

THE DETERMINANTS OF FIRM LOCATION AND RELOCATION IN THE ITALIAN
MEZZOGIORNO: A MICRO-LEVEL ANALYSIS

Ilaria MARIOTTI¹, Alessandra FAGGIAN²

1 University of Groningen, Faculty of Spatial Sciences, Economic Geography Department, Po BOX 800, Groningen, The Netherlands – Politecnico di Milano, Dipartimento di Ingegneria Gestionale, Via Colombo, 40, Milano - I.mariotti@frw.rug.nl, ilariamariotti@yahoo.com

2 University of Reading, Economics Department, Whiteknights PO Box 219, Reading, U.K.-
A.Faggian@rdg.ac.uk

(Preliminary version)

ABSTRACT

Long-distance relocation from the centre-north to the Mezzogiorno has decreased from the 1950s-1960s to the present. Business investments in the South have always been promoted by the regional incentives. In 1950-1980s the Intervento Straordinario encouraged new industrial settlements in the South, mainly large state-owned plants, by providing direct assistance in the form of subsidies; in 1992-2000s the new Aid Policy Programmazione Negoziata and Law 488 promoted southward relocation of Italian and foreign SMEs as well as the development of local business initiatives. In particular, the two measures of the Programmazione Negoziata subsidising long-distance relocation are the Program Contract and the Area Contract (from now on AC). The purpose of this paper is twofold. First, the location/relocation determinants of firms that have been AC grant recipients to invest in the Mezzogiorno are presented; second, commonalities and differences among firms that invested in different areas as well as the role played by so-called “pull” factors in the location/relocation choice are investigated. In order to achieve our goal, a micro-level analysis on a sample of 254 firms is described and a factor and cluster analysis is presented.

1. INTRODUCTION

Firm relocation towards the Italian Mezzogiorno has been mainly driven by Government incentives. In the 1950 the development policy *Intervento Straordinario* (Special Aid Policy) encouraged new industrial settlements in the South, mainly large state-owned plants, by providing direct assistance in the form of subsidies (equipment, cheap loans, tax concessions and various other financial inducements to invest). The movement of ‘external’ investments (i.e. coming from outside the southern regions) towards the Mezzogiorno decreased when the new development policy the *Intervento Ordinario* (Ordinary Intervention) was set up in 1992. It mainly promoted southward relocation of Italian and foreign SMEs as well as the development of local business initiatives.

However, while in 1950-1980s the *Intervento Straordinario* has attracted a good deal of industries to the Mezzogiorno, in the last decade a limited number of ‘external’ investments have been subsidised by the Law 488 and by the new Aid Policy *Programmazione Negoziata* (Negotiated Plans), including the Program Contract and the Area Contract (from now on AC) policy measures.

The purpose of this paper is twofold. First, the location/relocation determinants of firms that have been AC grant recipients to invest in the Mezzogiorno are presented; second, commonalities and differences among firms that invested in different areas as well as the role played by so-called “pull” factors in the location/relocation choice are investigated. In order to achieve our goal, a micro-level analysis on a sample of 254 firms is described and a factor and cluster analysis is presented.

After an historical overview on the relocation of Italian firms in the Mezzogiorno in 1950-2000, and a brief description of the policy measures promoting the ‘external’ investments, the paper focuses on the firms that have been AC grant recipients in 1998-2003. Descriptive statistics and factor and cluster analysis are presented and, by way of conclusions, the results are discussed.

2. THE RELOCATION OF ITALIAN FIRMS IN THE MEZZOGIORNO: AN HISTORICAL OVERVIEW

Italy, contrary to other countries¹, has no tradition of empirical studies on industrial

¹ See Klaassen and Molle (1983), Pellenbarg et al. (2002) and Mariotti (2002) for an overview of studies on firm migration in Europe.

movement. The relocation of Italian firms has been mainly a short-distance phenomenon, being confined in most cases to within municipal or metropolitan areas, on a radial pattern (Camagni, 1983). The overall panorama of empirical research into long-distance industrial relocation in 1950- 2000 is very poor. This section presents an historical overview on firm relocation in Italy divided into two sub-periods: from the 1950 to the 1980s and from the 1990s to the present day. In both periods Government incentives have been the principal factor driving firms, both national and foreign, to move to the South.

2.1 The period from 1950 to 1980s

At the end of WWII, the Mezzogiorno was lagging behind Italian average development levels.² The development of the South became therefore one of the priorities of the reconstruction process in the early years of the Italian democracy. A Special Aid Policy (*Intervento Straordinario*), based on the action of a special institution called *Cassa per il Mezzogiorno* (Mezzogiorno Fund), was implemented in 1950 with law 646. Its goal was to carry out a major programme of infrastructural investments in the South to foster industrialisation. Although under Government control, the Cassa had the exclusive authority to design, finance and implement projects and programmes in the eight southern Italian regions (Abruzzo, Molise, Puglia, Basilicata, Sicilia and Sardegna) (Giordano and Greco, 2003). In 1957 a new law (Industrial Area Law 634/57) introduced a new system of incentives to invest in the Southern regions. These new incentives included exemption from profits tax for industrial capital reinvested in the region, direct grants for plant and machinery, soft loans and custom relief. The combination of direct subsidies of plant and machinery and the very low interest loans (3-6 per cent repayable over 10-15 years) is likely to be responsible for up to 85 per cent of the total capital invested in the South (King, 1985). Besides, national labour agreements of that period included different wage levels for Southern regions (the so-called *Gabbie salariali*).

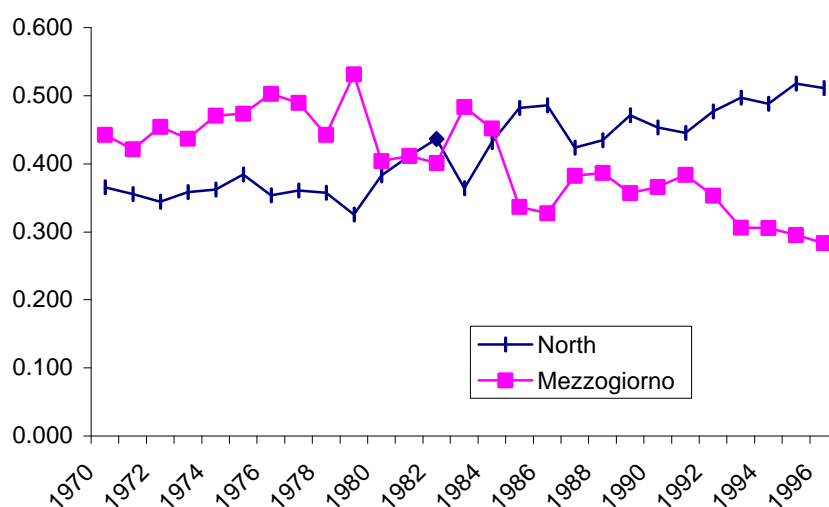
State-owned firms (*Partecipazioni Statali*) were forced to invest 40% of their total capital and to locate 60% of their new plants in the Mezzogiorno³ to act as growth poles (Perroux, 1966) for the whole economy. In 1978 over 27 percent of State-holding sector employment was located in the Mezzogiorno, compared with 13 percent in 1958 (Yuill and McMaster, 2001). In the period 1950-1970, national non-southern and foreign enterprises moved to the Mezzogiorno too. Most of these firms belonged to the chemical and petrochemical sectors followed by the automobile industry.

² In the Southern Italy income per capita was 47% lower than Italian average; agriculture accounted for 55% of the employment (34% in the Centre-North); industrialisation rate was one third of the value of the rest of the country (see, among the others, SVIMEZ, 1998).

³ Act. No.634/1957, art. 2. By Act no. 853/1971, art.7, the percentages have been raised to 60 and 80, respectively

The intervention of state-owned enterprises stopped in 1969⁴ and in the middle of the 1970s, southward migration of private large plants also slowed down due to the oil shock and the subsequent stagflation, which hit Europe. The industrial crisis that followed changed the priorities of the Italian government, which became increasingly concerned with supporting the Centre-Northern industries rather than developing the South. Starting from the 80s, public intervention became less favourable to the Mezzogiorno and by 1984 the percentage of national public expenditure devoted to the South was actually less than the one to the North (see Figure 1).

