.9%*	*−18.8%*	*−5.7%*
	Arezzo	*1.8%*	*21.3%*	*86.4%*
	Vicenza	*33.7%*	*59.8%*	*119.6%*
2007/2010	*Valenza Po*	*−3.9%*	*−2.8%*	*11.7%*
	Arezzo	*95.0%*	*156.0%*	*140.6%*
	Vicenza	*−46.8%*	*−55.0%*	*−43.6%*

Source: Our elaboration on ISTAT data on ATECO industry code 32.1.

three kinds of import variables: the total imports of jewellery and their parts; the portion of these imports destined for further processing within Italy and not for final consumption (imports for production, or IfP); and finally, the ratio between imports for production and export.[4] In the period 2001–2010, IfP increased in all districts, indicating the rise of upstream internationalization. The increase was the highest in Arezzo (by more than four-fold), suggesting the higher reliance of ID firms on foreign suppliers.

Import patterns are not monotonic, but vary from district to district. The import of jewellery from foreign producers by Valenza Po firms decreased during both crises, whereas Arezzo's increased, especially during the second shock (+156%). The pattern of Vicenza's IfP during the two crises is mixed; it increased during the globalization crisis, but decreased in the latest crisis, which may reflect also changes in the quality of imports.

The analysis of the import/export ratio (the far-right column of Table 5) also shows the growth of upstream internationalization; the share of imports for production in the district's exports generally increased in 2001–2010. Yet, the reliance on imported parts varied, particularly between Valenza Po, where imported precious stones are used for jewel production, and the other two IDs. Also, in each district, the ratio changed over time. In Arezzo and Vicenza during the first shock, and Arezzo and Valenza Po during the second one, import for production increased proportionally more than exports, indicating a possible increase in the division of labour at the global level or an increase in the unit value of the goods imported.

The analysis of the main exporters to Italy's jewellery districts indicates the highly dynamic nature in the internationalization of ID firms. As shown in Table 6, the districts'

Table 6. Italian jewellery districts' upstream internationalization strategies

	Valenza Po	Arezzo	Vicenza
Top import markets			
2001	Belgium (54.9%)	US (21.0%)	Switzerland (23.6%)
2004	Belgium (49.5%)	China (15.4%)	Hong Kong (13.9%)
2010	Switzerland (45.5%)	France (28.6%)	Belgium (12.7%)
% of developing economies among the top 10 import markets			
2001	9.0% (India, Thailand)	44.3% (Turkey, China, Thailand)	33.6% (Thailand, China, Turkey)
2004	8.5% (India, Thailand, China)	61.6% (China, Turkey, Jordan, Thailand, India, Romania)	33.8% (Thailand, China, Turkey)
2010	10.3% (India, Thailand, China)	33.3% (Tunisia, China, Jordan, Thailand, India, Romania)	58.8% (India, China, The Philippines, Thailand, Turkey, Romania)
Fastest growing import markets			
2001–2004	Africa (+22,990%); Oceania (+1278%)	Central-western Europe (+296%); Central Asia (+232%)	Central-western Europe (+1010%); Africa (+965%)
2007–2010	Mercosur (+147%); European non-EU (+66%)	Mercosur (+1469%); Europe (+756%)	North-Africa (+4842%); Central Asia (+335%)

Source: Our elaboration on ISTAT data.

portfolio of importers and their relative importance varied dramatically during the past decade. Similar to export dynamics, developing countries are playing an increasing role as suppliers to Italian districts. Their importance is particularly high for Vicenza. In 2010, developing economies represented more than half of the imports from the top 10 overseas suppliers to the district. In contrast, Valenza Po continues to rely mainly on higher value-added import suppliers, such as Belgium and Switzerland.

The case of Arezzo is particularly interesting. In the face of the globalization crisis, the district increased its total imports and started to source mainly from low-cost countries, notably China. The trend was reversed for the period 2007–2010, similar to the pattern of its downstream internationalization. None of the countries that were in its top-four exporters in 2004—China, Turkey, Hong Kong and Jordan—had a similar role in 2010, while France, Austria, Spain and Tunisia became the most important suppliers during the recession for the district.[5]

6. Understanding the Heterogeneity of Internationalization Strategies in Italy's Gold Jewellery Districts

Overall, our trade data analysis reveals great heterogeneity in the internationalization strategies of firms in Italy's IDs, even within the same industry and the same country, as summarized in Table 7. At the beginning of the 2000s, districts were rather homogeneous in the main market they served (the US) and the countries they received their imports for production from (advanced economies) (see Tables 4 and 6), but over the two crises, district firms diversified their export and sourcing destinations in different directions.

