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Regions, Regional Institutions and Regional Development

by

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Foreword

Globalization offers many potential benefits to national economies but also results in increased competition and increased mobility of investment. One direct impact on local economies is loss of markets for highly specialized regions with industrial monocultures (such as mining, steel production, textile, wood, etc.) and results in tremendous regional discrepancies.

The policy of governments often focuses only on macro-economic conditions and structural adjustments to cut budget deficits, to decrease inflation, and to liberalize trade and prices. Economic policies and strategies do not trigger sufficient and sustainable growth to create new employment and they neglect the regional particularities that can constitute an important development potential.

Employment is the central factor that determines socio-economic well-being, regions therefore are seeking out efficient local development strategies that aim at promoting economic and employment growth by combining a range of elements originating from many different local actors and based on local resources, needs and characteristics - labour market, enterprise development, skills training, management training, education and others. Local areas have an economic life on their own and contribute to the national economy; national economic and social development is **the sum of all** local achievements.

There are objective reasons for the degree of development of a region or local area, for example education level, infrastructure, local resources or urbanization. There area also subjective reasons for the degree of regional development, such as local policymaking capacity, cooperation between local actors, capacity to catch development opportunities or support from central government of international sources.

The aim of the present paper is to provide an overview and give examples of how local development in areas or regional of industrialized countries and countries in transition tries to overcome the negative effects of globalization.

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This report was prepared as part of the research undertaken for the Action Programme on Globalization, Area-based Enterprise Development and Employment (ILO Employment and Training Department). One purpose of this Programme was to demonstrate how communities can adjust successfully to change caused by globalization, in terms of enterprise development and opportunities for decent work. Other working papers in this series are listed at the end of this report, and further work in this area is continuing under the InFocus Programme on Boosting Employment through Small Enterprise Development.

Christine Evans-Klock
Director
InFocus Programme on Boosting Employment
through Small Enterprise Development

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1. Introduction

The present paper assesses the role of regions, regional institutions and regional policy in promoting socio-economic development, enterprise competitiveness and employment creation in modern capitalist societies.

Drawing on literature and cases from Europe (East and West) and the United States, this analysis traces the reasons for the growing significance of the role of local and regional actors and policies in socio-economic development over the past two decades.

In this context, the increasing importance of the local environment for enterprise competitiveness (2.1), the changes in economic geography (2.2), the question of a decreasing importance for national policymaking (2.3), and changes in the orientation of and problems with regional development policy (2.4) are discussed.

Section 3 reviews several policy areas where regional actors and institutions are said to be of importance, including technology policy and innovation (3.2), training, retraining and employment creation (3.3), inter-firm cooperation (3.4) and inward investment (3.5). These are illustrated by a series of practical examples of more and less successful policy initiatives. The shaping and organizing of regional development is examined in section 4 and section 5 presents some concluding comments.

2. The changing role of regions and regional policies: Reasons, prospects and problems

Since the early 1980s in the industrialized countries and more recently in the countries of Central and Eastern Europe, there has been a tendency to emphasize the role of local and regional actors and policies in economic development. It is argued that they are often compelling factors in inducing enterprise competitiveness and therefore in determining regional (and indirectly national) economic success or failure and (intra-country) regional disparities. The growing attention to regional economies and policies is the result of a number of developments in modern capitalism. These include the increasing importance of local environments for enterprise competitiveness; changes in economic geography with crises affecting traditional success regions and the emergence of new success regions; and the often supposed decreasing importance of national policies as a result of an escalating internationalization of the economy and the increasing importance of supranational political and economic arrangements. This has led to the profound changes in regional development policy which are discussed in the following sections.

2. 1 The increasing importance of the local environment for enterprise competitiveness

Since the mid-1970s, the Western world has been in a period of transition from one phase of capitalist development to a new phase (Amin, 1994). Observers agree that the dominance of mass production and mass consumption, a combination often referred to as Fordism, has been fading in the contemporary capitalist world. Although it has had different faces in different (national) settings, Fordism has generally been identified with factors like large and vertically integrated firms, economies of scale, moving assembly line techniques, repetitive semi-skilled work, hierarchical structures of control, collective bargaining and mass consumption of standardized goods. Symptoms of the declining importance of traditional mass production in the industrialized countries include the loss of high numbers of manufacturing jobs (Law, 1991), the growth of the service sector, the renewed and accelerating importance of small enterprises (Sengenberger et. al., 1990), and the emergence of a series of new forms of production organization and inter-firm cooperation, challenging the old order of the post-war period. They are replacing Fordism in many instances, even though it would be wrong to conclude that the days of mass production are over. Mass production continues to be a widespread phenomenon (Keating, 1997) or, as Storper (1990) has put it, many activities remain Taylorized and exist essentially as forms of mass production; however, these activities no longer account for the majority of employment and output growth, and the *principles* of mass production no longer dominate managerial decision-making in advanced capitalism.

There are different points of view on how to explain the "crisis of Fordism".[1] The arguments seem to centre around four basic and intimately interrelated developments:

- Competition from new production concepts based on new technologies, new forms of work organization and/or new ways of inter-firm cooperation. These include a diversity of concepts ranging from lean production to industrial district-type small enterprise networks. They have in common that they allow for the flexible and profitable production of small numbers of high-quality products and are (at least in that sense) seen as superior to mass production.

- Related to the previous point are the changes in the criteria determining enterprise competitiveness. The main traditional economic success criterion, price, is no longer seen as the sole factor leading to competitiveness. This is often linked to changes in consumer demand. Economies of scale have become less important and have given way to other competitive parameters like flexibility, responsiveness, quality, innovation and design. These criteria favour a diversity of products hard to satisfy through standardized mass production and call for rapid changes of products and small-batch production.

- Globalization and the increased mobility of capital, profound changes in the international division of labour and the emergence of global sourcing policies of multinational companies, creating commodity chains by locating the different phases of the production process in the most advantageous locations (Gereffi and Korzeniewicz, 1994).

- Inherent social and technical limits affecting productivity growth, wage increases and social security in mass production.