Figure 1 Public intervention in the North and in the South of Italy, 1970-1996 (in %)



Source: Faggian and Biagi (2003)

Economic policy in the Mezzogiorno became progressively more oriented towards subsidies for households and labour cost advantages⁵ rather than towards creating conditions for autonomous market-oriented, development.

The net increase of 608,554 in industrial employment in the South in 1977 was “*disappointingly small*” (Smith, 1981) and State firms accounted only for 25%.⁶ The spatial concentration of large firms, mainly state-owned, in selected growth areas did not promote the development of local private industries. Some authors called the southward migration of big plants: ‘industrialisation without development’ and ‘cathedrals in the desert’ (Saraceno,

⁴ After 1969 there were just some joint-ventures with private capital, such as the Ottana plant (Anic-Montedison).

⁵ Labour costs were reduced through non wage labour costs exemptions (*fiscalizzazione degli oneri sociali*) and reductions in social security shares (*sgravi dei contributi previdenziali*).

⁶ Rodgers (1979) reports an increase of 88,000 in industrial employment in the south between 1971 and 1976. In particular the IRI Alfa Sud automobile plant near Naples, increased local employment by about 16,000 (Smith, 1981).

1980), unconnected with the local economic environment and lacking the input-output linkages with other local concerns that typify a modern industrial complex (Smith, 1981).

However, the situation was not the same all over the Mezzogiorno. A minority of regions and provinces (around 25%) were able to start a development process (Helg et al, 2000).

It is also clear that the Southern model of industrialisation was a 'dependent' model, many of the plants that relocated belonged to the state-owned giants IRI and ENI which were obliged by law to move South. Practically, none of the important and large-scale industrial initiatives in the South were indigenous. The kind of industry which has emerged in the South was capital intensive because it was strongly conditioned by the nature of the incentives based on capital criteria not on labour or value-added or other measures. These industries did not generate substantial multiplier effects (Smith, 1981).

2.2 From 1990 to the present day

After having been unsuccessful for a long period, the Extraordinary Intervention was definitively suppressed in 1992 and the whole set of policy instruments for regional development in the South was re-designed. Inducements to industry in the Mezzogiorno were virtually non-operating in the 1992-1996 period and were substituted by a new scheme (Law 488) covering not only Mezzogiorno but also other 'depressed areas' of the country.⁷

Law 488/92 came into effect in 1996 and it became the main cost reduction policy in favour of new investments in the Mezzogiorno after the termination of the Extraordinary Intervention. It operates in all depressed areas of the country and subsidises new plants, enlargements, renovations, re-conversions, and transfers of existing plants in manufacturing sectors.

Table 1 presents the approved proposals for investing in manufacturing activities in the Mezzogiorno from the 1996 to the beginning of the 2002 (see SVIMEZ, 2002 and Mariotti and Prezioso, 2002). Investments by Centre-Northern firms cover 5% (849) of the total. However, this number is partially underestimated because, mainly for fiscal reasons, centre-northern companies prefer sometimes to establish a new firm in the South rather than just opening a branch (see Chiri *et al.* 1998).

⁷ Depressed areas are: Objective 1, 2 and 5b areas. Objective 1 areas are the Mezzogiorno regions, with the exclusion of Abruzzo since 1996; Objective 2 and 5b areas: areas in the Centre-North affected by "industrial crisis" and declining rural areas. These areas count 11,2 millions inhabitants that is more than half total of the population in the Mezzogiorno. It means that 56% of the population in Italy (31,7% millions) is involved in the intervention favouring the depressed areas.

Table 1 Investment projects in the Mezzogiorno by Centre-Northern firms. Law 488/92 (from the 1996 to the beginning of the 2002)

	N. Applications	Investments (billions e)	Subsidies (billions e)	Increase in employment (expected)	Investment for employee (expected) (in 000 of e)	Reduction for employee (expected) (in 000 of e)
Total firms	16.627	32,6	13,0	269,361		
From Centre-North	849	8,9	2,8	32.541	273,50	86
Type of investment						
New plant	421	3,5	1,4	24.559	143	57
Enlargement	221	2,9	0,8	7.507	386	107
Renovation	174	1,9	0,5	317	5.994	1.577

Source: Elaboration on SVIMEZ (2002) - IPI data and Ministero dell'Industria

Centre-northern investors are mainly large firms; they cover 68% of total investments. About 50% of the 849 approved proposals concern new plants, while enlargement and renovation projects are one fourth and one third of the total, respectively. Over 70% of investments belong to firms from Lombardy, Lazio and Piedmont. In particular, Lombardy, the region that mostly profited by the law 488 incentives (see SVIMEZ 2002), accounts for 32.3% of total investment and 42% of subsidies. By contrast, the number of north-eastern investors in the Mezzogiorno is negligible. This can be explained both by their attitude to relocating to South East Europe for geographical proximity and cost advantages, and by their negative 'perception' of the southern areas.

Campania received over one fourth (236) of manufacturing initiatives, followed by Sicily (143), Puglia (124) and Sardinia (117) (Fig.2). However, it is important to emphasise that the geographical distribution of investments is influenced by the amount of incentives in the South that varies in the areas and over the years.

Figure 2 Manufacturing Initiatives in the Mezzogiorno subsidised by Law 488 (1996-2002)



Source: Mariotti and Prezioso (2002) - elaboration on IPI data -Ministero delle Attività Produttive

The sectors of the southern industries that gained the most from the incentive scheme are telecommunications and the automobile industry.

In the same period of Law 488/92, a promotion policy called ‘Negotiated Plans’ (*Programmazione Negoziata*) was presented. Its aim was to encourage direct investments from outside the area, facilitate co-operation and promote joint investments by local, private and public entities. The development process fostered by the promotion policy focused on a “bottom-up” approach (De Vivo, 2000) and it was based upon three measures: Program Contract, Area Contract and Territorial Pact. Although each one has been thought as an answer to different problems, the common feature was the exchange between the Government and the other subjects: the government “acquires” (or hopes to acquire) local development (growth, employment, training, investments technical progress) from different subjects (large companies, local institutions, consortia of small companies, representatives of industrial districts) who pursue their own objectives which are considered potentially in line with those of the national Government (see, among others, Del Monte, 1998; Florio and Giunta, 1998).

The beneficiaries⁸ of Program Contracts (from now on PC), which have been approved in 1986-2001, are mainly large Italian companies, most of them private and coming from the

⁸ For a detailed description of the beneficiaries of the Program Contracts see SVIMEZ (2002), Florio and Giunta (1998) and Florio and Valsecchi (1998).

Centre-North (like Barilla, Fiat, Olivetti and Piaggio) followed by multinational companies⁹ (Bull, IBM, Snia, Getrag, Texas Instruments, Bosh, Ericsson) or joint-ventures (as in the case of the Italian-French partnership SGS-Thomson, now STMicroelectronics). A few contracts involve consortia of local SMEs with the only exception of ACM, which includes mainly northern firms¹⁰ (80% from Piedmont, 20% from Lombardy) which had pre-existent supplier relationships with FIAT in Melfi (in Basilicata)¹¹. Besides, two contracts involve former state-owned companies (Eni and IRI) (see Florio and Giunta, 1998).

Table 2 Program contracts approved between 1986 to 2001 by Centre-northern and Foreign firms

a)Origins

Origin	N. Program Contracts	Investments (millions of €)	State contribution (millions of €)	New jobs (foreseen)
Centre-north	23	8525,4	3635,4	21979
Foreign	13	1934,1	1022,1	6872
Total	36	10459,5	4657,5	28851

b) Destinations

	Destination						
	Multiregional	Calabria	Sardinia	Campania	Puglia	Basilicata	Sicily
Program contracts	15	2	4	7	5	1	2
Investments (millions of €)	7828,2	117,3	757	450	800	160	340
State contribution (millions of €)	3532,6	41,5	288,4	130	400	50	190
New jobs	20060	517	878	1395	2600	1686	1715

Elaboration on SVIMEZ (2002) – data by Ministry of Finance and Economy- and Viesti (2002) – data by Ministry of Treasure

As tables 2a and 2b show, from 1986 to 2001, 23 centre-northern firms have signed Program contracts with the creation of 21.979 new jobs against 13 foreign firms with 6872 jobs. Total investment costs were estimated at 10.459,4 millions euro of which 44,5% covered by public finance.¹² Most of the investment was for fixed capital but contracts covered also R&D and personnel training expenditures (Florio and Valsecchi, 1998). About 41% of the new investments concern more than one southern region; 19% are located in Campania and 14% in Puglia. The industrial sectors involved are: automobile and automobile components, advanced microelectronics and chemicals, information science and technology, tourist sector and agro-industry. There are also, although to a much smaller extent, investments in light industry such as furniture, shoes, jewellery and tourism.

