

# **Europeanization at the local level: the case of Timisoara, Romania**

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## **Introduction**

Europeanization – a fashionable topic, that has attracted considerable attention in policy as well as academic circles, partly propelled by the funding made available by the European Union, it has become an ‘academic growth industry’ (Clark and Jones 2008). As often happens to fashionable areas of academic interests, the definitions of Europeanization are multiplying (see for example Clark and Jones 2009, 193; Leibenath 2007, 152; Featherstone 2003, 6-10; Olsen 2002, 923-935). However, there is still a core of meaning in the literature, because all definitions have in common an emphasis on the rescaling of authority, identity and governance at all levels (Clark and Jones 2008, 309), and the description of ‘Europe’ as an emerging multi-level system of governance (Mamadouh and Van der Wusten 2008).

Even though these are inherently geographical themes, geographers have only recently begun to contribute to the study of Europeanization (Clark and Jones 2009). In a seminal paper, Julian Clark and Alun Jones have identified three ‘geographical discontents’ (Clark and Jones 2009), or theoretical weaknesses in the literature that need geographers’ work: the understanding of the role of territory, identity, and power dynamics in Europeanization. This contribution identifies two further geographical discontents: the poor investigation of the local level of Europeanization, and the economic-geographical dimension of Europeanization. In doing so, it asks two research questions: what are the main

characteristics of Europeanization in Timisoara, Romania, and surrounding areas? What kind of impact did foreign investors from Italy have on governance, identity, and authority in Timisoara?

The following arguments will emerge from the answers to the research questions: first, the growth of new layers of institutions and new elites – rather than replacement of old ones - is a fundamental characteristic of Europeanization in Timisoara; therefore, Europeanization does not erase the legacy of socialism, it includes it. Second, such inclusive process is possible – and economically successful – because local elites have manipulated old identity tropes to support neoliberal reforms. Third, those reforms were able to attract investors, who in some cases (represented by the Italians in this study) have established expatriate communities. Fourth, those communities participate in the political activity of the city as new elite group, which further supports pro-business policies.

In order to carry on its argument, the paper has the following structure. The first section discusses the literatures on Europeanization and regional economies. The two literatures have one important point in common: during the past two decades, the different phenomena they study have gone through processes of rescaling, due to the combined effects of globalization and EU widening and deepening. The following two sections look at the rescaling of authority and governance in Timisoara from the standpoint of economic change. The second section looks at how the local (former socialist) political elite have managed economic change, transforming the governance structures of the city and region as a side effect. Particularly, they have successfully exploited the funding opportunities arising with the enlargement of the EU in order to attract resources to the city. Moreover, they have built upon identity issues to guarantee popular support to the hard-to-sell neoliberal reforms

required by foreign donors. In doing so, they obtained two remarkable results: first of all, new institutions have emerged in the city, thus including Timisoara in the system of multi-layered governance that constitutes 'Europe.' Second, new elites have emerged – expatriates living permanently or semi-permanently in the city to manage the large amount of foreign investments. The third section analyzes the largest of these groups – as for the aggregate amount of investment and number of firms established –: investors from Italy. Over time those investors have committed an increasing amount of resources to Timisoara, becoming stakeholders in the city, and actively contributing to local governance through their associations and their involvement in the Chamber of Commerce.

### **Methodology**

The paper draws on empirical research conducted in 2006: using the case study method, it analyzes the changes in the relationship between the government of Timisoara and foreign investors between 1990 and 2005 (Yin 2003). Specifically, it discusses how policies and government agencies dealing with economic development and foreign investments have changed; it also analyzes how Italian investors' attitudes and involvement with the local government have evolved. The research consisted of twenty four, semi-structured, elite interviews with government officials, trade union leaders, bank managers, and business managers or owners.<sup>i</sup> The research snowballed from two initial contacts in Bucharest: a Romanian think tank, the Group of Applied Economics (GEA), and an Italian service firm active in Romania since the early 1990s (CPL92). GEA provided contact information with the most important institutions in Timisoara dealing with economic development and foreign direct investments. Those were the Local Development and EU Integration Department of

the City Hall of Timisoara and the Agency of Social and Economic Development of the Timis County (ADETIM). CPL 92 provided contact information with the association of Italian entrepreneurs (Unimpresa), and with an Italian consulting firm active in Timisoara (Boscolo & Partners). Boscolo & Partners introduced me to ten Italian entrepreneurs active in Timisoara. Unimpresa introduced me to Italian agencies active in Timisoara: *Antenna Veneto*, based in the Chambers of Commerce, Industry and Agriculture of Timisoara (CCCIAT) and the Commercial Office in the Italian Consulate of Timisoara.