There is a lively debate on the nature and characteristics of so-called "Post-Fordism" (Amin, 1994), which seems unlikely to be settled in the near future. In this context, Crouch and Streeck (1997) argue that a growing diversity took place in the 1980s in advanced capitalist societies, at the level of firms, inter-firm relations, the role of the state and the role of institutions in general. As a result, it has become common to devote attention to the role of non-market institutions in

[1] See Amin (1994) for an extensive overview of the major approaches in the analysis of the crisis of Fordism.

determining enterprise competitiveness and to the various 'national' and sub-national institutional solutions to govern economies.[2]

It has often been argued that one of the outcomes of the crisis of Fordism has been the increased importance of the local environment for the individual enterprise. The vertically integrated, stand-alone Fordist enterprise was relatively insensitive to locational factors other than the cost and availability of labour and the proximity of raw material supply and markets for its final product. For many enterprises functioning under the "new" production concepts space has acquired a new dimension. Small enterprises, possibly organized in enterprise networks, have often come to depend on close horizontal interaction and cooperation with other (small) firms and on the support from local institutions and locally produced collective goods (see also section 2.2). But for larger (multinational) enterprises the role of the local environment has been gaining importance as well. On the one hand they often spread different production phases over different localities and countries, becoming less bound to particular localities. On the other hand, the importance of the local economy in which the individual firm operates increases. As a result of the increased concentration on core operations, more and more activities are outsourced to (mainly) local suppliers (van Tulder, 1997). Large enterprises often need specialized suppliers and business services in their immediate surroundings to be able to perform according to just-in-time schedules or to continuously upgrade the quality of their production. They also rely on good transportation facilities and the local availability of skilled labour. Also, according to van Tulder, this process of outsourcing is accompanied by an increasing importance of the service sector. He argues that the larger the service component in an economy, the more 'local' the economy becomes, among other reasons because most of these services are non-tradable goods which do not compete on the world market. *"More and more people locally produce goods and (particularly) services for local consumption"* (van Tulder, 1997). Drawing on Krugman, he shows that, for example, in 1894 in Chicago more than half of all employment in Chicago was related to tradable goods competing on the world market. Now, in the leading American city, Los Angeles, this share has declined to one-quarter, with three-quarters of people employed in production and services for local markets for local consumption (van Tulder, 1997).

Scott (1995) argues that individual firms (e.g. a manufacturing operation) increasingly seem to benefit from being part of an agglomeration of firms (in so-called sectoral clusters, see 3.4), which may provide the necessary services, partners, contacts, innovative stimulus, policy environment and other elements which help to underpin competitiveness.

Also, regional economic performance has been more and more related to characteristics that are socially and politically created, and not simply given by nature (Scott, 1995). Such endogenously produced features are seen as important sources of competitiveness for a region's enterprises (Hudson, 1998). Competitiveness is increasingly being seen as "community based" as conditions outside the firm are seen as important for the competitiveness within (Pyke, 1999). An enterprise is not an abstract entity and cannot be isolated from its wider economic, social and cultural context (Cossentino, 1996). This (local) context can provide competitive advantages depending on, for

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[2] Crouch and Streeck also point out that institutional capitalism has lost some of its momentum in the 1990s as a result of the relative success of the Anglo-American economies, the main examples of "pure" free markets and individualism, and the proceeding globalization. They argue this may lead to the loss of the strength of a number of institutions and thus of (part of) the built-up diversity if the neoliberal ideology continues to dominate economic thinking.

example, the quality of the environment and social relations, the material and immaterial infrastructure, the access to information and new technologies, the availability of finance, or the opportunities for establishing relations with international companies (ibid). Such advantages may strengthen the competitiveness of local enterprises but may attract inward investment as well.

2.2 Changes in economic geography

One of the main reasons for the surging interest in regional economies and policies has been the emerging economic and social crisis in the 1960s and 1970s in many of the "old" industrial regions, often modelled on the Fordism concept, and the emerging of new successful regional economies in previously relatively undeveloped areas. Traditionally dominant regions, often based on one or several "old" industries like textiles, steel, coal, shipbuilding or machine building suffered from severe recessions. Clearly, these developments are closely linked to the above-discussed crisis of Fordism. More recently they were joined by many regions in Central and Eastern Europe (Keune, forthcoming). For example, in Hungary the seemingly most stable pillar of the regional economic structure for the past forty years, the northeastern-southwestern industrial axis, has collapsed, showing only slow signs of recovery (Nemes-Nagy, 1997). The industries in these regions have experienced deep economic crisis, leading to mass dismissals, surging unemployment and poverty.

In parallel to this, new success regions have emerged, responsible for higher than average rates of economic growth, employment creation and income. They are often based on new industries or on new (or newly discovered) forms of production organization. Possibly the most influential example of such success regions has been the work on the Italian industrial districts of Emilia-Romagna, Veneto and Tuscany, made famous outside Italy by Piore and Sabel (1984). These regions attracted interest for two main reasons: first, their remarkable economic success on both the domestic and international market, and second, their seeming capability to provide good pay and satisfactory social conditions (Pyke and Sengenberger, 1996).

Industrial districts have been characterized as regional economies based on networks of small and medium-sized firms linked to one another and to local institutions by shared resources and services to form innovative and productive industrial organizations with strong competitive advantages (Pyke et.al., 1992). These networks belong to the same industrial sector, containing all the upstream and downstream processes and services going towards the manufacturing of a family of products (ceramic goods, knitted clothes). They are based on the flexible specialization paradigm, a combination of specialization and subcontracting, and the enterprises divide amongst themselves the labour required for the manufacturing of particular goods. Specialization is thought to induce efficiency, both individually and at the level of the district, while its combination with subcontracting promotes collective capability. The goal of every firm in the district is to make the community of firms a success and to ensure the development of the small firm-network. It is argued that economies of both scale and scope are the result.

It has many followers but the industrial district concept has attracted many criticism too (see Amin, 1994, for an overview). It has been accused of being too naïve and over-romanticized, and of being applicable only in selected sectors and localities. Also, it has been argued that the industrial district model is based too much on case studies, making it hard to sort out its characteristics and casting doubt on the existence of any model at all (Keating, 1997).