The AC differs from Law 488 and Program Contract because it does not only provide incentives¹³ to new establishments and infrastructures but it promotes agreements

⁹ The total investments by foreign firms changed from 10,6% in 1986-95 to over 22% in 1996-2001.

¹⁰ The ACM is a limited co-operative company comprising 32 firms who supply components to Fiat in Melfi.

¹¹ Two additional contracts involve consortia of small southern companies (Unica and Tari) that reflect the old productive vocations of the area (see Florio and Giunta, 1998).

¹² See Florio and Giunta (1998) for a discussion on the social costs and benefits of the program contracts.

¹³ Financial grants may cover- or exceed in some cases- up to 65% of real investments. These are: (1) 'automatic' incentives and/or incentives disbursed in the form of a "tax bonus" which the beneficiary company

(*'concertazione'*) between public and private, local and external actors to create suitable conditions for the location of SMEs in the 'crisis areas'. The sectors that are AC-granted are: manufacturing industry, agro industry, production of thermal energy or electric by biomasses, services and tourism. They are supposed to increase in an important way the productive patrimony of the area and of the region as a whole.

The Area contract agreement is signed by trade unions, trade associations, regional and local authorities, local development agency, firms that have formulated the investment project and the '*Responsabile Unico*'¹⁴ (Area development manager) who is the intermediary person that should have the requisites to start global subventions from the side of the UE. Trade unions and the national Trade association (*Confindustria*) negotiate the cost of labour; local development agency assists the Area development manager during the process; trade associations from the areas of origin and destination of investments twin to assist firms in the relocation process; safety is guaranteed in the areas (CNEL, 1999).

The AC is an innovative tool because it makes local actors talk and work together for a common goal: to promote socio-economic development of the areas. Besides, it favours 'exogenous' small and medium size investments as well as 'endogenous' business initiatives. In order to stimulate Italian firms from the centre-north, looking at investments opportunities abroad, to take into consideration the location advantages offered in the areas of the Mezzogiorno, two agreements (*'gemellaggio'*)¹⁵ between Entrepreneurial Associations in the north and have been stipulated (Bianchi and Mariotti, 2002). The first and most successful is the agreement between the Entrepreneurial Association of Capitanata (Manfredonia), in Puglia region, and the ones of Treviso and Vicenza, in the North East. The second is the '*gemellaggio*' between the trade association of Crotone, in Calabria region, and Assolombarda (Lombardy region) that did not show the same positive results.

According to the most recent monitoring of the AC policy measure, covering the period March 1998 – 31 December 2003 (Dipartimento per lo Sviluppo delle Economie Territoriali and SVIMEZ, 2004), in the period 1998-2003, 18 ACs and 14 *Protocolli Aggiuntivi* (additional protocols to the contracts) have been subscribed. Of those, 15 are located in the Mezzogiorno and 3 in the Centre-North (La Spezia, in Liguria; Montalto di Castro in Lazio; Terni Narni Spoleto in Umbria). Seventeen ACs, out of 18, have been financed by Public funds. The analysis presented in this section excludes the AC of Montalto di Castro, in Lazio, because it is private-financed.

may use to pay revenues on fiscal account; (2) incentives offered by Law 488. Labour incentives, resulting from the agreement among social bodies (trade unions and trade associations), contribute to reintegrate the expelled labour force into the production context. Moreover, grants for work force training as well as for youth entrepreneurship promotion and development are available. Finally, there are fiscal grants for SMEs that employ workers in Objective 1 areas (ex art.4, L. 449/97).

¹⁴ The position of the *Responsabile unico* is mainly filled by the Mayor or the by the President of the province.

¹⁵ Literally: twinning

The great part of investments is going to be completed in the years 2004 and 2005 because of the time needed to build the establishment and basic infrastructures (between 12 and 36 months).

Table 3 Investment projects subsidised by the Area Contract and Protocolli aggiuntivi (at 31-12-2003)

Macro areas	Business investments				Resources spent (for business investments)	Forecasted jobs	Working employees
	N.	Public (000€)	Private (000€)	Total (000€)	000 €	N.	N.
South	500	1,711,925.87	810,558.54	2,522,484.41	1,588,571.67	18,222	5,602
Centre-North	54	33,516.72	141,394.68	174,911.4	90,335.23	2,760	919
Total	554	1,745,442.59	951,953.22	2,697,395.81	1,678,906.90	20,982	6,521

Source: Own elaboration on SVIMEZ data (2002); Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

The number of business initiatives is 554, of which 500 are located in the south and 54 in the centre-north. They total to 2,697,395 euros of investment, of which, 1,745,442 million euro concerns Public resources (about 65%) (Tab.3). The number of workers in service is 6,521.

Business projects in the centre-north (La Spezia and Terni Narni Spoleto) account for a smaller amount of invested money in comparison with the southern initiatives (about 3,2 million € for each project in the centre-north and about 5 million € in the South). This difference is confirmed and even more accentuated if we look at the Public resources granted: more than 1,8 million € is granted with Public funds for each project in the South, while centre-northern projects receive 240.420 € each. Furthermore, southern initiatives employ, on average, a smaller number of people (about 33) than the others (about 40). However, both cases concern small and very small sized enterprises. Finally, the number of working employees is 4.653, equal to 31% of predicted jobs.

As concerns the projects' origin, at the end of 2002, 'external' eligible investments were located in 12 southern areas. Of those, Airola and Manfredonia accounted more than 50% of centre-northern investments out of total (SVIMEZ, 2002). The textile plants located in Airola come from the province of Bergamo in Lombardy, while the 'external' investments in Manfredonia are originated in Veneto region (provinces of Vicenza and Treviso). In Manfredonia, the so-called *gemellaggio* (twinning) between the entrepreneurs associations in the North and in the South, promoted the attraction of northern investments in the area. The analysis to a sample of 254 firms that invested in the Southern ACs, which is described in the next section, shows that 27.2% are 'external' initiatives.

In summary, the analysis on the business projects that have been subsidized by Government measures shows that the number of firms from the Centre-North that invested in the Mezzogiorno is rather small if compared to the total. They are medium and large companies operating in the 'traditional' southern sectors that gained subsidies to expand, sometimes

differentiate, their production capacity. This reflects the weakness of the Southern areas due to the dualism North-South (see, among others, SVIMEZ, 2002). Besides, the concentration of investments in the ‘traditional’ sectors is from one side reinforce the specialization of southern areas, from the other do not induce a diversification of the production basis.

3. EMPIRICAL RESULTS

3.1 Descriptive statistics

The empirical analysis presented in this section focuses on the results of a survey on firms that invested in the Mezzogiorno and were AC grant recipients.¹⁶ As described in paragraph 2.2, there are 18 areas, named ‘crisis areas’, eligible for AC funds. Of those, 15 are located in the Mezzogiorno and 3 in the centre-north. The focus of the analysis is on the 15 southern areas.

The survey was conducted, over a period of two years (2002-2003), via direct and telephone interviews. The sample included 528 firms which invested in the Mezzogiorno (at 31st May 2003) and were AC grant recipients. The average response rate was 52%, which gave us a final sample including 254 firms. The questions included:

- a) type of relocation;
- b) characteristics of firms;
- c) characteristics of the market¹⁷;
- d) “pull” factors driving firm relocation to the South;
- e) obstacles encountered in the relocation process.

It is important to emphasise that the sample is partially biased because is formed by entrepreneurs who have actually relocated. Their opinion may sound as a justification ex-post of their decision. This is a typical symptom of rationalising afterwards.