### **Literature review: Europeanization at the local level**

In one of its broadest definitions, Europeanization refers to “the ways in which differing concepts and manifestations of Europe – both as a physical entity and an ideological construction – are reshaping... senses of community, including the national, regional, and local (Clark and Jones 2009, p. 193). Other definitions adopt a narrower viewpoint, focused on the current phase of European integration. For example, “Europeanization... can mean the diffusion of ideas and patterns of behavior on a cross-national basis within Europe, the creation of European level institutions and the modifications of the external borders of the EU (Leibenath 2007, 152; Featherstone 2003, 6-10; Olsen 2002, 923-935). Notwithstanding both definitions are spatial in nature, geographers have only recently begun to study Europeanization – examples of their work include Clark and Jones 2008, Clark and Jones 2009, Hooghe 2005, Etzioni, 2007, Mamadouh and van der Wusten 2008, Murphy 2008, Johnson 2008. As a consequence of their limited engagement, there are “theoretical weaknesses resulting from the partiality or absence of treatment” of geography in the literature (Clark and Jones 2009, 194)

Julian Clark and Alun Jones identified three of those theoretical weaknesses, or ‘geographical discontents’ (Clark and Jones 2009). First, much of the literature understands territory as a passive backdrop, rather than an active constituent of Europeanization. By depicting Europeanization as ‘something imposed’ on spaces, the literature implicitly privileges the supranational scale, encouraging a static and mechanistic view in which EU institutions transform the underlying nation states (Clark and Jones 2009, 196, Radaelli 2004, 3). Second, identity is often conceptualized as a “binary distinction juxtaposing member-state and EU identity” omitting important work on the “bleeding together of national and supranational identity’ (Clark and Jones 2009, 196; see also Hooghe 2005, and Etzioni, 2007). Third and last, power is understood as a top down impact and transformation of national and regional institutions, paying little attention to states’ selective acquiescence to Europeanization, and the capacity of elites to ‘fashion discursive constructions of Europeanization supportive of their goals’ (Clark and Jones 2009, 197).

I would like to argue that two more ‘geographical discontents’ emerge from the three Clark and Jones have identified. First, there are not many analyses of the local and regional level; second, the economic geographies of Europeanization are not widely discussed either. Lack of attention to the local and regional dimension emerges from Clark and Jones’ first two discontents: the under-theorization of territoriality and the simplistic understanding of identity. This happens because the literature’s focus on European level institutions leads to forget apparently less influential actors, such as local mayors, regional governors, and officials working in local agencies. However, policy makers at European level are well aware of the importance of the regional dimension, and now regional policies constitute more than forty percent of the total budget of the EU (EU no date). Moreover, there is a literature in

political sciences that shows that EU regional policies have a powerful, albeit contradictory, influence on European governance (Doucet 2006, Gruber 2002, Drake 2000, Faludi 2007, Bachtler and McMaster 2007, Bachtler and Mendez 2007). Unfortunately, this literature suffers from the third of Clark and Jones' 'discontents,' because it discusses regional policies mostly as a top down influence on regions.

The virtual absence of the role of firms in the literature is even more puzzling: given that EU institutions play such a crucial role in Europeanization, and given the EU is still primarily an economic union, firms and changing value chains and production networks should be at the center of analysis. Instead, at present, Sellar (2009) is one of the few articles showing that firms and entrepreneurs are playing an important role in the sociocultural transformations of Europe.

What theoretical framework could account for both the regional and the economic geographical dimension of Europeanization? This paper uses Beck and Grande's Theory of reflexive modernization, and an adaptation of works on regional economies and industrial clusters, to analyze the specific case of Timisoara, Romania. In Beck and Grande's view, the most recent phase of Europeanization does not break away from modernity; instead they emphasize the continuity between the modernist system of nation states and the new system led by the EU. They define the new political and social situation as 'second modernity' because "the nation state is not replaced but integrated in a variety of ways into new international regimes" (Beck and Grande 2007, 32) Beck and Grande described the shift between the first and the second modernity in terms of five hypotheses, or theorems (2007, 30). First, the structural break theorem states that in the final quarter of the Twentieth Century there had been a fundamental discontinuity in modern societies. Second, there is an

inclusive relationship between first and second modernity, because the second modernity includes the structures of the first modernity (such as functioning states, market economies, legal systems). Third, the transformation of societies happened as an unintended consequence of modernization, rather than revolutions (side-effect theorem). Fourth, the transition from first to second modernity occurs imperceptibly (theorem of internal dynamics). Fifth, the parameters of change are themselves changing (self-transformation theorem).

In a local, postsocialist context like Timisoara, the theory of reflexive modernization leads to the following hypotheses. First – and obviously - there is discontinuity between the socialist and the postsocialist governance; however, such discontinuity is less pervasive as one may think, because the transition from socialism to postsocialism (and Europeanization through the influence of the EU) is actually a shift from one kind of modernity to another (Beilharz 2009, Pence and Betts 2008). Second, the old socialist structures of governance are somehow included in the postsocialist/Europeanized city, rather than replaced. Third, there are unintended social changes emerging from this second modernization.