According to Scott and Storper (1992), many of the new success regions can be characterized as flexible production agglomerations. They do not necessarily see one model for such agglomerations and claim that there are many specific development paths which may lead to their formation including area systems, localized production systems, large-firm based agglomerations with long-distance subcontracting, mass production, etc. They see three main groups of contemporary flexible production regions:

- Craft-based, design intensive industries and foci of precision metal working and machine building, to be found in two types of regions: inner city areas in large metropolitan regions and old centres of craft production.
- High-technology industry in selected suburban locations close to major cities or in formerly non-industrialized areas.
- Advanced producer and financial service agglomerations in or close to the central cores of large cities.

They acknowledge that flexible production agglomerations may have very distinct faces and that different modes of production can lead to equal efficiency. Nonetheless they claim that the central dynamics of the division of labour, flexibility, and the formation of a supportive tissue of institutions characterizes them all. They are often inserted into wider (international) divisions of labour. Based on this, Scott and Storper (1992) propose a new, double-faceted view of regional development in the new global context. On the one hand they see the global economy as made up of a set of specialized regional production systems, each with its own dense system of intra-regional transactional arrangements and local labour market activities. On the other hand, these regions are entwined in a worldwide web of inter-industrial linkages, investment flows and population migration. At the global level, a number of critical institutional arrangements - the multinational enterprise, international subcontracting, inter-firm strategic alliances, international agreements, etc. - play important mediating roles. The nation-state remains significant but is less and less economically autarchic. All this would make the economic geography of the contemporary world look like a global mosaic of regional economies.

To a certain extent, the flexible specialization concept has received the same criticism as the industrial districts concept. Both have also been said to fail to take account of the macro-economic context, the speculative and short-term nature of finance capital, the role of the public and service sector, and other major factors that impact 'real world regional development' (Lovering, 1999). Although much of the criticism of both concepts seems justified and the generalization of their applicability seems problematic, they do provide useful insights. They have brought a number of fairly undisputed lessons. For the present paper there are three lessons of particular importance. First, there is a potentially powerful role for local institutions and collective goods in promoting local economic development (e.g. Hudson, 1998). Second, at least in certain circumstances, firms can agree to compete on certain levels or activities while they cooperate on others. Third, the successful promotion of economic development in a region requires the adaptation of development policies to the regions particular circumstances. In this respect, Garmise (1995) argues that while the Emilia-Romagna model can be used as a development prototype only by a selected number of regions, it does have something to offer to other regions as well. *"Emilia-Romagna actively sought an in depth knowledge of its particular type of productive system, and then initiated strategies to support it. In other words, regional development strategies were tailored to meet the particular needs of the region's particular economic structure, not turn that structure into something it was not. They* *worked with the market and the system at hand, encouraging growth and success while helping to ameliorate any negative consequences through social policies*" (Garmise, 1995). We return to this point in section 3.4.

2.3 Decreasing importance of national policies?

A third stimulus for the increased attention to regional economies and policies has come from the perceived decreasing importance of national-level economic policy. Increasingly, nation states have rendered part of their national sovereignty on economic policy to international bodies. The most obvious example is of course the European Union but arrangements like the World Trade Organization have absorbed substantial national decision-making authority as well. Also the globalization of capital and commodity markets has made it more difficult to use the traditional instruments of fiscal and monetary policy available to national governments. These tendencies, together with the emergent neoliberal wave of non-interventionism have made it less and less feasible for national governments to manage national economies (Strange, 1997). For example, they are increasingly experiencing difficulties in supporting particular industries or firms. The strict monetary and budgetary criteria and the trend towards economic and monetary union within the European Union mean that central governments, influenced by their central banks, are also extremely reluctant to commit themselves to strategic industrial policies that might incur major public expenditure (Cooke, 1995). It is argued that regional and local governments and other local actors do not face the same constraints. Consequently, lower levels of government have increased their activities in promoting investment and enterprise competitiveness. In the case of the European Union, regions are also specifically promoted as an important economic policy-making level.

The question remains: Has the national state indeed lost a significant part of its importance as a result of the aforementioned processes, or has it meant a changing role for the State? Hudson (1998) argues that, without denying the importance of regionally specific institutional and social conditions or that there is an upwards transfer of some state powers and competencies, the national political and economic context remains of crucial significance in shaping possibilities for regional economic success. In this view, the success of regional economies may well depend to an important extent on the strength of the national economy, the form of the national State, the type of regulatory regime that the State maintains, and the form of capitalist economy that it seeks to encourage. Its role may, however, be different from the one it had in the Fordist and welfare State era, and the State may well become more of a facilitator and enabler and put less emphasis on interventionism (Hudson, 1998).

2.4 Changes in the orientation of regional development policy

The increased attention for the region as an economic and policy unit is reflected as well in changes in regional policy. Until the beginning of the 1980s, in the advanced capitalist economies, regional development policy was dominated by Keynesian principles, including income redistribution and welfare policies to stimulate demand in the less favoured regions and the offer of State incentives (from State aid to infrastructural improvements) to individual firms to locate in such regions (Amin, 1999). Over the last fifteen years, the pro-market, neoliberal approach has come to the fore, placing its faith in the market mechanism and seeking to deregulate markets, notably the cost of labour and capital, and to underpin entrepreneurship in the less favoured regions through incentives and investment in training, transport and communication infrastructure, and technology (ibid).

Amin continues to argue that both approaches have had modest results. Keynesian regional policies, he contends, have helped to increase employment and income in the less favoured regions, but they failed to secure sufficient productivity increases and to encourage self-sustaining growth based on the mobilization of local resources and interdependencies (by privileging non-indigenous sectors and externally owned firms). The neoliberal approach has had even worse results according to Amin, as it reduced financial transfers which have proven a vital source of income and welfare in the weaker regions; exposed their weak economic base to vigorous competition; and failed to reduce the flow of all factor inputs away from these less favoured regions. *"In short"*, he concludes, *"the choice has been that between dependent development or no development*" (Amin, 1999). The failure of these two approaches seems to originate, among other factors, in their reliance on the individual firm as basic economic unit and on top-down policies universally applied to all types of region (Amin, 1999), in the belief that enterprise prosperity automatically translates into employment and income growth in the region, and in overemphasizing the role of manufacturing industry, inward investment and technical infrastructure.