Table 4 gives a geographical distribution of the sample of firms with the relative response rates.

¹⁶ These results have been partially published in Bianchi and Mariotti (2002), with reference to the cases of Manfredonia, Crotone and Ottana, and in the fourth chapter of the Report titled “*Il contratto d’area: strumento di attivazione e sviluppo degli investimenti produttivi nelle aree di crisi*” (The Area Contract: policy measure to promote and develop productive investments in the crisis areas) that has been undertaken by the Dipartimento per lo Sviluppo delle Economie Territoriali and SVIMEZ (2004). One of the authors of this paper, Ilaria Mariotti, has worked on chapter 4 of the report.

¹⁷ Size and sector of the firm and its market size (local, national, international). If a new branch was set up, these questions were addressed to both the new plant and the mother firm.

Table 4 Geographical distribution of the sample of analysis

Area Contract	Total firms	Firms that replied to the questionnaire	Response rate %
Agrigento	66	30	46%
Airola	5	2	40%
Avellino	25	16	64%
Crotone	55	20	36%
Gela	47	15	32%
Gioia Tauro	18	10	55%
Manfredonia	74	31	42%
Messina	27	17	63%
Molise Interno	37	9	24%
Ottana	33	17	51%
Potenza	23	13	56%
Salerno	11	10	91%
Sassari Alghero	68	40	59%
Sulcis Iglesiente	25	16	64%
Torrese Stabiese	14	8	57%
Total	528	254	52%

Source: *Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)*

a) Type of relocation

The first aspect analysed was the type of firms investing in the South and the type of relocation they chose. As presented in Table 5, 49.2% of the investments are new firms. ‘External’ investments account for 27.2% of which: 12.6% are new firms with investors from the central-northern part of Italy, 13.8% are branches of central-northern firms and 0.8% are branches of foreign firms. Other typologies include branches of firms located in the same area of investment 16.1% and branches of firms settled in the South 7.5% (Fig. 3). There is only one ‘integral’ relocation from the North to the South.

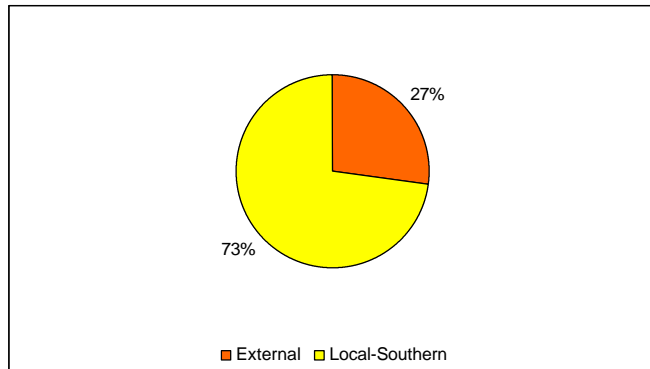
Table 5 Origin of the Investments

Area Contract	New firm	SLC – Centre North (1)	SLC – foreign (2)	Branch of local firm (3)	Branch of a Southern firm (4)	Branch of a C-N firm (5)	Total
Agrigento	21	1	0	8	0	0	30
Airola	0	1	0	0	0	1	2
Avellino	7	2	0	3	4	0	16
Crotone	8	2	2	4	0	4	20
Gela	13	1	0	1	0	0	15
Gioia Tauro	9	0	0	1	0	0	10
Manfredonia	11	10	0	1	0	9	31
Messina	7	0	0	2	6	2	17
Molise Interno	5	1	0	3	0	0	9
Ottana	5	2	0	2	2	6	17
Potenza	3	2	0	1	2	5	13
Salerno	3	0	0	4	2	1	10
Sassari A. P. T.	21	6	0	7	2	4	40
Sulcis I.	7	3	0	4	0	2	16
Torrese S.	5	1	0	0	1	1	8
Total	125	32	2	41	19	35	254
(%)	49.2	12.6	0.8	16.1	7.5	13.8	100.0

(1) Single location company with shares owned by centre – northern investors; (2) Single location company with shares owned by foreign investors; (3) Branch of a firm located in the same area of investment; (4) Branch of a firm located in the centre-north; (5) Branch of a firm located in the south

Source: *Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)*

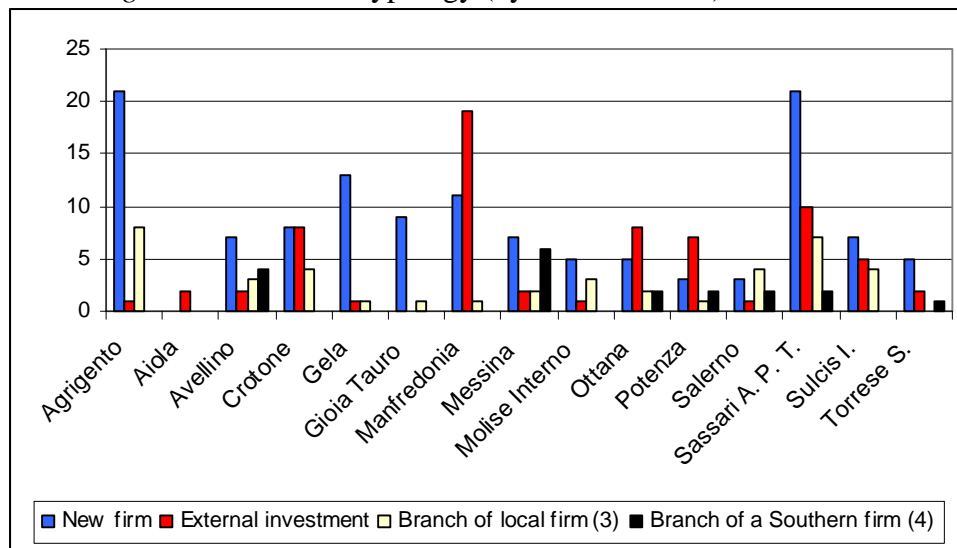
Figure 3 Investment origin



Source: Own elaboration on Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

‘External’ investments are concentrated mainly in Airola (100%¹⁸), Manfredonia (61%), Potenza (54%), Ottana (47%), Crotone (40%) and Sulcis Iglesiente (31%). At sectoral level, external investments are mainly in electronics (21.3%), rubber and plastic (about 19%) and metallurgy (about 11%).

Figure 4 Investment typology (by Area Contract)



Source: Own elaboration on Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

Conversely, new indigenous firms are located mainly in Gioia Tauro (90% of the total firms), Gela (87%), Agrigento (70%), Torrese Stabiese (62%), Sassari Alghero Porto Torres (62%) and Molise Interno (55%).

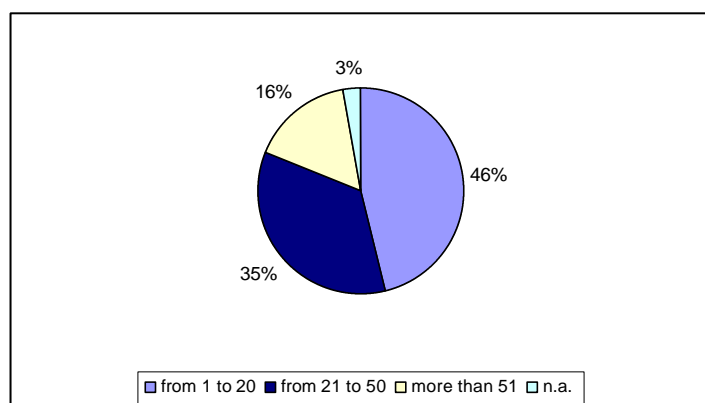
This shows that the AC areas have undertaken different “local development trajectories”. Some (Manfredonia, Crotone, Ottana) tried to attract ‘external’ investments exploiting the availability of industrial areas. Others, such as the areas located in Sicily (Agrigento, Gela e Messina) Gioia Tauro, Salerno and Avellino promoted the start up of new local firms.

¹⁸ The two firms that replied to the questionnaire belong to centre-northern firms, located in Bergamo (Lombardy).

b) Firm characteristics

As far as the characteristics of firms are concerned, the vast majority of investments are made by relatively small-sized firms¹⁹ (see figure 5). 46% of firms have up to 20 employees and 35% between 21 and 50. Firms with more than 50 employees account for 16%. The largest firms are in the rubber and plastic sector (23%) and in the metallurgy and electronics (both 11.4%).

