

GEOGRAPHICAL DELOCALIZATION OF ITALIAN FIRMS IN AFRICA

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Abstract: Political and commercial relations between Italy and North Africa lead us to investigate main geographical, social and cultural interactions. The empirical analysis of Robbiki Leather City allows us to overcome the official sources of information diffusion. Consequently, this study provides an accurate picture of real difficulties and concrete opportunities for geographical delocalization of Italians firms in Africa.

Keywords: Italy, Egypt, Economic-Geography, Culture

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GENERAL FRAMEWORK

Political and economic relations between Italy and North-Africa have led researchers to analyze risks and opportunities of firms' geographical delocalization choices. Our study of Italian firms operating in North Africa allows us to bypass the official sources of information extending existing picture of real difficulties and opportunities of Mediterranean Area (Bencardino, 2011, Amato, 1995). Our study offers new information related to the degree of penetration of Italian firms in Africa, the specific activity they implement, the performance and the determinants that influenced the choice of market entry (Zamagni, 2001). It also clarifies some aspects related to perception of local culture by Italian managers, orientation to performance of the Egyptian employees. Our study allows us to highlight difficulties related to cultural variables not found within official reports. The empirical analysis of Italian firms internationalized in Africa has highlighted important elements of discussion. Determinants that drive Italian firms to invest in Africa can be lead back to geographical proximity and structure of local market. North-Africa represents also a significant market for supply of important raw materials, such as gas.

Italy is the 7th largest export economy in the world and the 24th most complex economy according to the Economic Complexity Index (ECI). In 2015, Italy exported \$446B and imported \$404B, resulting in a positive trade balance of \$42.2B. In 2015 the GDP of Italy was \$1.82T and its GDP per capita was \$37.2k. Italian exports to Egypt amounted to 2.8 billion euros in 2014 and could rise to 3.4 billion by 2018, recording a 21 percent rise in four years SACE

(2016). FDI decreased as a result of the global economic crisis and following the socio-political revolution of 2011, but then started growing again. It rose to USD 6.7 billion in 2015. After a sharp fall, the country's ranking improved slightly in the 2017 Doing Business report, published by the World Bank (2017). More than 100 Italian companies in Egypt operate in the industry of hydrocarbon, energy, construction, banking and manufacturing. Most of these firms operates in new industrial zones and free zones where they are free from the payment of some taxes. The most attractive industries for Italian firms are textile, food, chemical, steel, mechanical, construction and pharmaceutical. There has also been an interesting development in construction industry, in both urban and rural zones, due to the increase in population.

The degree of internationalization of Italian companies in Egypt is quite high. Egypt and other North-African countries are really attractive for Italian companies that aim to extend their activity abroad. Tax advantage represents an element of attractiveness for Italian companies in Africa. Language and cultural differences do not have a significant weight in obstructing the success of the investments (Salvatori, 2005). However, to overcome possible cultural crash most of Italian companies operating in North Africa select local managers to manage the local business (Baumann, 2003).

Egypt has also a well-developed energy industry, natural gas, oil, phosphates and iron. The Egyptian General Petroleum Corporation (EGPC), the Gulf of Suez Petroleum Company (GUPCO) and Petrobel a joint venture between EGPC and ENI play a central role in this industry. Natural gas plays also an important role in the Egyptian economy and the production has grown over the past 15 years to the presence of foreign multinationals. Egypt has about 1% of world reserves of natural gas.

Before the political crisis of 2011, Egypt was an attractive Middle Eastern market for FDI. The dynamic growth of the Egyptian economy, its strategic geographical position, low labour costs, skilled workforce, unique tourist potential, substantial energy reserves, large domestic market and the success of the reforms undertaken by the authorities all sharply drove up FDI. One of the main investments made by Italian companies in Egypt was the acquisition of 80% of the Bank of Alexandria by BancaIntesa San Paolo in 2006. The main Italian companies in Egypt are Ama international, Iacorossi/Gesenu, Ansaldo, Castagnetti, Danieli, Impregilo, Italcementi, Pirelli tires, Valvitalia, Iveco, Enichem, Saipem, Grimaldi group, etc.. The 'Egypt the Future' investment programme launched by the Egyptian government in 2016 contains 49 projects in 8 strategic sectors in which Made in Italy products can effectively compete for and seize all the related business opportunities.

