

## **When your client moves abroad: forced upgrading and subcontractors' performances in the manufacturing sector**

The aim of this project is to assess how small subcontractors operating in low-tech manufacturing industries update their strategies in response to the decision of client firms to relocate production abroad. The main assumption is that, when small producers become more vulnerable in response to such unexpected shocks, strategic decisions are often taken out of necessity. In such circumstances, firms are forced to upgrade their status quo operations to successfully adapt to the changing economic circumstances. The empirical investigation will focus on the 2008-2015 period and will exploit a novel database which combines information from the Italian Ministry of Economics and Finance Annual Survey (IMEFAS) with data from ORBIS Historical database. The sample used for the analysis includes Italian Small and Medium Enterprises (SMEs) operating as subcontractors in the clothing and footwear industry. This empirical study will use a comprehensive approach to identify production relocation, focusing on the impact of both captive offshoring (investments in existing or new production facilities abroad) and offshore outsourcing decisions (establishment of new subcontracting relationships with foreign suppliers) implemented by client firms. The proposed study aims to assess whether 'forced' upgrading (i.e. strategy change in response to production relocation shocks) has beneficial effects on subcontractors' performances. The analysis will rely on counterfactual techniques to correct potential self-selection bias associated with the investigated phenomenon. The main findings of this work are intended to inform the current debate on the distributional effects of international fragmentation of production