In order to show that the hypotheses outlined above are valid, this paper looks at the evolution of economic governance in Timisoara, because the rearticulating of social and firms' networks is one of the most important aspects of postsocialism (Begg et al. 2005; Pickles 1993, 1998, 2002, 2004, 2006, 2008). How to introduce a discussion of economic changes in the (mostly political) framework of Beck and Grande? This paper suggests that the literature on new regionalism, and industrial districts/clusters is a useful answer, because of it emphasizes the relation between firms and institutions and territorial identity in determining economic performances (Marshall 1919, Piore and Sabel 1984, Scott and Storper 1987, Porter 1990, Becattini 1979, Markusen 1996). In the original formulations,

rooted in the work of Alfred Marshall, industrial districts are “dense concentrations of interdependent small and medium enterprises in a single sector and in auxiliary industries and services” (Marshall 1919, Dunford 2006, p. 27). Later works extended the object of analysis from clusters to all types of regional economies, discussing the role of regions in promoting innovation (Perrin 1993, Markusen 1986, Saxenian 1994 Storper 1997). One of the key arguments in the literature is that sustained social relationships are pivotal to both firms’ agglomeration and innovation (Child and Faulkner 1998). A whole body of work developed around the concept of social capital, or the “social structure that enable social actions” (Dolfisma 2008: 19), showing that social action happens at multiple levels (Granovetter and Swedberg 2001, Bourdieu 1986, Putnam et al. 1993). Specifically, innovation systems depend on social structures encompassing nations, regions, and sectors (Freeman 1987, Nelson 1993, Cooke et al. 2004 Malerba 2004, Breschi and Malerba 2005: 3, Martin 2008). The most recent work on global city-regions makes a similar argument, i.e. that the trajectory of any regional economy is heavily dependent on globalization and policy decisions happening at a wide range of scales and places (Scott 2001).

Looking at the Europeanization of Timisoara, the following sections reinterpret in a dynamic way the findings of the literature of new regionalism, and industrial districts/clusters. In doing so, they investigate the transformations in the structure of institutions, which determine changes in firms, social capital, and economic performances. In Timisoara, the rippling effects of the establishment of a European level of governance determined changes in the local institutions (Beck and Grande’s structural break theorem). However, those changes added new structures, rather than replacing the old socialist ones (inclusive relationship). These institutional transformations were effective in opening up the

city to foreign investors; those investors also established networks with Western European partners. These changes determined the emergence of new elite that furthered the Europeanization of the city (side effect theorem).

### **The structural break theorem: the neoliberal success of postsocialist Timisoara**

The break with the Socialist past in Timisoara meant primarily an exceptional economic success, following a neo-liberal economic model, (See Table 1, *Timisoara in figures*). Looking at the numbers, the following issues characterize the ‘Timisoara miracle.’ First of all, the economic structure of the city and region is highly diversified, with a wide range of sectors of industrial production and trade. The amount of foreign investments is exceptionally high (more than one quarter of the capital invested in the city is foreign owned), and it is the most important driver of the economic growth of the city. As a result, in the first decade of the millennium Timisoara experienced full employment (2.41% of unemployment, against a national average for Romania of 6.2%), which reflects in an average wage level higher than the national mean (USD 320 per month instead of 307), but also in much higher cost structure (Consolato Generale d’Italia a Timisoara: 2006).

In many respects, Timisoara mirrors on a local scale the whole Central Eastern Europe: in fact, Tondl and Vuksic showed that the exceptional growth of the region in the 2000s was driven by foreign direct investments attracted by a combination of EU led institutional stabilization, highly qualified human resources and geographical proximity with the core of the European Union (2003). My interviews with local agencies and the brochures advertising the city to foreign entrepreneurs made a very similar argument for the success of the city. First, they mentioned the strategic location of the city, with “ten European capitals

located in a radius of five hundred kilometers from Timisoara.” (Interview counselor, CCIAT, 04-06-07). Second, they highlighted the development of the agricultural sector and of a rapidly growing, low polluting and diversified manufacturing. Third, each mentioned the high level of education, due to the presence of a dense network of public and private universities. Summarizing the strengths of the city and region, a report by Pricewaterhouse and Cooper stated that the Western region of Romania is the second after Bucharest area as for attractiveness of foreign direct investment (Pricewaterhouse: 2004).

The most important break with the communist past has been the local (former communist) political and administrative elite’s wholehearted adoption of neoliberal ideology. Their specific view was that, first, foreign investments must be attracted, in order to inject capital and technology in the local economy, and in order to ‘learn capitalism’ from them. Second, in order to break away from the communist past, state owned facilities must be privatized, and local administrations have to be re-structured and reformed following the example of ‘mature’ capitalist countries.