Figure 5 Investment size in terms of jobs foreseen



Source: Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

The largest firms are located in Airola (AI), Potenza (PO) and Torrese Stabiese (TS), while the medium-sized firms are concentrated in Manfredonia (MA), Avellino (AV), Messina (ME) and Ottana (OT). Small and very small firms settled in Agrigento (AG), Gioia Tauro (GT) and Sassari (SS) (see Table 9).

Table 6 Investment size (by Area Contract)

	AG	AI	AV	GE	GT	KR	MA	ME	MI	OT	PO	SA	SI	SS	TS	Total
1-5	2		1	1		1				1		1	1	9		17
6-10	8		1	2	3	4			1		2	2	3	14		40
11-20	12		3	3	4	6	8	6	4	4	2	2	2	4		60
21-30	4			4	2	5	8	3		3		3	3	5	2	42
31-40	1		6	1		1	6	4	2	4	2	1	1	3		32
41-50	1		2	1	1		4			1	2			3		15
More than 51		2	2	3		3	5	2	2	3	5	1	6	2	5	41
Na	2		1					2		1					1	7
Total	30	2	16	15	10	20	31	17	9	17	13	10	16	40	8	254

Source: Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

The new business activities concern various sectors, mainly belonging to the manufacturing industry (86.2%). The other sectors are the service sector (12.6%), extraction

¹⁹ As concerns firm size it is adopted the definition by the European Commission (*‘Disciplina comunitaria in materia di aiuti di Stato a favore della piccole e medie imprese’*, 1996): firms with 1- 49 employees are ‘small’; with 50-249 employees are ‘medium’; with more than 250 employees are ‘large’.

of minerals, production and distribution of electricity, natural gas, steam and hot water and building and construction (0.4 %, each). As presented in Tab. 7, the metallurgy industry accounts for 13.4% of the total manufacturing industry, followed by rubber and plastic products and electrical machineries and apparatus (both 9.5%) and food industry (8.4%). The *Made in Italy* sectors²⁰ account for less than 20% of the manufacturing initiatives.

Table 7 Investments by sector

Code	Sector	Projects	% (groups)	
CB	Extraction of minerals	1	0,4	
DA	Manufacture of food products and beverages	23	8,4	10,5
DB	Manufacture of textiles	14	5,1	6,4
DC	Tanning and dressing of leather- footwear	1	0,4	0,5
DD	Manufacture of wood and furniture	8	2,9	3,7
DE	Manufacture of paper and paper products	10	3,6	4,6
DF	Manufacture of coke, oil refinery	3	1,1	1,4
DG	Manufacture of chemicals	17	6,7	7,8
DH	Manufacture of rubber and plastic products	26	9,5	11,9
DI	Manufacture of other non-metallic mineral products	17	6,7	7,8
DJ	Manufacture of basic metals or fabricated metal	34	13,4	15,5
DK	Manufacture of machineries and equipment	19	6,9	8,7
DL	Manufacture of electrical machineries and apparatus	26	9,5	11,9
DM	Manufacture of transport equipment	11	4,3	5,0
DN	Other manufacturing	10	3,6	4,6
Total Manufacturing Industry		219	86,2	100
E	Production and distribution of electricity, natural gas,	1	0,4	
F	Building and construction	1	0,4	
G	Wholesale and retail trade	1	0,4	3,1
H	Hotels and restaurants	9	3,5	28,1
I	Transport	3	1,2	9,4
K	Services	18	7,1	56,3
O, P	Other services	1	0,4	3,1
Total Services		32	12,6	100
Total		254	100	

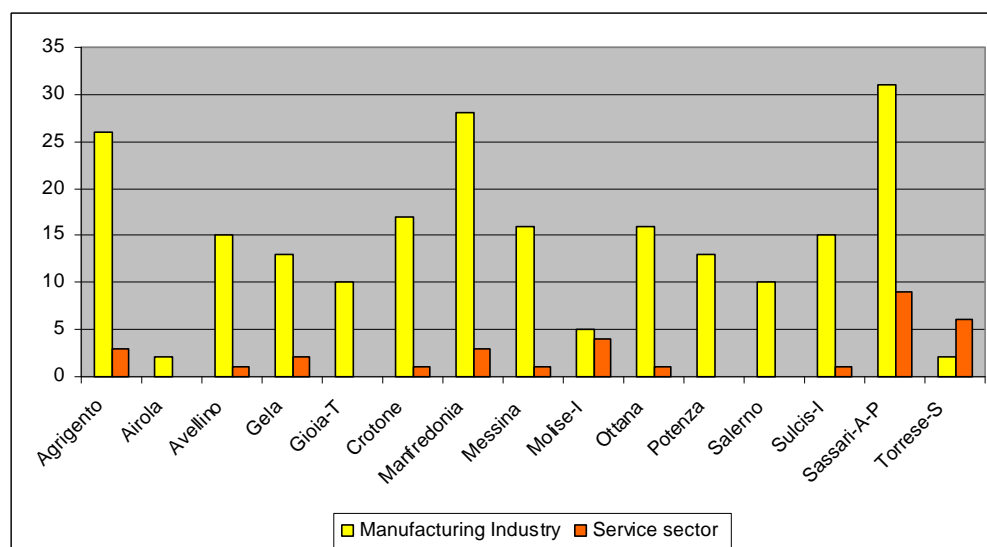
Source: Own elaboration on on Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

Firms in the service sectors operates principally in business and computer services (56.3% of the total in services) and in the recreational industry (hotels and restaurants), 28.1%. As figure 5 shows, the firms in our sample belong mainly to the manufacturing sector (86.2%).

Figure 6 shows the split between manufacturing and services by geographical area. The only area with a prevailing concentration of investments in the tertiary sector (75%) is Torrese Stabiese, while Sassari Alghero Porto Torres registers a greater number of firms in the service sector.

²⁰ The Made in Italy sectors are: home furnishing (furniture, glass ceramics), fashion (textiles, eyewear, shoes and sportswear) and engineering industry.

Figure 6 Geographical distribution of investments' sectors

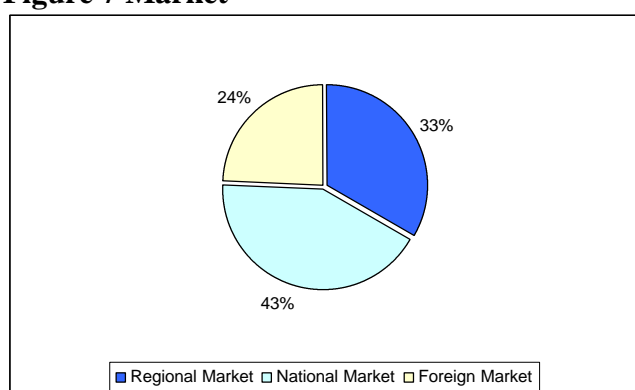


Source: Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

c) Market characteristics

The firms in the sample sell their products mainly in the regional or national market (33% and 43% respectively). Exports are around 24% (Fig.7).

Figure 7 Market



Source: Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

As far as the sectoral dimension is concerned, firms operating mainly in the national market belong to the rubber and plastic sector, electronics and services; firms operating only for the regional market are in the metallurgy, services and manufacture of non-metallic mineral products; exporting firms manufacture electrical machineries and components, rubber and plastic products, metal products and machineries and equipment. 'External' investments are more willing to serve the national and foreign markets.

d) “Pull” factors

As far as the “pull” (attraction) factors are concerned, the most important role is played by incentives²¹ (see Tables 8 and 9). About 26% of the interviewees stated that without incentives they would never have relocated and about 60% stated that incentives played a key role in the relocation decision.²²

An entrepreneur from Lecco who opened a local unit in Ottana, operating in the engineering industry, underlined: *‘investment and labour incentives gave us the opportunity to relocate an important part of our business activity that will be produced at competitive prices (interview n. 18) (Bianchi and Mariotti, 2002).*

The second pull factor is the availability of industrial areas at competitive prices and the localization facilities in terms of permits and licences²³ (50% said that it is very important and for the 37% is rather important).