Recently, as discussed in 2.1, regional economic performance has been more and more related to characteristics that are socially and politically created. In terms of regional development policy, this has led to the regionalization of regional policy, allowing for a regionally differentiated strategy that takes the variety of local economies into account. Regional policy according to this approach, sometimes identified as 'new regionalism' (Amin, 1999) focuses on bottom-up promotion of endogenous growth, mobilizing all a region's resources, possibly with support from the centre. It supposes that funds and effort are best spent on investing in the local physical and social infrastructure - i.e. local transport and communication, technical services, education and training, housing - with a view to developing the area's own resources, encouraging innovation and new technologies and products, and generally improving the quality of work and life in the area. Inward investment is not ignored, however, it is to be attracted not simply by untargeted money, or cheap land, cheap labour, etc., but by high quality resources, and should fit regional development objectives.

Also, the new regionalism recognizes the collective or social foundations of economic behaviour (Amin, 1999) and proposes the inclusion of multiple actors in the process of policy development and implementation. Apart from regional and local government structures they may include chambers of commerce, technology transfer agencies, trade unions, education and research institutes and minority associations. This also allows for the explicit identification of regional development objectives beyond the competitiveness and prosperity of the enterprises in a region. These can include full and balanced employment; lessening social exclusion; income security; promoting equal opportunities between men and women; maintaining or creating environmental standards (e.g. Sengenberger and Keune, 1996).

The remainder of this paper will provide an overview of different dimensions of local and regional policymaking, their potential role in regional development, and the potential role of regional actors and institutions. Before doing so, however, some of the (potential) downsides of the 'new regionalism' discussed above and of its current manifestation or application should be mentioned. First, in many cases so-called endogenous development policies and strategies are little more than enterprise promotion schemes, often supporting large (multinational) enterprises which less need such support. Such indirect enterprise subsidies may take the form of public investment in infrastructure, training and other labour market policies or technology transfer, oriented not so much towards the upgrading of the regional supply base as a whole but towards the need of a few powerful enterprises (Keune and Tóth, forthcoming). Whereas such investments often drain local budgets, their returns are rather uncertain. Small enterprises, unemployed persons, or otherwise vulnerable or excluded individuals and groups often face difficulty in accessing meaningful support in developing productive activities, even though they are much more in need of this support.

The wider problem here is that to define regional development objectives beyond the competitiveness and prosperity of the enterprises in a region often remains a theoretical possibility. It is often supposed that enterprise growth and competitiveness will automatically lead to improvements on the labour market and in income. The bias towards larger enterprises often originates in their visibility, power position and influence on local elites while more vulnerable groups have difficulty in raising a collective voice. Consequently, regional development policy may ignore demand considerations and become overly supply-oriented. Decentralized policies are not necessarily socially inclusive, which underlines the need for a social dimension to regional policy, with clear social objectives. The mere strengthening of the competitiveness of firms is unlikely to lead to sufficient employment creation because, among other reasons practically all globalized industries have excess capacity today (Sengenberger and Keune, 1996).[3]

Another potential danger of this approach is that the focus on the "competitiveness" of regions may lead to increased competition between regions and to increased inter-regional inequality. Such a process may consequently lead to the waste of resources and possibly to the downscaling of development objectives and social standards. Also, a too narrow regional focus and neglect of macroeconomic processes may lead to the abolishing of the central redistributive function and to the drying up of redistributive transfers to the weaker regions (Amin, 1999; Lovering, 1999). If the understanding is that "less successful regions can do something themselves to improve their economic fortune" (Hudson, 1998), this may easily lead to the reasoning that they can thus be left alone to do so, which will only underline their disadvantaged position and make it less likely that they will catch up with the more prosperous regions. Dunford (1995) foresees in this respect an increase in the wide imbalances that already exist in Europe between stronger and weaker regions if local and regional authorities are made dependent on their own resources, particularly when the richer regions join together to defend their interests. The regionalization of regional policy and the

[3] Even in more prosperous regions certain, basic needs - for example in the housing and social fields - are not being adequately met for certain population groups. The identification of such unsatisfied needs, their transformation into actual demand and the strengthening of the respective supply factors could possibly be a "new" source of employment. The European Union has been the main proponent in trying to take up this challenge through the promotion of local initiatives aimed at creating employment related to the so-called "new needs". The EU estimates that local employment initiatives to meet local needs (including home help services, child care, new information and communication technologies, assistance to young people, better housing, security, local public transport services, revitalization of urban areas, local shops, tourism, local cultural development) could provide between 140 and 400 thousand new jobs a year (European Commission, 1995). However, according to Jepsen and Meulders (1998), for the moment it seems employment created through such initiatives is often unstable, ill-defined and of poor quality. Also, they argue, the EU seems to promote initiatives oriented toward providing certain population groups (e.g. long-term unemployed) with low-paid temporary employment, while only in a few cases can structural development of demand and supply concerning these "new needs" be observed. The success of such initiatives remains limited for the time being.

promotion of endogenous initiative do not mean the end of the usefulness of state policy and programmes. Rather, they provide an opportunity to coordinate and create synergy between policies at the various levels with the aim of *"...developing the unique and place-bound socio-institutional assets that will enable national states and their constituent regions to locate themselves favourably in a competitive global economy*" (Hudson, 1998).

3. Promoting regional development: An overview of main policy areas

3.1 Introduction

As argued in the previous section, there is a growing consensus that regional institutions and actors can play a meaningful role in promoting economic development within the national and global context. They can initiate "bottom-up" initiatives aimed at strengthening the regional economy and can give a region-specific character to national programmes and policies, provided they get substantial responsibilities in design and implementation. Among the advantages of policy making at the regional level as compared to central policy making are the possibility to coordinate closely between different policy areas and actors, to create synergy and efficient use of resources, to attend region-specific problems, and to build on particular regional strengths and advantages. In this section we examine several policy areas where regional actors are said to be of importance and illustrate these by a series of practical examples.