Local elites adopted a precise strategy to put neoliberal ideology into practice: first, they managed the promotion of foreign investments to achieve long term sustainability and the development of induced activities in the city and region. Second, they mobilized specific aspects of local identity to guarantee popular support to socially costly reforms. The strategy towards foreign investors emerged repeatedly in the interviews. For example, the following excerpt from a conversation with a trade analyst highlights the early attempts to imitate the Italian model of industrial districts (for an academic discussion of the model, see Becattini 1979 and Brusco 1982):

[Italian industrial districts was] a model for us: it was the only one we saw, because entrepreneurs from Veneto were the first to come, and arrived in large numbers. Instead, as the President of the County said, now we must accept the fact that Italian and Romanian companies are developing in parallel way. (interview Romanian trade analyst: 04-10-2006)

This interview suggests that an initial, passive imitation of foreign (Italian) business practices was followed by a new phase of more autonomous development. Similarly, interviews with local government officials show how the local elite managed to put in place a very ambitious plan of economic restructuring. As a high level official in City Hall pointed out:

The city assumed the role of facilitator of businesses. In the 'Development Concept of the City of Timisoara' the first direction is to create a moral and friendly oriented business environment. In the year 2000 we said: 'no corruption – or reduce corruption' and 'friendly administrative environment.' (Interview Head of Local Development and EU integration, City Hall of Timisoara: 04-14-2006).

The details of the strategy of City Hall include open doors to the mayor's office for all investors, the participation of the mayor in international conferences and fairs to promote the city to potential investors, large projects such as the industrial parks, the software businesses incubator, and the technological park. Administrative procedures were reformed as well:

We changed procedures in order to reduce the bureaucracy and speed up business start up processes. For example, the maximum time to obtain a building approval is thirty days; we have a policy that for foreign investors the maximum time must be fifteen days, half of that. (Interview Head of Local Development and EU integration, City Hall of Timisoara: 04-14-2006).

However, the openness of the local administration to the needs of foreign investors tells only part of the story. Foreign businesses are not integrated in the local environment uncritically: local administrators and trade unionists decide whether or not support an investor looking at the respect of the local rules, stability of the investment and the requirement of bringing something positive to the local economy. City Hall chose to target

especially German firms, because of their reputation in high tech. This strategy built upon an analysis of local conditions:

In our concept, looking at our natural resources, to the skills of the population, we decided that the best focus for us would be software and high tech. Timisoara was the first city in Romania producing computers. So we had tradition here, but not a lot if compared with Germany. So, we decided that there are three branches we must focus on: software, high tech, automotive industries. ... We encouraged FDI in these fields. Of course, we focused on large companies. We paid Alcatel, Continental, and Siemens to come here. We did so because we knew they would have attracted their induced activities (Interview Head of Local Development and EU integration, City Hall of Timisoara: 04-14-2006).

Also trade unions discriminate among investors, distinguishing them in the moral terms of ‘serious’ and ‘non serious’ investors. The president of the Timisoara based National Federation of Trade Unions in the Textile Industry (F.N.S.I.U) describes foreign investors in the textile and clothing sector as follows:

Among foreign companies, there are serious investors and non serious investors... Unserious investors have no social conditions in factories, they try to exploit, paying less than minimum wage, give lots of problems. (Interview president, F.N.S.I.U: 04-11-2006).

He also openly preferred large businesses, employing more than one thousand workers, paying taxes and social security, and investing “in the social infrastructure of the city” (Interview president, F.N.S.I.U: 04-11-2006).

The second element of the strategy of Timisoara elites’ addressed precise the problem of the social costs of the reforms – convincing people to pay them for a long time. It was not an easy task, as a high level official in City Hall clearly states:

In order to reform, the first measure we had to take was to reduce firms’ size, because SMEs have the huge advantage of being flexible and easy to change... unemployment increased a lot. Also, to attract foreign investments... we encouraged salaries to remain low. Also, we had to accommodate taxes to the low salaries. ... we just did not have the money to re-habilitate the infrastructure.... As you can see, the city is a mess, and of course, the population is not happy with it. (Interview Head of Local Development and EU integration, City Hall of Timisoara: 04-14-2006).

In the end, the population accepted a decade of high unemployment, low salaries, and poor infrastructure. They did so because the elite was able to exploit a cultural and political tension between the city and the national government dating back to the years of Ceausescu's communist rule. Those tensions arose because Timisoara was richer than the national average, peripheral and culturally diverse, and therefore the centre perceive the city as a threat to its homogenizing and centralizing policies. In the end, people in Timisoara played a prominent role in overthrowing the communist regime (Mihai 1997). Echoes of this tension still emerge in the accounts of the early phases of transition. For example, F.N.S.I.U is headquartered in Timisoara and not in Bucharest because:

In center and western Romania people are more determined, they respect the work given, they are more serious..... Ceausescu made this difference, and since then there is a struggle between Timis and Bucharest.

The high level official in City Hall made a very similar remark, praising the work ethics of Timisoara's people:

The revolution started here. Here people wanted the market economy... the mentality of the population is our greatest asset: pro free market, pro competition, hard working. People have a material culture, they are proud to have. For this reason they are hard working (Interview Head of Local Development and EU integration, City Hall of Timisoara: 04-14-2006).