The third factor is the availability of local labour force (19.7% stated that this is ‘very important’ and 57.9% that is ‘rather important’).

The fourth reason to invest in the South is represented by the increasing trade opportunities in the Southern market (19.7% stated that is ‘very important’ and 46.4% that it is ‘rather important’).

Table 8 Motivations to relocate (pull factors)

	Relevant	Rather important	Not important	N.a.	Total
Site and premises	50%	37%	4%	9%	100%
Market	20%	46%	21%	13%	100%
Labour force	20%	58%	11%	11%	100%
Accessibility	10%	60%	17%	13%	100%
Infrastructures	9%	51%	21%	19%	100%
Availability of financial assistance	13%	25%	36%	26%	100%
Public Local regulation and role of the	11%	46%	21%	22%	100%
Incentives	55%	18%	9%	18%	100%
Business environment	18%	58%	8%	16%	100%
Quality of life	16%	60%	7%	17%	100%

Source: Own calculation on Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

Table 9 What would have happened to the project if AC grant had not been awarded

	%
Without incentives I would never have relocated	25.9
They played an important role in the decision to relocate	58.4
They were not important	9.8
N.a.	5.5
Total	100

Source: Own calculation on Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

²¹ Financial incentives, labour incentives and fiscal incentives. The most relevant were the incentives provided by Law 488.

²² Florio and Giunta (1998) in their study on the firms that signed the Programming Contract presented similar results.

²³ This is labelled “site and premises” in the table.

Business environment and quality of life played a role in the investment decision. In particular, safety and public order that are guaranteed in the areas by the policy instrument have been indicated as relevant pull factors. Organised crime has always been one of the main obstacles to business relocation to the Mezzogiorno (see De Vargas Machuca F., et al, 1999; Mariotti and Mutinelli, 1999; Marini and Turato, 2002; CNEL, 2002).

e) Obstacles to relocation

According to people interviewed the main obstacle to invest in the South is the lack of proper infrastructures (see Table 10).

Table 10 Obstacles to investment location

	Relevant	Rather	Not	N.a.
Infrastructure deficiencies	25%	39%	23%	13%
Lack of business services	21%	42%	20%	17%
Labour	21%	49%	17%	13%
Bureaucratic and administrative procedures	17%	62%	12%	9%
Business environment	10%	42%	26%	22%
Quality of life	9%	44%	28%	19%

Source: Own calculation on Dipartimento per lo sviluppo delle economie territoriali – SVIMEZ (2004)

25% of entrepreneurs think infrastructure deficiencies are a “relevant” obstacle, while 39% think is “rather important” (giving a total of 64%). Infrastructure deficiencies regard both long and short distance infrastructures. Long distance infrastructures are roads, motorways, airports, ports, railways; short distance infrastructures are basic infrastructures including the street linking the establishment to the main road, telephone and electricity connections. The lack of transport links between the southern AC areas and the new markets of the centre-north or overseas is a main obstacle to the firm competitiveness. In addition, the non-arrangement of basic infrastructures in the industrial areas induces firms to give up investing. An entrepreneur located in Manfredonia said: *‘the industrial area was not ready to accommodate new establishments, ... some firms did not have the road leading to the plant’* (Bianchi and Mariotti, 2002).

The classification changes if we sum the answers ‘important’ and ‘rather important’. In this case, the main obstacle becomes the inefficiency of the Local Public Administration in managing the area contract policy instrument.²⁴ 80% of the interviewees classify this factor as “important” or “rather important”. In many cases, new investments were discouraged by delays in issuing the location permits. Poor technical assistance to firms in the relocation process has also been pointed out as a considerable obstacle. All actors involved in the relocation process and in particular, the Area development manager (Responsabile unico) and the development agency did not fully support entrepreneurs in the process. An entrepreneur of a service company that moved from Bologna to Crotone emphasised: *‘it was impossible to find information about the financial incentives allocated for the new firms in Crotone’*

²⁴ Viesti (2002) in a study on ‘external’ investments to the Mezzogiorno in 1996-2001, underlines similar results.

neither Trade Associations or development Agency had the forms! We had to go to Rome! More than one year after signing of the contract, Telecom arranged the telephone lines!’ (Interview n. 3) (Bianchi and Mariotti, 2002).

Lack of business services is another main limitation: 20.1% considers it important and about the 41% rather important. The lack of services to businesses as well as weak management culture induced entrepreneurs to turn to consultant companies from the Centre-North for advice, especially in case of external investments.

The low professional skills of the local labour is yet another relevant obstacle: 21% of the respondents think is “important” and 50% “rather important”. In case of centre-northern investments, the majority of the managers pointed out that employees attended or are going to attend vocational training in the centre-northern regions where the ‘mother’ firms are located. Other obstacles that were mentioned include poor access to credit and geographical marginality of the areas.²⁵ Entrepreneurs reported that access to credit from local banks was rather difficult. The geographical marginality is considered important in areas such as Crotone, Agrigento and Sassari Alghero Porto Torres.

Surprisingly, none of the entrepreneurs seemed to have had problems due to organised crime. This is important since organised crime has always been considered the main barrier to the location of national and foreign investments in the Mezzogiorno. One of the principal tools of the area contract (Law 662/96) is to provide safety measures in industrial areas and up to now it seems to have worked out. An entrepreneur from Vicenza who moved to Manfredonia a new line of products in electromechanics declared: ‘...the area is safe, I can hardly believe it!’ (interview n.7) (Bianchi and Mariotti, 2002).

3.2 Factor and cluster analysis

The descriptive analysis of the previous paragraph reveals how different “pull” factors play an important role in the relocation process of the 254 firms belonging to our sample.

The main aim of this paragraph is to investigate more in depth commonalities and differences among firms that invested in different areas as well as the role played by so-called “pull” factors in the location/relocation choice. The main methodological tools to achieve our goal are factor and cluster analysis.

To avoid the multicollinearity problem among the variables representing “pull” factors, the first step of our empirical analysis was to create fewer significant “components” using factor analysis. Table 11 presents the list of “pull” variables collected with the interviews.

The results of the factor analysis are presented in Table 12. Two factors were created: factor 1 includes supply-side variables, while factor 2 represents the demand-side of the economy together with accessibility levels of the areas. As it can easily be noticed, all the variables

²⁵ This aspect was mentioned in the section of the questionnaire “quality of life”.

related to the availability of land (availability of industrial land, low cost of land and location facilities) and relocation incentives have a positive sign in the first factor and negative in the second, while the variables representing new market opportunities and accessibility behave in the opposite way. The variable GOODSAFE, which represents the level of safety of an area and the variable HUMANRES, which is an index of the availability of skilled human resources are positive in both factors.

Table 11 PULL factors

Variables	Description
INCENTIV	Incentives
LAND	Availability of land
COST LAND	Low cost of land
FACILIT	Location facilities
OPPMARK	Potential market opportunities
HUMANRES	Availability of skilled workers
ACCROAD	High level of accessibility to motorways and roads
ACCRAIL	High level of accessibility to railways
ACCAERPO	High level of accessibility to airports and ports
GOODSAFE	Safety of the area

Table 12 Component Score Coefficient Matrix

	Component	
	Factor 1 - Supply	Factor 2 – Demand and Accessibility
INCENTIV	-,202*	,173
LAND	,389	-,036
COSTLAND	,414	-,076
FACILIT	,328	,024
OPPMARK	-,163	,292
HUMANRES	,040	,073
ACCROAD	,046	,332
ACCRAIL	-,044	,397
ACCAERPO	-,079	,379
GOODSAFE	,105	,142

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization. Component Scores.

** (1 = no investment without incentives; 2= incentives played an important role in investing; 3=incentives did not play a role at all)*

Table 13 reports the total variance explained by the two factors. Each factor explains around 20% of the total variance, giving a total explained variance of 40%. Although this last value is not extremely high, it is satisfactory giving that we are considering only two factors. Interesting is also the fact that the factors are “well-balanced” in explaining the total variance, accounting both for around 20%.

Table 13 Total variance explained (2 components)

Rotation Sums of Squared Loadings			
Component	Total	% of Variance	Cumulative %
1	2,049	20,486	20,486
2	1,903	19,028	39,514

Extraction Method: Principal Component Analysis.