There are an enormous variety of initiatives and programmes that have been implemented at the local and regional level in the past decades with the aim to promote enterprise competitiveness, attract investment, combat unemployment, improve the environment or promote inclusion of marginalized groups. Here we will discuss four major areas, found to be of major importance in promoting regional development:

(i) technology transfer, innovation and information;
(ii) training, retraining and employment creation;
(iii) support to particular groups of enterprises, promoting inter-firm cooperation in horizontal networks, vertical networks and/or sectoral clusters;
(iv) promotion of inward investment.

Before discussing these four areas, some general remarks apply. Promoting regional development often takes the form of building technical and institutional infrastructure. However, the supply of such infrastructure should not be a goal in itself. It should respond to (latent) demand of (potential) economic actors, it should take due account of their behaviour and it should truly reach the target groups. For example, Glassmeier and Fuellhart (1999), discussing organizational learning and information transfer within institutional and spatial contexts, argue that it would be a mistake to simply suppose that small firms in a region rich with government programmes and universities actually use these sources for information: empirical investigations have clearly shown that most of them generally do not use these sources.

Also, the divide between the four areas discussed here is to a large extent artificial and made only for analytical purposes. It should be remembered that these four areas are intimately interrelated and overlapping. Innovation and technology transfer usually involve a large training component. Supporting enterprise networks often include both. The attractiveness of a region to inward investment may depend on all the other three areas.

3.2 Innovation and technology transfer[4]

A particular feature of importance in the asymmetric economic development of regions throughout the industrialized world in recent decades seems to be the capacity to innovate and to disseminate new technologies. Innovation and technology policy, aimed at promoting innovation and technology transfer, have become increasingly important in promoting regional competitiveness. Traditionally, technology policy used to be aimed at promoting R&D at large firms competing on international high-tech markets. Since the mid-1980s, however, it has been focused more on technology transfer for the dissemination of new productive technologies and on eliminating bottlenecks of innovation, especially for small and medium-sized enterprises (SMEs). As a result, technology policy has been approaching ever closer to the level of everyday enterprises. Innovation and the upgrading and modernization of the endogenous regional economic factors has received more emphasis and regional technology policy has become recognized as an indispensable instrument for the support of local industry.

Central-level technology policy is usually focused on the strengths of a country's industrial system, generally following the interests of a country's core industries and regions. Often it does not take into account regional characteristics, in particular differences in demand, and frequently it is based primarily on the needs of large firms or on large R&D projects oriented towards basic research in key technologies. This makes it especially necessary for weaker regions - likely to be dominated by low-tech or middle-high-tech enterprises - to develop complementary policies focused on technology transfer, as such a focus is more important in such regions than the generation of R&D.

In lagging regions, the need for regional technology policy is particularly apparent. Such regions often have an over-representation of SMEs, which due to their size are subject to disadvantages restricting their innovative potential. For example, individual SMEs may have difficulties following all technological developments, are often too small to develop their own R&D in an economically viable way, and in many cases lack the scale necessary to effectively operate expensive capital equipment (e.g. Metcalfe, 1995). An additional problem for these firms is a lack of technological capabilities and insufficient technology management. Many of them do not have the capacity to analyse their own technological situation or to design an innovation-oriented strategy (Dankbaar, 1993). These disadvantages can be lessened to a large extent through the adequate supply of innovation services, typically through locally based institutions. Such a supply-based policy works particularly well for firms that are already oriented toward innovation. For firms which lack innovation capabilities or which do not have an innovation culture, an even more intensive approach is appropriate, including face-to-face technology consultancies. This creates a further need for local or regional support with low entry barriers and direct linkages to technology transfer centres and research and education institutions.

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[4] A substantial part of this section is taken from Heijs (1998) with the consent of the author.

Pyke et. al (1992) argue that support to innovation in SMEs is not only important in modern industries but in traditional industries as well. In the 1970s many industrialized countries lost interest in supporting traditional industrial sectors based on SMEs, which were often located in peripheral regions. However, success stories of SMEs in traditional sectors such as textiles, clothing and leather have changed the prevailing opinion that these sectors should migrate to low-wage countries. Rather, such industries and regions may do very well if supported by a technology policy aimed at upgrading production methods, strengthening competitive advantages, and exploring the endogenous potential in existing traditional industries. As national policies often ignore these opportunities, regional and local actors have had to take up these tasks.

Another factor limiting the innovation potential and technological capabilities of peripheral regions is the absence of large multinational enterprises with their own research laboratories (Dankbaar, 1993). Not only is the technological potential of such enterprises important, but also their influence on the policy-making system. Due to their size, personal contacts, lobbying capabilities and importance as employers, large firms have a profound impact on education, government policy making and public research activities. They can therefore often mobilize public funds for their own interests and those of the regions where they are located, causing a relative disadvantage for the development of the innovation system in other regions.

A final but very important argument in favour of technology policy in weaker regions is that improvement in the technological level of production is one of the main ways to create sustainable competitive advantage based on long-term innovation and growth in productivity. It is therefore one of the principal pillars of long-term development strategies and constitutes an alternative for low wage competitiveness.

Technology policy as a form of public intervention can play an important role in regional development. However, its potential is restricted by a host of other factors within the innovation system. Regional and national innovation systems can be divided only in theory, because they are in reality complementary and interdependent. A national innovation system places constraints on regional systems, but regional systems are a very important part of the overall innovation system.

A broad range of policy instruments may be used to complement each other in an integrated technology policy. There are traditional policy instruments such as institutional support, education and technological infrastructure, and financial support (Meyer-Kramer, 1990). Institutional support for R&D and the provision of education and technological infrastructure are traditional activities of the State. Traditionally, support is provided for basic and applied research to establishments of higher education and other public, semi-public or private R&D institutions. Other aspects of this type of support include a broad range of activities to support R&D in enterprises, aimed mainly at assisting technology transfer through information or advisory services, fostering cooperation and networking, as well as the establishment of technology and innovation centres. Financial support may be aimed at fostering R&D on the enterprise level, and can be divided into two main types. First, financial incentives can be offered to firms in the form of tax incentives, subsidies, or special low-interest loans. Second, cooperative and networking efforts may be aimed at creating synergy through the interaction of various actors within the national and regional systems of innovation. (See box 1.)