Geography and wealth play a key role in this understanding of local identity: Timisoara's people were hard working even under communist rule, because they were close to the border, and therefore could produce and trade and be wealthy:

Before 1989... we were better off [than the rest of the country], because we could go to Serbia and Hungary to buy stuff. Also, in Timis County there was the largest production of pig meat

in the country. This is a reason why Ceausescu didn't like us, because this area has a more efficient mentality than the rest of the country. (Interview president, F.N.S.I.U: 04-11-2006).

Another major advantage of Timisoara is the geographical location. We are near the border, 60 km away from Hungary and 40 km away from Serbia, and access to all means of transport and communication connections with Europe. (Interview Head of Local Development and EU integration, City Hall of Timisoara: 04-14-2006).

Timisoara's elite used the self perception of the city as 'different' from the center to build up the political will to get rid of the past centralized control of the communist party and Romanian State. In this context, pro-free market reforms were widely accepted because they provided the mean to reach this autonomy. This meant a deeper implementation of industrial restructuring:

Also, the economy of Timisoara has been traditionally rich. This was one of the best industrial areas. At the same time, here the reforms started earlier. It was not a show-off process; here people were really committed to reforms. It was not titles on newspapers, or political wishes, here companies were restructured for real and reforms were implemented faster than elsewhere. (Interview Head of Local Development and EU integration, City Hall of Timisoara: 04-14-2006).

It also meant right-wing parties dominated city's politics since the beginning of transition, and that people accepted the reforms:

The city was always led by a right wing party, and I think this is important for the reforms. I'm sure it will come a day when the left will be necessary. Speaking as an individual, the left wing policies do have advantages. But talking about the 'general economy' and especially about the passage from an 'extreme left' economy to a free market, it is necessary to have a strong wish, and not to concentrate so much on the social needs of the population. You need to have a long vision.

.... We did not need political pressure to implement the plan; we just needed to raise the pride of people

Also, we did not have large protests here. People accepted the leaders, and accepted to be lead, and this is positive, because the measure we described had some social costs for the population, and it is a big advantage to have their support in the reforms. (Interview Head of Local Development and EU integration, City Hall of Timisoara: 04-14-2006).

In sum, Timisoara's structural break with the (socialist) past meant that the (former socialist) political elite embraced neoliberal ideology. In doing so, local policy makers implemented a detailed long term plan based upon both the promotion of foreign investments and the mobilization of local identity. Thus, the case of Timisoara shows continuity with the past (because the political elite did not change much), and transformation (because ideology shifted). It also shows that there is a symbiotic relationship between political decisions and economic change: as many have already argued, successful free market economies are projects staged and managed by both institutions and firms (Convery et al. 2006, Sokol et al. 2008, Sokol 2001).

#### **'Inclusive relationship:' the self-transformation of Timisoara's elites**

Beck and Grande's view, "the second modernity came about with the natural evolution of the first modernity...[it is] a self transformation of modernity" (2007, 30). Decisions of national elites lead to the transformation of nation states from the ground up; as a consequence of this transformation, nation-states were not replaced, but integrated in a variety of ways into the new 'European' regime (2007, 32). In the case of Timisoara, a very similar argument explains the transformation of local governance. When City Hall adopted the neoliberal strategies described in the previous section, it set in motion a process of self transformation, which plugged the local bureaucracy into the networks and structures of Europe.

The existence of a supranational level of governance – i.e. the European Union and its funding programs, together with private donors – explains why economic policies lead to the self-transformation of the city's bureaucracy. At present, the economic policy at the city and

county levels are the result of a tight interconnection between the City Hall and a set of other institutions. The most important of these are the Chamber of Commerce (CCIAT) and two development agencies: ADETIM – which works at city and county level and ADRVEST, at regional level (Pislaru, D. *Interview with OECD*). Except for the City Hall, all these institutions have been constituted after 1989, with a small budget from the State. They rely on grants from international donors for their operations and very existence. Therefore, the availability of EU grants – and the success in getting the awards - shaped the change in the structure of the city’s administration.

Because EU grants tend to award projects that include international co-operation between similar agencies across in different member states, local agencies in Timisoara are very active in establishing transnational networks and in participating in the new forms of governance promoted by the European Union (see Murphy 2008 and Mamadouh and van der Wusten 2008 for a discussion of the emerging European governance). A closer look at ADETIM can give a new light on the extent, and the ways, in which Timisoara local government changed in response to the joint stimuli of the shift to a market economy and enlargement of the European Union.

ADETIM<sup>1</sup> ([www.adetim.ro](http://www.adetim.ro)), the “Agency for the Economic Development of Timis” was founded in 1995. It was itself part of a project funded by the European Union and a German public agency. German aid was fundamental to set up the agency, because the Regional Development Agency of Westphalia co-financed the project, trained Romanian employees, and because until 1997 German project managers co-authored grants with their Romanian colleagues (Interview project manager, ADETIM: 04-12-06).