EMPIRICAL ANALYSIS

Italy, Spain, Cyprus, Greece, Libya, China, Saudi Arabia and the United Arab Emirates are the main importers of Egyptian leather. Egypt's long tradition in leather tanning industries is revived with the Robbiki Leather City (RLC). The city is a specialized industrial zone in the leather-tanning field. It's the offspring of major investments aimed at creating a state-of-the-art industrial park with modern facilities, technology and supporting services. The Robbiki Leather City is unfolding as an identity with which leather tanning industries are immediately and favorably associated. Robbiki Leather City is a project bolstered by a series of advantages that facilitates its pathway to success. For one, the tanning

industry is a relocating industry with the developing world producing more than 60% of the world's leather. With expensive manpower and environmental obligations uneasily fulfilled in the developed world, Egypt becomes an attractive alternative to start a business in the field of leather tanning. The strategic location of Egypt comes atop of this list of advantages, as it promises an easy access to markets. Egypt literally sits in the middle of global trade routes. Locally, the Robbiki Leather City is located in the middle of an industrial hub with connections to an international transportation network that includes roadways, airways and seaways.

Besides centrality, the Robbiki Leather City is based on an industrial land, supported by a state-of-the-art infrastructure and is not just an adaptation of a green land, which gives it an early readiness for investments. A large base of well trained labor force represents another attraction point to the city. A cohort of services renders business in the city easily manageable. The city has been granted the status of Special Investment Zone, which translates into a one-stop shop where all permits can be issued. Meanwhile, the human dimension is central to the services' vision of the Robbiki Leather City that is manifested in elaborate housing schemes and all means of comfort. With a deep belief in developing an ecosystem where people can engage with a modern industrial process to create a story of success, environmental compliance comes at the crux of this relation. Environmental operations are numerous and improve both the production process and results.

The choice of the Robbiki Leather City location responds directly to high industrial and residential needs. The Robbiki Leather City is located between Badr City and 10th Ramadan City on 240 meters above the sea level and 100 meters above Cairo level, 60 kilometers away from the Suez International Port, 54 kilometers away from the Cairo International Airport. Robbiki Leather City has a road connection to the cities of Suez and Ismailiya, to Cairo and the Delta cities and a railway connection to Cairo and Suez. The Robbiki Leather City is designed jointly with the Italian Association of Tanning Machinery Manufacturers (ASSOMAC). It is designed according to international industrial zones' standards, whereby a quarter of the city is made of industrial units, a quarter is allocated to service units, a third quarter is provided for roads and the remaining fourth quarter is assigned for green areas.

The city's expansion is foreseen to take place throughout three phases, which witness a consistent and well-planned development. In belief of the centrality of infrastructural support to the success of the Robbiki Leather City a thorough plan has been put forward for the development of the infrastructural base of the city. Most of the basis of this infrastructural support is ready today. The rest of the infrastructural plan follows the development of the different industrial phases of the city and hence is mapped around them. The infrastructure of the city covers 6.9 million m² that include tanneries, production units, supporting services, a waste water treatment plant and a forest. 100% of the internal infrastructure networks have been completed including: water feeding, waste management, electricity feeding and communications. 100% of the external infrastructure networks for electricity and natural gas have been completed as well as 40% of external water feeding. Buildings include industrial units and services area and are mapped on 505 thousand m² for the three phases of the project, with 167 thousand m² in the first phase, 216 thousand m² in the second phase and 122 thousands m² in the

third phase. Units' areas range from 300 m² to 8000 m². 29 pilot tanneries have been established so far on an area of 48000 m². The remaining buildings will be erected according to the tanners preferences based on the pilot units.

LOCAL ADVANTAGES

Water feeds the area directly with an amount of 12 thousand m³ per day in the first phase and 24 thousand m³ per day in the second and third phases. A stock with a capacity of 12 thousand m³ in the first Phase and 40 thousand m³ is available to store supplementary amounts of water at second and third phases. Energy is abundant to serve the city's operations to the fullest. 4000 m³ of gas per hour are provided. Twenty megawatts of electricity is available in the first phase and fifty megawatts in the second and third phases, a large leap from the original 2 megawatts in the old site of the leather tanning industry. Moreover, connectivity is well sought out in the Robbiki Leather City with 600 telephone lines creating a solid communication scheme, and 300 thousand m² of roads, providing constant accessibility.

An infrastructural base for the management and treatment of industrial waste strengthens the city's environmental viability. A wastewater treatment plant is planned for each stage with a daily capacity of 8000 m³ as well as a solid waste treatment plant set with a daily capacity to process 400 tons per day. With the three stages being fully operational, the capacity is planned to reach 24000 m³ and 1200 tons respectively. Infrastructure becomes then a key comparative advantage to the Robbiki Leather City in Egypt, where the unison of land and basic services becomes the seed for success.

The environmental compliance of the Robbiki Leather City's operations sits at the heart of its business model, rather than serves a lateral dimension in the city's strategy and planning. It is part of the city's profitability and competitiveness rather than just an obligation or a burden. Technological cooperation with foreign partners has been key to developing the production process, decreasing pollution and increasing value added. This cooperation comes in line with the significant steps made by the global leather industry in environmental matters. A variety of liquid and solid waste treatment plants make for an elaborate and highly up-to-date recycling mechanism, as an indispensable dimension of the industry.