Apart from these traditional methods, there are other types of instruments to support technological development, differing in type from those mentioned above. These may also be labelled technology policy instruments in the broad sense, and include public demand, legalization and regulation, training and education, the establishment of public enterprises, and corporate measures.

BOX 1: Technology transfer: The Steinbeis Foundation

An important characteristic of the German national and regional innovation system is the integration of science, higher education institutes (HEIs) and industry. Universities, polytechnics and other HEIs fall under the political responsibility of the *Länder* governments. This means that their research institutes are focused on the problems and needs of the region. The federal government has its own institutes for basic R&D aimed at general problems and needs of the German economy. Although the most important contribution of the HEIs to technological development is traditionally the preparation of human capital, they also have a clear role in technology transfer.

An interesting example of integration between industry and HEIs is found in Baden-Württemberg, in the so-called Steinbeis model for technology transfer. The Steinbeis Foundation is a strictly non-profit organization for technology transfer, with over 200 centres located in polytechnics and universities. The Steinbeis Technology Transfer Centres are focused on small, practical technological problems of SMEs, primarily from their own region, which are often neglected in national and regional R&D support schemes. The Steinbeis Foundation does not have its own R&D infrastructure, but makes use of existing government-owned facilities at HEIs; most Steinbeis technology consultants also work at polytechnics. In this way, high overhead costs are avoided, making the technology transfer agencies of the Steinbeis Foundation relatively competitive. Since the managers of the centres are also professors at the HEIs, they have thus had at least five years industrial experience or similar contact with business. In addition, they are allowed to perform an amount of contract research for industry in order to supplement their income. The Steinbeis model is based on the market principle, a characteristic feature of all elements of German technology policy. State subsidies to the foundation are limited, and are only available for the purchase of equipment during the initial phase of establishing a Steinbeis Centre. No funding is available for the ongoing operations or administration of the centres; 95% of their income is derived from industrial projects. Each centre is its own administrative unit, and must generate its own income, and so over time certain centres are closed down and others are opened according to changes in demand on the technology markets. The only free support provided by the centres consists of an initial five hours of consulting supplied gratis to each firm and paid for by the regional government. In this way, the firm does not have to pay before having an opportunity to see if the centre really can help with the problem at hand. After the first five hours firms are charged, ensuring that the centres provide services of genuine use to local enterprises. The Steinbeis model is an important tool for improving the integration between HEIs and the regional productive sector, especially for small and medium-sized firms.

Source: Heijs, J. 1998. *Regional technology policy and innovation systems: A comparative study of Germany and Spain*, Documento de Trabajo 11, IAIF, Universidad Complutense de Madrid.

Gertler (1996) emphasizes the importance of communication and interaction between the users and producers of new technologies. He argues that this allows the user to better assess the scope of options provided by the machinery and the reliability and trustworthiness of the producer. It also allows the user to communicate its needs to the producer, facilitating adaptation of the technology to the client. Finally, it makes it more likely that the producer will assist the user in installation, start up and operation of machinery or systems. The implication for regional technology policy here is that it should attempt to decrease the distance between users and producers by, for example, promoting technology production in the region or visits from producers to user plants and vice versa. Technology transfer institutions which do not take this dimension into account may facilitate access to technology but are likely to be less successful in facilitating the effective use of technology (ibid). Gertler adds that such interactive technology transfer is only likely to be fully successful in a regional and national cultural and regulatory environment that is conducive to cooperation between enterprises and to the proper use of technology in the workplace. Thus, institutional bottlenecks will have to be solved also at the national level to allow for effective transfer and use of technologies at decentralized levels. This includes, for example, the promotion of strong industry-based employers associations and chambers of commerce; the need for stable employment relations, creating incentives for employers to train workers; the participation of workers in decision making concerning new technologies (ibid).

Thus, technology policy should integrate the various instruments in a complementary fashion. Both the mix of policy instruments and their division among the various levels should be complementary. At the national level, the legal framework and other institutions can support cooperation and innovation and ensure that the national innovation system remains internationally competitive, while technology transfer and the development and strengthening of regional technology management capabilities can be the task of regional and local institutions.

3.3 Training, retraining and employment creation

As a result of the changes in production regimes discussed earlier, the parameters for competitiveness and the rise of small enterprises, increased emphasis has been put on the value of education and training. It is argued that skills play a crucial role in determining productivity, flexibility and quality. Competitiveness of individual enterprises, enterprise collectives[5] and countries has increasingly been linked to the level and adaptability of the skills of workers, managers and entrepreneurs. Also, it has increasingly been argued that (continuous) education and training to a large extent determine the employability of individuals and are therefore a main instrument in preventing or overcoming unemployment. [6]

This thinking has had an enormous influence on regional development policy. Strengthening the skills of workers, managers and/or entrepreneurs has been one of the most popular regional development instruments for decades. Training programmes have aimed to promote small-enterprise creation and survival, to support the (re-) employment of unemployed persons, to reach increased levels of productivity and innovation, to attract inward investment and to prevent redundancies. The regional character of labour market mobility makes the impact of training largely regional and thus seems to make training a suitable object of regional-level policy (Nieuwenhuis, 1999). Also, because of specialized and frequently changing training needs, close interaction between providers,

[5] See 3.4

[6] For a comprehensive discussion, see ILO (1998).

enterprises, trainees and other institutions involved in the design, organization, implementation and/or financing of training (e.g. employment offices, local and regional authorities, technology centres, business centres, etc.) is required. Building networks between such actors and institutions and facilitating cooperation between them has become an important policy focus. Osterman (1999) concludes in this respect that "...the ultimate objective of policy at the local level should be to create dense networks or pathways through the labour market so that there are multiple channels for mobility. The key to accomplish this is to link training programmes, intermediaries, employees and firms together in a network which enables these actors to work together in an effective way". This would facilitate an efficient delivery of training and the flexible adaptation of training programmes to the needs and profiles of the "customers" (individuals and enterprises).