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<sup>1</sup> The agency has a website, [www.adetim.ro](http://www.adetim.ro), but it is only in Romanian language

The initial duty of its nineteen person staff was to prepare grants; over the years, they took the task of providing information about the opportunities of the county to potential investors and developed training courses on grant writing for public administrators of the county's towns. At the moment, this is a unique system in Western Romania:

We have training programs to prepare people in the local administration to identify grant opportunities from the EU and to prepare the applications... They work in close contact with us, we prepare projects together. By now, there are such professionals in the 70% of the towns in the county. In this moment, this system is unique to Timis; we are working to extend it to the neighboring counties as well (Interview project manager, ADETIM: 04-12-06).

Why is the diffusion of grant writing skills so important? Because the award of grants contributes to Europeanization. In particular, findings from the interviews suggest that grants contribute to the rescaling of governance and authority across Europe (Clark and Jones 2008). They do so in several ways: first, they provide financial means to implement the EU legislation. Second, they encourage imitation and horizontal linkages between similar agencies throughout Europe; and third, they promote informal connections that may lead to business partnerships. Such process works at multiple scales, because national as well as local government agencies can apply to grants. The following example of the establishment of an environmental protection agency illustrates how grants work:

Now we are starting projects on environment protection. We have a new law, according to which we need to integrate ecologically sensitive areas in the land use planning. Because of this we are developing a twinning with a French agency for the protection of the environment.

Q. How does a twinning work?

A. They come, provide the organizational structure of the institution, some regulations and management methods. Together with the twinning there are also economic links between the two countries.

Q. Does this mean that official missions were organized to let entrepreneurs from the two countries meet?

A. Yes. Besides this, things happen unofficially: through twinning projects information is collected, and then given to the chambers of commerce, or they simply flow through informal networks (Interview project manager, ADETIM: 04-12-06).

Summarizing the findings of this section, Beck and Grande's inclusive relationship between first and second modernity explains postsocialist governance in Timisoara. The basic institutions of the first (socialist) modernity did not change: City Hall and most of its officials remained the same. This finding is consistent with broader analyses of postsocialism: see for example, Szelenyi and Szelenyi work on postsocialist bureaucracies (1995). The two authors showed that the basic structure and personnel of State institutions across the Eastern European countries did not change dramatically after the collapse of the Socialist bloc. In Timisoara, the second modernity (or Europeanization) is characterized by the inclusion of the old socialist structures into a network of new institutions. These new institutions emerged because of Europeanization – specifically, because of the funding policies of the European Union, – and have had the function of 'plugging' the city into an European network of similar agencies. In doing so, they established formal and informal relationships, and became part of a horizontal transeuropean level of governance – a 'transnational fusion bureaucracy (Beck and Grande 2007, 153).

**Side-effect theorem: the emergence of the Italian economic elite in Timisoara**

So far, this paper has analyzed the postsocialist changes of Timisoara, arguing that Beck and Grande's theory of reflexive modernization describes some of the changes in the city's governance. However, the literature on new regionalism/industrial clusters recognizes there is a mutual relationship between governance (local institutions and territorial identities), and firms. The hypothesis of this section is that the changes in governance lead to changes in firms' patterns. In turn, some of those changes in firms affected institutions and governance, contributing to the Europeanization of the city (Beck and Grande's side effect theorem). In

other words, this section argues that there has been a circular relationship between institutions and firms: changes in governance lead to changes in firms, which in turn lead to (unpredicted) changes in governance.

This section does not analyze all changes in Timisoara's private sector; instead, it focuses on the emergence of one new elite group in the city – entrepreneurs from Italy, who became active in the city's government. Italians are the largest group of foreign investors in Timisoara (see Table 1), and Timisoara and its county are the areas with the highest concentration of Italian firms in Eastern Europe (map 1, Consolato Generale d'Italia a Timisoara 2006). Those firms were never the target of City Hall's policies – those focused on large high tech firms from Germany. – Instead, local authorities opened doors to the flow of Italian investors, but they did not – and could not – create the process by themselves. Italian entrepreneurs followed their own profit seeking logic, channels of information, social networks, and opportunities that brought them to Timisoara in large numbers (see Federico 2004 for an analysis of the historical patterns of Italian foreign direct investments).