Table 14 Total variance explained (3 components)

Rotation Sums of Squared Loadings			
Component	Total	% of Variance	Cumulative %
1	2,049	20,486	20,486
2	1,903	19,028	39,514
3	1,177	11,766	51,280

Extraction Method: Principal Component Analysis.

A third factor increases the percentage of total variance explained (see Table 14), but the economic interpretation of this third factor is not clear (see Table 15).

While the economic meaning of factors 1 and 2 is straightforward (supply-side variables and demand-side variables with accessibility), factor 3 is difficult to interpret economically. Most of the variables inside the component are negative.²⁶ The only exceptions are market opportunities (positive, but with similar value of factor 2), the safety of the areas and the accessibility to roads (which are both positive also in the other two factors). The difficult economic meaning, linked with the fact that this factor explains less variance than the previous two (11% instead of 20%) confirmed our idea that the best solution is to use just two components.

Table 15 Component Score Coefficient Matrix

	Component		
	1	2	3
INCENTIV	-,028	,017	,653*
LAND	,387	-,072	-,047
COSTLAND	,428	-,135	,019
FACILIT	,324	,002	-,062
OPPMARK	-,074	,235	,304
HUMANRES	-,055	,179	-,380
ACCROAD	,108	,289	,167
ACCRAIL	-,031	,422	-,020
ACCAERPO	-,123	,467	-,228
GOODSAFE	,189	,055	,277

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.

Component Scores. * (1 = no investment without incentives; 2= incentives played an important role in investing; 3=incentives did not play a role at all)

The two factors described in Table 13 together with some characteristics of the firms (see Table 16), were then used, in a second stage of our empirical analysis, to create categories of firms. Firm characteristics include: the size of the firm measured in terms of total number of employees, a dummy variable representing whether or not the origin of the investment is outside the Mezzogiorno (i.e. centre and north of Italy), and the share of market which is national and regional (to give us an idea of the “openness” of firms to non-local markets). Cluster analysis was used for this purpose.

²⁶ Notice that the positive coefficient on incentives means that incentives did not play a role.

Table 16 Firm characteristics

Variables	Description
ORIGIN	Origin of investment (1=Centre-North, 0=Mezzogiorno)
SIZE	Number of employees
MARKREG	Share of regional market
MARKNAT	Share of national market

Table 15 gives the results of the cluster analysis in which the two components created with factor analysis were combined with variables representing the characteristics of the firms who relocated. Four clusters were generated for the 254 firms in the sample (see Tables 17 and 18). Firms belonging to the same cluster are supposed to have certain regularities in behaviour which differ from firms belonging to other clusters. Although the mathematical algorithm to create clusters is very sophisticated, the results can be seen as substantially qualitative in nature.

Table 17 Number of Cases in each Cluster

Cluster	1	46,000
	2	49,000
	3	79,000
	4	80,000
Valid		254,000
Missing		,000

The first cluster includes 46 large-middle sized firms, compared to the sample of analysis, coming from the Centre North or abroad (outside the Mezzogiorno area) and selling their products mainly to the national market.

These firms judge both supply and demand-side factors important in the relocation decision (both factors have indeed positive values). In particular, the demand-side and accessibility components have a much higher value than any other cluster (see Table 22).

Table 18 Final Cluster Centers

	Cluster			
	1	2	3	4
ORIGLAST	1	0	0	0
JOBS	6	6	3	3
MARKREG	1	2	5	2
MARKNAZ	4	2	1	4
FACTOR 1 (Supply-side)	,12064	,35446	-,27041	-,21712
FACTOR 2 (Demand-side)	,14061	-,14447	,08383	-,33537

The 49 firms belonging to the second cluster are mainly large-middle sized firms relocating within the Mezzogiorno area and operate both in the national and regional market. Supply-side factors are extremely important for these firms, while on the opposite demand-side and accessibility do not play and important role in relocation.

Cluster 3 and 4 include respectively 79 and 80 firms, all of them small or very small in size and relocate within the Mezzogiorno. The firms in the third cluster operate mainly at a regional level and consider demand-side and accessibility factors more important than supply-side variables. The firms in cluster 4 considered both the factors not relevant in the decision of relocate.

It is interesting to analyse the geographical distribution of the firms in the four clusters. This is summarised in Tables 19 a) and b).

Table 19 Geographical distribution of firms by clusters

a) Percentage over the total number of firms in the area

AC	Cluster 1	Cluster 2	Cluster 3	Cluster 4
Agrigento	0.0	13.3	60.0	26.7
Airola	100.0	0.0	0.0	0.0
Avellino	18.8	43.8	12.5	25.0
Crotone	5.0	15.0	20.0	60.0
Gela	26.7	13.3	26.7	33.3
Gioia Tauro	0.0	30.0	20.0	50.0
Manfredonia	29.0	22.6	6.5	41.9
Messina	11.8	35.3	35.3	17.6
Molise Interno	22.2	22.2	22.2	33.3
Ottana	29.4	17.6	29.4	23.5
Potenza	53.8	15.4	15.4	15.4
Salerno	20.0	0.0	20.0	60.0
Sassari Alghero	15.0	2.5	55.0	27.5
Sulcis Iglesiente	12.5	25.0	50.0	12.5
Torrese Stabiese	12.5	62.5	0.0	25.0
Totale	18.1	19.3	31.1	31.5

b) Percentage over the total number of firms in the cluster

AC	Cluster 1	Cluster 2	Cluster 3	Cluster 4
Agrigento	0.0	8.2	22.8	10.0
Airola	4.3	0.0	0.0	0.0
Avellino	6.5	14.3	2.5	5.0
Crotone	2.2	6.1	5.1	15.0
Gela	8.7	4.1	5.1	6.3
Gioia Tauro	0.0	6.1	2.5	6.3
Manfredonia	19.6	14.3	2.5	16.3
Messina	4.3	12.2	7.6	3.8
Molise Interno	4.3	4.1	2.5	3.8
Ottana	10.9	6.1	6.3	5.0
Potenza	15.2	4.1	2.5	2.5
Salerno	4.3		2.5	7.5
Sassari Alghero	13.0	2.0	27.8	13.8
Sulcis Iglesiente	4.3	8.2	10.1	2.5
Torrese Stabiese	2.2	10.2	0.0	2.5
Totale	100.0	100.0	100.0	100.0

The firms belonging to cluster 1 are located in 12 different areas, but with a high concentration in Manfredonia (19.6% of cluster 1 firms and 29% of the all firms located in the area). Potenza (15.2% of cluster 1 firms and 53.8% of the all firms located in the area) and

Ottana (10.9% of cluster 1 firms and 29.4% of the all firms located in the area). Both the firms located in Airola belong to this cluster, too.

Firms in cluster 2 are located in 13 different areas, but with a preponderance of them in Torrese Stabiese (62.5% of the firms of the area), Avellino (43.8%) and Messina (35.3%).

Cluster 3 has the peculiarity of including firms located only in three specific areas: Sassari-Alghero-Porto Torres (27.8% of firms in the cluster and 55% of firms in the area), Agrigento (22.8% of firms in the cluster and 60% of firms in the area) and Sulcis Iglesiente (10.1% of firms in the cluster and 50% of firms in the area).

Finally, cluster 4 include 60% of the firms located Salerno and 50% of the firms in Gioia Tauro. The majority of the firms in the cluster are located in Manfredonia (16.3% of firms in the cluster and 41.9% of firms in the area), Crotone (15% of firms in the cluster and 60% of firms in the area) and Sassari Alghero Porto Torres (13.8% of firms in the cluster and 13.8% of firms in the area).

5. CONCLUSIONS

As presented in the historical overview on the relocation towards the Southern regions, the long-distance movement towards the Mezzogiorno has decreased over time. ‘External’ as well as endogenous investments in the South have always been promoted by Government incentives which main goal was to overcome the diseconomies typical of the Southern regions (i.e. lack of transport infrastructures, low accessibility levels).

The analysis on the 254 AC-granted initiatives confirmed that Government incentives were decisive in the location and relocation of firms in the Mezzogiorno but that also other pull factors (i.e. availability of industrial areas and labour force) played a relevant role. Besides, the factor and cluster analysis results showed commonalities and differences among the firms that relocated and how different “pull” factors foster the location/relocation choice in different areas.