The establishment of an environmental laboratory to provide testing and evaluation on the environmental compliance of the Egyptian tanning sector is another representation of the centrality of environmental policies to the strategy of the Robbiki Leather City. The lab has already been established in Magra El Ouyoun and is providing testing and certification services. Robbiki Leather City's environmental policy is hence a lucid and practical one, which fruits are easily found in the industrial process and in the city's life in general.

The Robbiki Leather City is developing as an autonomous city that includes more than industrial facilities, with the availability of services that are all geared towards rendering the production process smoother. A package of services is directly associated with the industrial process of leather tanning such as the establishment of warehouses for chemicals, leather raw materials and end products, a cargo area and maintenance and spare parts manufacturing workshops. An international marketing center for leather is also being established, with plans to undertake publicity campaigns about the Robbiki Leather City to attract foreign investors. Moreover, a series of entities works on

developing the Robbiki Leather City's technological endeavors, with special focus on training and technology transfer. The Leather Tanning Technology Transfer and Innovation Center is established on a surface area of 6 thousand square meters and houses a pilot tannery including all production stages, physical and chemical laboratories, classrooms, offices, workshops, storage space and a meeting room. It offers a range of activities that includes advanced trainings, human resources development, technical assistance, quality control, testing for raw materials and end products and certification, technology development and transfer, environmental and social management and contracting research and development.

The Tanning Machinery Maintenance Center is established in cooperation with an Italian partner to study the needs of the tanning sector in Egypt for maintenance services, by first surveying the existing machinery. The center provides actual maintenance and technical trainings on modern means for maintenance. It also offers machinery and spare parts needed for maintenance. Both technology centers have already been established in Magra El Ouyoun and are providing training, technical assistance, technology transfer and maintenance services. Their transfer to the new industrial city is foreseen parallelly with the relocation of tanneries. The Robbiki Leather City falls at the heart of an industrial hub that includes Badr City Industrial Zone and the 10th of Ramadan Industrial Zone that produce 25 percent of Egypt's exports. The proximity to Badr City, which stands at 5 kilometers from the Robbiki Leather City gives the latter access to an extensive web of housing facilities and services. Those services include a residential capacity for 428 thousand people, five schools, three nurseries, a private university specialized in engineering and pharmaceuticals, a hospital, four clinics, a police station, a fire station, two post offices, a legal permits office, shops and a communication network that has a 60 thousand telephone lines capacity.

Besides those services located at a close vicinity to the Robbiki Leather City a service center is erected to become the city's administrative and business support entity to individuals and companies. The service house, in many cases, acts like a one-stop shop to facilitate transactions and dealings between companies and the government. This is facilitated by the fact that the Robbiki Leather City is granted the status of Special Investments Zone, which gives the city the authority to grant plants operating in it all needed licenses.

The service center's establishment follows the general development phases of the Robbiki Leather City. In the first phase, the service center is built on 1000 square meters. In the second phase of the project, the service house develops to become a mega business center servicing the whole city. It includes a logistics center, a communication center with telephone exchange and internet access, a banking area, event facilities that include conference and meeting rooms, restaurants, security services, cleaning services and a placement office. Three banks have been already committed to open branches in the Robbiki Leather City.

A housing plan has also been adopted with the registration of a housing association for the workers in Robikki. With an array of services, the Robbiki Leather City becomes a self-sufficient city with all means of support to both individuals and businesses.

CONCLUSIONS

The Robikki Co. for the Development of Industrial Parks is the implementing arm for the Robbiki Leather City, which brings the vision and aspiration of the Leather City to the grounds, utilizing a series of comparative advantages that are conducive to the project's success. The company works closely with a cohort of stakeholders that include the Ministry of Trade and Industry, local authorities, industrial community, public and private banks, as well as other financial institutions. The main objective of the company is the management and maintenance of Robbiki Leather City infrastructural network and activities, attracting foreign and national investments and the development of the second and third phases of the project for the Robbiki Leather City. Meanwhile, the Robikki Co. plans for replicating the Robbiki model in the future through the development and selling of industrial zones. The company is an Egyptian private shareholding company with a 75 percent share of public money. The remaining 25 percent share is made of private money pledged by private banks, financial institutions and investors.

The total value of the project's assets includes 6.9 million square meters of land, of which 2.2 million square meters are allocated for buildings and industrial units, 1.2 million square meters are allocated for the Common Effluent treatment Plant, 3.5 million square meters are allocated for a forest, the total internal and external infrastructure, the complete amount of buildings and equipments and banks' contributions.

Revenues are generated from services provided, which include real estate sales, assets management, technical, legal, financial and administrative services management, maintenance, software services, acquisition, development and selling of industrial zones, besides the development of the project's subsequent phases. The company also manages training and technical support services, using specialized companies' interventions. It also oversees the agricultural activities of the wood forest irrigated by treated wastewater.

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