Osterman (1999) argues that in the US there are quite a number of such network initiatives, although their scale and coverage are still very limited. Drawing on Bernhardt and Bailey (1997), he gives the example of the Wisconsin Regional Training Partnership as a promising approach in this context. The partnership, a consortium of manufacturers, unions and public sector partners in the Milwaukee metropolitan area, aims to support the creation of high performance workplaces and quality jobs in the region. Some forty employers from main local industries, employing around 40,000 workers, participate in the partnerships which includes the respective unions as well. At the core of the initiative are a series of channels for active communication and planning between employers and unions, including working groups focussing on plant modernization, and peer advisor networks to share best practices. Most of the employers either have or will have an on-site training centre that provides continuous training and skill upgrading. A key component is the development of industry-specific skill standards, by employers, unions and technical colleges in the region. Such standards have successfully been implemented at the entry level, and certificates to improve skill portability across firms are planned (Osterman, 1999).

Nieuwenhuis (1999) claims that less developed regions are characterized by less developed educational provision and face the challenge to close this gap. He underlines the particular importance of vocational education and training (VET) institutions at the regional and sectoral level and sees them as (potential) major players in building competitive regional economies. Their tasks would not only include the supply and maintenance of a skilled workforce but also the brokering of (new) knowledge towards the local economy. To fulfil this role, VET should be an integral part of regional strategies for regional development. He concludes that VET colleges *"...should become spiders in regional learning networks, with open information connections towards the local economic community on the one hand and towards sectoral knowledge sources on the other hand. Within this network strategy, colleges should be aware of their own core competencies and form alliances with complementary knowledge institutes. Specialization on regional industrial clusters can strengthen the pivotal position of the colleges.*[7] *Expanding their role from initial vocational education and training into facilitating regional and sectoral innovation and technology adaptation, VET colleges have the potential to become one of the most important knowledge institutes for local and regional development."*

Particular target groups of local and regional training initiatives have been, among others, the unemployed, redundant workers, and small enterprises and self-employed. Training has often been

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[7] For more on this particular point, see 3.4

seen as the prime "cure" for unemployment and has in many instances indeed proved its value in this sense. Evaluations of training programmes for unemployed often show acceptable placement rates and rates of returns. But the usefulness of training programmes *sec* as an active labour market policy tool depends often on the more general character of regional labour markets. Their underlying philosophy is generally that individuals can be (re-) trained and then enter employment, and that the problem is thus with the individual rather than with the functioning of the economy (see OECD, 1995). This may be true in dynamic and diversified regional labour markets with high vacancy rates and employment turnover. But it may be more problematic in mono-industrial, high unemployment regions and regions affected by mass layoffs. They face more severe and widespread problems than the placement of marginalized groups (OECD, 1995, p. 44). Although training remains a potentially useful instrument in the latter regions, only in combination with other support measures is it likely to contribute successfully to (re-) employment.

As discussed in OECD (1995, p. 44-47), to address labour market problems in problem areas, deal with mass redundancies and increase effectiveness of training programmes, in Austria the Labour Market Service has established a number of intermediary agencies called Labour Foundations. These usually temporary agencies aim to cushion the effect of mass layoffs and seem to have been quite successful. They assist the re-employment of redundant workers in the internal or external labour market with a variety of instruments, including training, placement services and career counselling, and consultant services for new business start-ups. Unlike conventional training programmes, the Foundations allow redundant workers to benefit from a familiar social support network through continued contact with the original enterprise and former colleagues, and they secure continued access to services provided by the original enterprise and to its internal labour market (ibid). The activities of the Foundations are financed from four sources: the companies involved; the labour market service; the participants, and the employees that were not released from the companies. This results in an interesting mix of passive (unemployment benefits) and active labour market programmes, and co-funding from stakeholders (ibid).

As far as small enterprises and self-employed are concerned, numerous business centres, employment offices and other institutions provide start-up training for new entrepreneurs or self-employed and also further training to strengthen their capabilities. Often such training in first instance focuses on general skills needed to run a business but also, for example, sector-specific and innovation-oriented training programmes exist. In some instances start-up programmes have been oriented specifically towards the unemployed as a particular kind of active labour market policy (see boxes 2 and 3).

Training has not only been an instrument in improving enterprise competitiveness and access to employment but has also been taking up a strategic role in achieving broader regional development goals, combining training and employment objectives with other, not directly related objectives. An interesting example of such a combination is the School Workshop and Apprentice Centres Programme, an innovative active employment scheme in operation since 1985 in Spain.[8] It is a nation-wide programme managed at the local level and geared towards local problems and objectives. The initial and primary objective of the Programme is helping to solve youth training and employment problems by involving young people in specific heritage restoration and

[8] This case is described in OECD (1996) and is here presented in summarized form.

BOX 2: Business support to the unemployed: ESPACE in the Nord-Pas-de Calais region.

The economy of the Nord-Pas-de Calais region in the North of France was until the end of the 1960's based on four sectors providing almost 500,000 jobs: Coal, steel, textiles and naval construction. Today, coal mining and naval construction have completely disappeared and employment in textiles and steel has decreased sharply. Services have been growing but have not made up for the employment losses. Unemployment in 1995 was 16 per cent. In this context of crisis and reconversion, during the past 15 years, ESPACE has been consulting and training unemployed people on how to start their own business.

ESPACE has 42 salaried employees, 26 of whom are counsellors/trainers. They manage 14 permanent office in the region in an attempt to be close to all (potential) clients. The annual budget in 1994 was 15 million francs, 85 per cent of which comes from public sources: the State (27%), Regional Council (32%), General and Communal Councils (13%) and EU (13%). It offers a wide array of programmes that deal with all aspects of setting-up and running a business. This includes:

- Awareness raising through media campaigns, public events, contacts with the Employment Service, and others;
- Free initial meetings where applicant's projects are evaluated;
- Individual counselling during the setting-up of a business;
- Tailor-made training where the projects are further analysed, project- and business management are taught, and feasibility studies are undertaken. ESPACE tries to provide a very active learning environment including courses, conferences, case studies, games, individual work on business plans and project evaluation;
- Assistance after the set-up of a business in individual or group follow-up sessions.