In order to understand the reasons why such differences emerged, and what supported the dynamism of IDs, we need to complement our analysis of the trade data with evidence from secondary sources, including newspapers, industry publications, firms' websites and interviews with industry experts. This qualitative analysis is organized along key dimensions of linking the GVC framework to ID studies, namely the role of global lead firms and district leaders, and the types of internationalization and GVC integration strategies implemented by dynamic ID firms in response to the changing structure of production and end markets, plus the presence of active local institutions and the enforcement of collective actions (Chiarvesio *et al.*, 2010).

Valenza Po is the only district where leading ID firms seem to be still playing an important role (Unicredit & Federazione Distretti Italiani, 2011), and where the local organizational structure and the internationalization strategies of firms have remained stable in the face of the crises. However, production and exports are increasingly concentrated in the hands of the two main leading firms, Damiani and Crova-Bulgari, which are among the biggest players in the Italian jewellery industry. During the crises, lead firms became more selective, engaging with a smaller group of local suppliers, which they invest in to develop their capabilities. They also started to rely on suppliers outside the district, mainly firms in other IDs or in other parts of Italy. Relationships with firms located outside Valenza Po were increasingly important also for smaller firms. Interviews with industry experts confirm that an increasing share of such firms are outsourcing lower-value activities—like the processing of gems—to countries such as China and Turkey, while for higher-value activities, collaborations with designers and fashion industry firms around Milan are spreading. In general, however, entrepreneurs in Valenza Po are still embedded in the district and enjoy the presence of strong local institutions.

Table 7. A comparison of the jewellery districts responses to the two crises

	Globalization crisis (2001–2004)			Recession crisis (2007–2010)		
Internationalization	Valenza Po	Arezzo	Vicenza	Valenza Po	Arezzo	Vicenza
Downstream						
Export ranking	1 (−)	3 (−)	2 (−)	2 (−)	1 (+)	3 (−)
Main export markets	Advanced	Advanced and developing	Advanced	Advanced	Developing and advanced	Developing and advanced
Upstream						
Import for production (IfP) ranking	3 (−)	2 (+)	1 (+)	2 (−)	1 (+)	3 (−)
IfP/export ranking	3 (−)	2 (+)	1 (+)	2 (+)	1 (+)	3 (−)
Main import suppliers	Advanced	Developing	Advanced and developing	Advanced and developing	Advanced and developing	Developing and advanced

Source: Our elaboration on ISTAT data.
Note: Numbers indicate the relative ranking of the districts (1 = the best performer, 3 = the worst performer); in parenthesis the sign of the trend.

Overall, Valenza Po seems to be a "two-track" district. A majority of firms are performing badly—mainly those lacking marketing, managerial and commercial skills, offering poor service, and having no retail function—while a smaller set of companies are still competing on international markets. They have invested in the years preceding the recession crisis to improve their products through design and to develop a retail strategy. This group comprises big firms such as Damiani, Bulgari and Crivelli, but also smaller ones that have functionally upgraded into own brands and retail channels or became "quality suppliers" working for international or local brands (Federazione distretti Italiani, 2010; Unicredit & Federazione Distretti Italiani, 2011).

Meanwhile, Arezzo has been facing a tough leadership transition during the 2000s, since Uno-a-Erre, the district lead firm until the 1990s, faced a strong competitiveness crisis and delocalized a considerable part of its manufacturing activities and its supply chain to Jordan and other developing countries, which had a significant impact on the district's firms (Nomisma & Istituto S. Anna, 2006; Gaggio, 2006; Assicor-Aaster, 2008). Subsequently, the district underwent a restructuring, with firms that did not own a brand being the most weakened, especially in international markets (Nomisma & Istituto S. Anna, 2006). While many firms, especially the smallest ones and those that have not invested in innovation and branding, are still in economic decline (see Simoni *et al.,* 2010), a dynamic group of SMEs has emerged and accounts for the positive performance of the district in international markets. The most successful firms, like Graziella Group, have invested in product innovation and brands and in retailing to target higher-end markets; another part specialized in the production of components, like spring rings, clasps and beads, or in services (e.g. the treatment and recovery of precious metals and the precious metal bank), serving firms both internal and external to the district (see also Nomisma & Istituto S. Anna, 2006; Simoni *et al.*, 2010).