The most interesting result is offered by clusters 1 and 4. Demand side and accessibility factors are extremely important for large-medium sized firms, coming from the centre-north and serving the national market (cluster 1). On the other hand, local and southern firms, small or very small sized, do not consider important supply-side and demand-side variables (cluster 4).

Although the southern areas offer new market opportunities and labour force, it can be assumed that, without investment subsidies and land availability at competitive prices, firm belonging to cluster 1 would not have relocated to the Mezzogiorno. For these firms, originated in the congested areas of the centre-north, the availability of Government incentives in the South is needed to cope with the sunk costs associated to relocation. As

recent studies demonstrated (see Bianchi and Mariotti, 2002), centre-northern firms, operating in various manufacturing sectors, tend to transfer medium-high value added activities or new production lines to the Southern areas, by making use of the Government subsidies. These firms open new branches or new firms in which the whole production process or a new production line is transferred. By contrast, low-wages countries, such as Centre and South eastern Europe, are recipients of low-value added, labour-intensive activities (operations). These activities are relocated abroad by means of subcontracting relationships.

On the other hand, as stressed in cluster 4, small and very small local and southern firms should have probably invested in the AC's areas without incentives, anyway.

Although more research needs to be done, these results support the EU debate about the utility of financial aid schemes to foster the development of depressed areas. In recent years, there has been an increased emphasis of framework measures and on regional strategy development and a reduced stress of regional incentives. The focus is on the creation of appropriate framework conditions for business development, including the provision of physical infrastructure (both locally and with respect to more strategic investments), together with 'softer' measures related, for instance, to support for information, advice and consultancy, education and training and research and technological development (Yuill and McMaster, 2001).

6. REFERENCES

- AA.VV. (2002), *Nord Est e Mezzogiorno. Tra nuove relazioni e vecchi stereotipi*, quaderni Formez, edited by Fondazione Nord Est, Roma, Donzelli.
- Aronica A., Padovani R. and Servidio G. (2000), "Incentivi e politica industriale nel Mezzogiorno", *Rivista Economica del Mezzogiorno*, n.4.
- Basile R. (2001), *The locational determinants of foreign-owned manufacturing plants in Italy: the role of the South*, documento ISAE n.14-01, Roma.
- Bianchi L. and Mariotti I. (2002), "La delocalizzazione delle imprese italiane nel Mezzogiorno e nei paesi dell'Europa sud orientale. Due sistemi in competizione?", in *Rivista Economica del Mezzogiorno*, n.4, pp.745-784.
- Camagni R., (1983), "Italy", in Klaassen L.H. and Molle W.T.M., Ed., (1983), *Industrial Mobility and Migration in the European Community*, Rotterdam: Gower, pp.146-187.
- Chiri S., Pellegrini G. and Sapino C. (1998), "L'attuazione dell'intervento per lo sviluppo degli investimenti nelle aree depresse", *Rassegna Economica* n.1, pp.157-212.
- CNEL (1999), *Laboratori territoriali*, Vol.I and II, Roma
- CNEL (2002), *La mobilità degli investimenti produttivi dal nord al sud del Paese*, Roma.
- Del Monte A. (1998), "La nuova politica per il Mezzogiorno: dalla centralizzazione allo sviluppo locale incentivato", *Economia e Politica Industriale*, n. 100.
- Del Monte A. and Giannola A. (1997), *Istituzioni economiche e Mezzogiorno*, NIS.
- De Vargas Machuca F., Marcolongo V., Stefani T. and Arnone M. (1999), "Il Mezzogiorno visto dall'esterno: un'indagine diretta sulle maggiori imprese", *L'Industria*, n.2.
- De Vivo P. (2000), 'Le attuali politiche di sviluppo per il Mezzogiorno: i Patti territoriali e le istituzioni locali', *Rivista Economica del Mezzogiorno*, n.2.
- Dipartimento per lo Sviluppo delle Economie Territoriali and SVIMEZ (2004), *Il contratto d'area: strumento di attivazione e sviluppo degli investimenti produttivi nelle aree di crisi*, Presidenza del Consiglio dei Ministri, Roma.
- Faggian A. and Biagi B. (2003) "Measuring regional multipliers: a Comparison between two different methodologies in the case of the Italian regions", *Italian Journal of Regional Science*, no. 1, Vol. 2, pp. 33-58
- Florio M. and Giunta A. (1998), *Planning Contracts in Southern Italy, 1986-1997: a preliminary evaluation*, Working Paper, Università degli Studi di Milano.
- Florio M. and Valsecchi I. (1998), *Planning agreements in the Mezzogiorno: a Principal-Agent Analysis*, Working Paper, Università degli Studi di Milano.
- Giordano B. and Greco L. (2003), *Answering Italy's 'Southern question'? The changing face of Italian regional policy*, paper presented at the RSAI Conference, 12-15 April, Pisa.
- Giannola A. (2000), "La nuova programmazione. Evoluzione e restaurazione", *Rivista Economica del Mezzogiorno*, n.3.
- Giunta A. and Florio M. (2002), "L'esperienza dei Contratti di programma: una valutazione a metà percorso", *L'Industria*, n. 2;
- Helg R., Peri G. and Viesti G., (2000), *Abruzzo and Sicily: catching up and lagging behind*, European Investment Bank Papers, n. 5/1;
- King. R. (1985), *Italy*, Harper & Row, London.
- Klaassen L.H. e Molle W.T.M., Ed., (1983), *Industrial mobility and migration in the European community*, Rotterdam: Gower.
- Mariotti I. (2002), "La rilocalizzazione interregionale in Italia alla luce delle esperienze dei Paesi Europei. Uno sguardo al caso del Mezzogiorno", *Rivista Economica del Mezzogiorno*, Anno XVI, n.1-2, Il Mulino, Bologna, pp.93-138.

- Mariotti I. and Prezioso S. (2002), *Gli investimenti esterni nel Mezzogiorno ad opera di imprese Italiane del centro-nord ed estere*, paper presented at the I Riunione Scientifica ReGETT, Bocconi University, Milan.
- Mariotti S. and Mutinelli M. (1999), "Gli investimenti diretti esteri nel Mezzogiorno: il passato e le tendenze attuali", *L'Industria*, n. 2.
- Ministero del Tesoro (1998), *La nuova programmazione e il Mezzogiorno*, Roma, Donzelli.
- Paniccià R. and Prezioso S. (2002), "La capacità di attrazione degli investimenti in un'economia dualistica", *Rivista Economica del Mezzogiorno*, n.3.
- Pellenbarg P.H., van Wissen L.J.G. and van Dijk J. (2002), "Firm Migration", in P.McCann (eds.), *Industrial location Economics*, Cheltenham, Edward Elgar Publishing, pp.110-148.
- Perroux F. (1966), *L'economia del XX secolo*, Milano, Etas Kompass.
- Saraceno P. (1980), "Cattedrali nel deserto?", *Informazioni Svimez*, no.1, January.
- Smith D.M. (1981), *Case Studies of Industrial development Planning: Southern Italy*, in *Industrial Location*, John Wiley & Sons, Chichester.
- SVIMEZ (1996), *La politica per l'unificazione economica dell'ultimo cinquantennio e i problemi di oggi*, Bologna, Il Mulino.
- SVIMEZ (1998), *Rapporto sull'industria meridionale e sulle politiche di industrializzazione*, Bologna, Il Mulino.
- SVIMEZ (2002), *Rapporto sull'economia del Mezzogiorno*, Bologna, Il Mulino.
- Triglia C., Viesti G. (2002), "Politiche per il Mezzogiorno cercasi", *il Mulino*, n. 6;
- Viesti G. (2002), *Il sud che attrae*, Quaderni Formez, Roma, Donzelli.
- Viesti G., Capriati M. (2004), *The impact of national policies on territorial cohesion: the case of Italy*, chapter prepared for the Third EU Report on Cohesion.
- Yuill D. and McMaster I. (2001), *Benchmarking regional policy in Europe: a review of national regional policies*, paper presented at the Senior Policymaker Conference, Forest Hills, Scotland, 9-12 September 2001.