According to the General Secretary of the Italian Chamber of Commerce in Romania, three main steps in the evolution of the economic relations between Italy and Romania can be identified. Before 1989, commercial relations were already in place:

Even before 1989 there was an activity of Italian businesses in Romania. The Italian-Romanian bank exists since 1982, because there was the necessity to support trade, mainly in the meat and textile sectors. (Interview General Secretary, Italian Chamber of Commerce in Romania: 03-22-06)

After the collapse of State socialism, a second phase of Italian investments in Romania began. Small and medium enterprises from the North East of Italy 'discovered' Romania, and concentrated their activity in the Timisoara and surrounding areas. This initial

phase was characterized mostly by sub-contracting relations with local firms in the shoemaking and apparel sector. Timisoara attracted Italians because of cheap labor, existence of local textile and shoemaking factories they could partner with, geographical proximity with northern Italy (Timisoara is at driving distance from Northern Italy), low language barrier, and ‘similar mentality’ (interview president, Timis branch, Unimpresa Romania: 04-03-06). A second phase consisted in Italian manufacturers establishing factories in the area, followed by service firms and banks. In a third phase, before the financial crisis of 2008, large companies from a wide array of sectors began to invest in Romania. Those firms made larger and longer term investments, because they were attracted by economic growth and EU membership, and by the possibility of developing the local market.

In each of those phases Italian firms increased their investments (Federico 2004). The more Italian firms invested, the more they felt the need of sending Italian personnel to live permanently or semi permanently in Timisoara. By the early 2000s there was a quite large Italian expatriate community in Timisoara (Interview Italian accountant, Boscolo & Partners Timisoara: 04-05-06). The following personal history highlights how the economic trends described so far reflect in a growing personal involvement of individuals in the city:

In Italy I had a firm with two partners. At the end of 1989 a political refugee from Timisoara came to work in our firm. In 1990 we came with him to Timisoara, and decided to set up a workshop here. In the first years things went well, and we created a platform to manage a pool of subcontractors. In 1998 we decided to start a large factory, and appointed a Romanian to start it up. After two years the job wasn’t done yet, so I had to move here. In one year, we had our own factory with one hundred and eighty employees, plus we managed 52 subcontractors.<sup>2</sup> Then I had an argument with my partners: they wanted me to do everything, thinking that things in Romania work like in Italy. It is not the case, and it was just too much work for me alone. After I left, there was nobody managing the factory. Six months later it closed.

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<sup>2</sup> This is a quite common arrangement in the apparel sector: in order to absorb seasonal fluctuation, the core of the production is done internally, and the extra is done by subcontractors.

Then, I became director for a large multi national, which had a production unit here. Three years later they closed to unit here and moved to China, so I lost the job. Then, last year I started this firm (interview Italian entrepreneur in Timisoara: 04-21-06)

This excerpt shows the initial role of a local person in attracting the Italian firm in Timisoara, the initial phase based on low capital involvement, centered on a subcontracting relation; the growth and the establishment of a platform and the following start up of a direct investment. It also shows the growth of the personal involvement of the entrepreneur that accompanies the increase of the financial commitment, which culminated in moving permanently to Timisoara. Many Italian entrepreneurs made similar choices: all but two of the entrepreneurs interviewed in this fieldwork were permanent residents of Timisoara. The following interview with an Italian accountant in Timisoara describes clearly the strong commitment of Italian residents to the city:

[Italian] entrepreneurs have a mentality different from [the early years], when [subcontractors] came here to speculate, I consider them more 'evolved,' because they think about Romania as their own homeland. They know that, living the 70% of their life every year in Romania, this is their home. Thus they come to build enterprises in Romania, and do not come as predators, but organize their business as at home (Interview Italian accountant, Boscolo & Partners Timisoara: 04-05-06).

While Italians were moving to Timisoara, in the early 2000s the Italian government and some large firms began to push expatriates to establish formal business associations. The issue at stake was the rationalization and sustainability of the investments, together with lobbying the institutions in host countries. In Romania, lobbying became a pressing issue because of the competition with other, better organized, groups of foreign investors, as shown in the following interviews with a Romanian trade analyst and with an Italian diplomat:

I noticed that Italians do not act as a system, unfortunately. They act more as individuals. Germans, albeit they are fewer than the Italians are more used to act systematically. They meet; they have a German Economic Forum with the representatives of all large German businesses in this area. They are better organized at local level (interview Romanian trade analyst: 04-10-2006).

The strategy [of the Italian embassy in Romania] is to achieve a better organized, less spontaneous, Italian economic activity (interview chief commercial officer, Italian embassy in Romania: 03-31-06)

The need of organizing entrepreneurship led to the constitution in 2004 of the largest association of Italian firms abroad, Unimpresa Romania. Unimpresa has a central office in Bucharest and various local branches, Timisoara being one of the largest and best established.

In Timisoara, Italian entrepreneurs participate in the city's governance through Unimpresa and through the local Chamber of Commerce: Italian firms are by far the largest foreign group represented in the chamber of commerce (see Table 4), while Unimpresa plays its role of interface between Italian firms and local institutions. The relationship between Unimpresa and the Chamber of Commerce is very strong, to the point that the president of Unimpresa became vice-president of the Chamber of Commerce:

In Timisoara, Italian businesses have very good relationships with the local chamber of commerce, to the point that in May there will be the election of the directive council of the chamber, and I was asked to run for the vice-presidency. This is because, since the Italian presence in this area is very strong, they want to have an Italian representative in the chamber. Consider that my wife and I live completely in Romania from 1998 (interview president, Timis branch, Unimpresa Romania: 04-03-06).