The characterization of the strategies adopted by the relatively successful firms suggests, therefore, that Arezzo confronted transformations similar to those in other districts (Rabellotti *et al.*, 2009), namely quality upgrading and the move towards "lateral" specializations. In addition, local institutions have been empowered during the crises and pursued collective actions to support the insertion of Arezzo's firms into higher-value GVCs. Such dynamism in the district's upgrading strategies may well explain both its good performance in international markets and the deep changes in the portfolio of countries the companies traded with during the recession crisis. Furthermore, upgrading dynamics may account for the increasing import levels that characterized the district in the recession crisis.

In Vicenza, the majority of firms are still unbranded subcontractors, which are very hard hit by the crisis. These firms based their competitive advantage on economies of scale, rather than product differentiation (see Unicredit & Federazione Distretti Italiani, 2011). A handful of dynamic firms emerged in the last decade—even if they are less numerous than in Arezzo—and they have invested in product and process innovations, mainly targeting low-end products. In the district, there are big firms—but much smaller than Valenza Po's Damiani and Bulgari—with strong brands, like Cielo Venezia 1270, Chimento, Roberto Coin and Muraro, but they have little connection to local producers. Thus, they don't contribute to the district's overall development, nor are they working to upgrade the lower tiers of suppliers, as happened in Valenza Po.

Very few ID firms in Vicenza have gained ground during the recession crisis. Moreover, there is evidence that during the recession, some firms reacted by "downgrading" their production—e.g. substituting silver for gold (not always successfully because this shift requires new and different competences than the use of gold)—while others engaged in partial upgrading, improving their products and processes but not performing higher value-added activities like design, marketing and retail (see Unicredit & Federazione Distretti Italiani, 2011). According to industry experts, among the internal causes of the crisis are the small scale of the firms, which prevents investments, and their traditional attitudes, which inhibits longer-term thinking (Unicredit & Federazione Distretti Italiani, 2011). Contrary to Arezzo, there are few effective cooperative actions within the district, both among firms and with other institutions, despite the presence in the district of strong local institutions like the Vicenza Fair. The weak role of leading firms, the limited upgrading effort of artisans and the ineffective role of local institutions all contributed to the poor performance of Vicenza district firms.

Our qualitative analysis, in sum, has shown growing internal heterogeneity within the Italian gold jewellery districts between firms that can compete globally and firms that cannot, affirming the finding of Chiarvesio *et al.* (2010). It has also found that the presence (or absence) of a few dynamic ID firms that upgrade in product design, retailing and branding for international markets played a critical role in the districts' performance in internationalization, highlighting the importance of functional upgrading towards downstream functions.

7. Discussion and Conclusions

In this article, we have proposed an analytical framework to integrate a GVC approach to the ID literature, focusing on key GVC variables, i.e. types of global lead firm, GVC integration paths, and the shifting geographies of supplier and consumer markets focusing on the Italian gold jewellery industry. This article has highlighted the differences in how several IDs competed in the global market amid two industry shocks, first the "globalization crisis" in 2002–2003 and then the "recession crisis" in 2008–2009, despite being in the same industry and country.

Overall, our findings reveal considerable heterogeneity in the response of district firms to external shocks, in terms of their export destinations and performance as well as the international composition of their input suppliers. The jewellery districts also diverged in their engagement in high-end versus low-end markets, as well as their export propensities to advanced economies as compared to developing ones, suggesting a differentiation of their end markets in terms of market segment and geography. As a result, the portfolio of each district's export and import partners has changed in 2001–2010 as significantly as its internal structural characteristics and export performance has. Thus, our analysis suggests that how firms integrate within GVCs—their upstream and downstream internationalization strategies—is an important explanatory factor of such heterogeneity, along with internal factors such as structural characteristics and specific business strategies. Furthermore, it prompts the ID literature to pay closer attention to the characteristics of the GVC linkage a district has in terms of the type of the lead firm and the nature of the end market.

The comparison between Arezzo and Vicenza is emblematic in this sense. Firms in both districts are addressing similar markets, traditionally specializing in chains and bracelets for low-end sales, even though in more recent times they both tried to move towards higher value-added niches, thanks to product and process upgrading. In addition, they both are renowned for their ability to compete on price and quality, due to process and product innovations. Despite such similarities, firms located in those two districts were opposites in their ability to compete in international markets during the two main shocks that affected the jewellery industry. While a group of dynamic firms in Arezzo upgraded via production, branding and retailing innovations that allowed them to compete in international markets, Vicenza had weak lead firms and limited upgrading of its largely unbranded small suppliers, illustrating the importance of external linkages in successful upgrading.

The analysis of trade data and secondary sources suggests that part of this contrast is explained by their different levels of participation in GVCs. The ability of firms to engage in functional upgrading (investments in product design, brand and retail) is a key factor in explaining such heterogeneity. In the fast-changing global jewellery market and with the vanishing of the "middle-market" in key export destinations like the US, distribution channels are diverging with the rise of new types of retailers and the growing segmentation of the market to meet the demands of diverse consumer groups in advanced and developing country markets. Suppliers must have greater control over marketing and retail segments of the chain and a tighter coordination with foreign buyers. Italian producers are generally not as fast as their international competitors in embracing these changes, relying on existing importer-distributors and their extended distributional channels with little effort devoted to brand and product differentiation (Simoni *et al.,* 2010).

A key contribution of this article is demonstrating that Italian IDs did not react in the same way to the globalization and recession crises, using as evidence both downstream and upstream internationalization strategies, and thereby challenging researchers and policy makers to understand the impacts of the recession crisis differently from those of the earlier crises that have taken place in the last decade. Not only did each district react differently (e.g. Arezzo increased its exports, when Valenza Po and Vicenza decreased theirs during the recession crisis; and Vicenza increasingly imported from developing economies, whereas Valenza Po and Arezzo focused on advanced countries), but the same district also changed its strategy over time to tackle the two crises that were different in nature.

The new export destinations chosen by districts to face the loss of competitiveness during the globalization crisis differed from those chosen in the face of the recession crisis, reflecting their diverging linkages to different end markets.[6] This evidence is, on the one hand, similar to the results of the recent analysis by Cutrini (2011) on an Italian footwear district, where a similar delocalization pattern was found during the 1990s. On the other hand, it implies different impacts of globalization and recessions on the districts' internationalization strategies. Finally, the analysis of qualitative data suggests an increasing difference within the districts, with some firms getting ahead in international markets and others falling behind in the face of the dual crises.

Our evidence challenges researchers to develop a more fine-grained analysis of IDs, generating taxonomies like the ones suggested in De Marchi & Grandinetti (2012) and Chiarvesio *et al.* (2010). Such tools can provide a conceptual framework to gauge the divergent and evolving trajectories of ID development in the face of globalized production. At the same time, our study prompts researchers to use the downstream and upstream dynamics associated with GVCs to identify the factors that enable IDs to maintain their international competitiveness. More sophisticated analysis of the value chain networks inside and outside the district, and the degree to which embedded relationships within the district versus the impact of external actors affect economic performance, are critical issues to evaluate the structural changes of contemporary IDs and their relevance in a globalized economy.

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Notes

1. Cluster firms may engage in product upgrading, in process upgrading, functional upgrading by moving into new stages in the supply chain, or chain upgrading by diversifying into related industries (Humphrey & Schmitz, 2002).
2. According to ISTAT data, in 2010 jewellery accounted for 9.2% of the exports of those industries.
3. Export and import data are in values and refer to the ATECO industry code 32.1 that includes not only jewellery made of precious metals, but also precious stones, custom jewellery and mix-and-match jewellery that is currently very popular. Because of data limitations, we used the province as a proxy for districts; the fact that jewellery production is very concentrated in a restricted geographical area reduces considerably the possible bias emerging from the use of such a proxy.
4. The analysis reported uses the same industry code as the analysis of export dynamics, ATECO code 32.1, because "foreign outsourcing represents the transfer overseas of production activities that could have been done" by companies in Italy (Feenstra & Hanson, 1999). The industry code may also include imports of final products to be sold on the market. In the absence of data directly measuring how much of these imported goods are for final markets and how much are inputs for jewellery producers, we estimated the import for production (second column of Table 5) by subtracting the total provincial consumption of jewellery—estimated using data on the ISTAT consumption survey—from total imports at the provincial level (first column). The precise procedure is available upon request. While this proxy assumes that jewellery consumption is self-contained within the province and does not consider jewellery consumption by people from outside the province, such as tourists, these two effects have an opposite sign and may offset each other, and we think this proxy may be reliable for longitudinal analyses.
5. One can not rule out the possibility that these imports from developed countries are actually just an intermediate import from the developing countries that were serving the Arezzo market during the previous years. However, the fact that more than one European country became so important for Arezzo firms reinforces the consistency of our interpretation of this data as a change in the import attitude of the district's firms.
6. It may still be too early to assess the full effects of the recession on IDs, or whether and how it has changed the structure of IDs and the way ID firms operate, since the recession is not yet at an end.

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