Through Unimpresa and the Chamber of Commerce Italian entrepreneurs participate in planning the economic development of Timisoara:

[Unimpresa in Timisoara] is an interlocutor of the government; for example, it [participates] in the discussions about territorial planning, creation of industrial parks etc. (interview president, Timis branch, Unimpresa Romania: 04-03-06).

By the mid-2000s, the establishment of a large community of Italian firms attracted the attention of both the national and local governments of Italy, which provide a few financial and institutional instruments to support the internationalization of the Italian economy. This took the form of international institutional chains described above: for example, ADETIM receives a small financial support from the Italian government and it has many EU funded projects in partnership with Italian institutions, and one of its project managers is specialized in working with Italian partners. Also, representative offices of Italian institutions have been established in Timisoara: the Institute for Foreign Trade established a correspondence point within the Italian consulate in November 2004; the Regional governments of Veneto and Lombardy have representative offices since 2002, and the Italian government financed the establishment of information centers in Timisoara and other six cities in Romania. These offices – all located within the Chamber of Commerce - are first and foremost trade promotion agencies, disseminating information about business opportunities, legal issues, fairs, and various kinds of events. In doing to, they support the informal networking that led large numbers of Italian firms to invest in Timisoara for over twenty years.

Beck and Grande's side effects theorem states that second modernity does not "occur primarily through crises and revolutions, but as the unintended reverse side of the successes of primary modernization" (2007, 30). In the microcosm of Timisoara a revolution – a quite spectacular one – had happened in 1989. However, since then local elites had worked hard to 'learn capitalism' and successfully implemented neoliberal reforms. During this process of

neoliberalization local institutions underwent many important changes, not all of which were foreseen. This section has discussed one major (political) side effect of foreign direct investments: the constitution of an influential community of Italian expatriates. Italian firms began to invest in the early 1990s, without being the specific target of investment policies. In twenty years, Italians invested increasing amounts of capital for longer term; in doing so, entrepreneurs began to physically relocate to the city, so they could control their properties. In the meanwhile, the Italian government began pushing Italian expatriates to constitute associations. As a result, Italians in Timisoara became a new interest group, very active in the city's government through their own association and through the chamber of commerce.

#### **4 Conclusions**

There are at least two further geographical discontents in the literature of Europeanization, besides the three identified by Julian Clark and Alun Jones. First of all, there are not many studies focusing on how local (instead of national or supranational) elites have been affected by – and contributed to – the rescaling of authority, identity, and governance in Europe. Second, the literature tends to overlook how firms (and more broadly, changes in the economic geography of Europe) participate in these processes. This paper has discussed the postsocialist transformation of Timisoara, Romania, to show that, first, the local political elite was an active agent of Europeanization, and, second, the whole point of promoting Europeanization was to transform the economy.

In carry on its argument, this paper has used Beck and Grande's theory of reflexive modernization, and especially their first three theorems: the structural break theorem, the

inclusive relationship theorem, and the side-effect theorem. In doing so, it extended the use of the theory to include economic governance and firms. Works on new regionalism, industrial districts, and clusters provided the conceptual tool to use reflexive modernization in the context of firms. In particular, new regionalism claims there is a mutual relationship between institutions, firms, and territorial identity at the local level. Introducing a dynamic dimension to this relationship, this paper claimed that reflexive modernization led to changes in institutions and identity, which in turn changed economic governance and firms.

The results of the analysis are as follows. First of all, Europeanization in Timisoara has meant, first and foremost, an extraordinary commitment of the local government to neoliberal reforms, made possible by a very peculiar local identity (structural break theorem). The city's political elite was transformed in the process of carrying on the reforms: while old institutions remained in place, new ones were established. The example of ADETIM has shown that these new institutions plugged Timisoara in the networks and multi-level forms of governance that constitutes Europeanization. Thus, using Beck and Grande's terminology, the second modernity of Timisoara does not erase the socialist past; it rather includes it (theorem of inclusive relationship). Finally, the transformations in the economy had unintended effects on governance. This paper analyzed one of those unintended effects: Italian investors progressively increased their presence in the city, became an expatriate community, founded their own association Unimpresa, and participated in the Chamber of Commerce. In doing so, they became a new elite group, actively participating in the economic policies of the city.

The picture of Europeanization at local level drawn in this paper is one in which local elites need to be active in capturing funding opportunities offered by the EU. In Timisoara,

success in obtaining those funds lead to changes in governance, because new institutions were established. Also, the local elite managed these transformations focusing on the goal of maximizing investments in the city's economy. Thus, the Europeanization of Timisoara can be understood as the byproduct of local elites' decisions aimed at achieving economic development within their jurisdictions.

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