In 1994, 4,063 persons followed the ESPACE programme, 22% of which were under 22 years old and 77% were seeking employment. In the same year, 506 businesses were created with ESPACE assistance, 86% of which were started by previously unemployed persons. The businesses started with ESPACE assistance have had a rate of failure far below the rate for non-ESPACE businesses.

conservation projects. Lately, on a limited scale, also projects concerning the natural and physical environment and some new services are being included. It is a development programme with training and work experience as its core element. It equips young people with specialized vocational skills, allows them to participate in useful restoration projects and gives them a defined role in the local economic fabric.

Source: Le Marois, H. 1995. 'France: E.S.P.A.C.E. – A Network of Business Support' in: OECD 1995. *Self-employment Programmes for the Unemployed: Papers and Proceeding from a US Department of Labour/OECD International Conference*, Paris.

The Schools Workshop programmes consist of two phases: a first phase of four to six months where student receive basic training and a second phase of between a half year and 2.5 years where students take up continuous employment interspersed with educational and training activities. The Apprentice Centres function very similarly, except the total duration of the programmes is much shorter: between half a year and a year. During the first phase payment consists of means-tested grants and allowances while in the second phase the minimum wage is paid. Between 1985 and 1995, 1,795 Schools Workshops and 837 Apprenticeship Centres were set up, catering to a total of 136,385 students. The percentage of students completing the programme that find employment is much higher than that of normal youth training programmes (in 1991 55.6% compared to 37.3 %) while many leave the programme prematurely to take up employment. Also, the programme is evaluated very positively with respect to the needs of the population that it meets. The programme also includes 44 Development Promotion Units, involved in, among other activities, the identification of local development opportunities and projects and assistance to trainees in finding employment or setting up an enterprise.

The programme can play a central role in regional development. For example, in Gran Canarias it has been argued often that the current type of tourism is destroying the environment on the island. Also, under pressure of the tourist culture shock the island is losing many of its traditional customs, music, clothing and kitchen. Therefore, under the Programme an alternative strategy was developed aiming to provide an alternative to mainstream tourism in order to steer some of the tourists exploring the island's interior towards a more cultural type of tourism based on heritage development. The Aguïmes Development Promotion Unit played a major role in establishing the investment and training requirements. The Schools Workshops took up the renovation of urban and rural property of ethnographic or architectural value that is owned by the provincial government. Then various initiatives, ranging from research and conservation of the laurel forest to projects aimed at reviving pottery and lace-making handicrafts and setting up a cooperative to improve mountain rambling and walking trails, were started. Activities involve both work and skills development.

BOX 3: How <u>not</u> to promote local initiatives and reintegration of long-term unemployed

The Belgium Local Agency for Employment (ALE) programme is often cited as an example of how not to promote local initiatives. ALE was first created in 1987 and thereafter modified in 1994. Each municipality or group of municipalities is obliged to create an ALE which should organize employment for unemployed not participating in the "normal" job market. The target group are the long-term unemployed (3 years) who are obliged to register with an ALE. Persons benefiting from social assistance can sign up voluntarily. Certain groups of other unemployed are also welcome. In 1996, 19,401 unemployed were active within an ALE, of whom 82.5% were women.

Individuals, local authorities, non-profit organizations and the agriculture/horticulture sector may use the Agencies to recruit workers. In 1996, 9 out of 10 users were individuals. Individuals can ask for home service, child care, administrative help, small-scale gardening. The scope of activities is larger for local authorities and non-profit organizations. In 1996, 54.0% of the services supplied was house help, 3.8% gardening, 1.1% aid to the sick and 0.1% administrative help; 41.0% were of a mixed nature.

Unemployed persons are only allowed to work 45 hours a month and are not offered an employment contract or status. They remain unemployed and are forced to take work from the ALE to the extent they are asked. In 1996, ALE organized work corresponding to 3,096 full-time equivalent employment. Each ALE sets the hourly price of the service supplied, usually between, usually between 200 and 300 FB an hour. The unemployed is paid 150 FB per hour via a service voucher. The price for the service supplied is tax deductible by 30-40% for the user.

The programme is criticized for several reasons, including the forced participation of the long-term unemployed; the lack of a real employment contract and all corresponding rights; the low pay (lower than on the informal market); the lack of proper training and skills; the lack of prospects; and the competition it may cause with existing employment (cleaning, renovation, etc.). Also, it is argued that the programme encourages the informal market and that it promotes a dualization of the local labour market.

Source: De Buyst, Ph. 1996. *Agences Locales pour l'Emploi, Travail fin d'études réalisé en vue de l'obtention du titre de licencié en sciencies du travail*, Institut de Travail, Université Libre de Bruxelles, Brussels. Cited in: Jepsen, M. and Meulders, D. 1998. 'Are Local Employment Initiatives Able to Create Quality Employment?' in: *TRANSFER, autumn 1998, Special issue on Local Employment Initiatives*, pp 444-461.

3.4 Inter-firm cooperation

Apart from general support to individual enterprises, there is a growing tendency to provide targeted support to collectives of firms and to inter-firm cooperation. This tendency, often inspired by the flexible specialization and industrial district literature, originates in the belief that competitiveness is less and less dependent on the capacities of an individual firm but rather on the capacities of networks of firms and related institutions (Pyke, 1998). It is argued that particularly small enterprises can benefit from increased economies of scale and scope through inter-firm cooperation and can solve resource and information scarcity through cooperation with non-firm institutions. However, as a result of the adoption of new production concepts (lean production, just-in-time regimes), increased outsourcing, quality requirements and the like, these relations with suppliers, service-providing firms and the local environment have also been gaining importance for the larger firms. Strengthening and improving cooperation among firms, as well as between firms and other relevant institutions, and the provision of services to collectives of firms have thus become particular policy objectives and constitute a growing tendency in regional development policy. The focus is mainly on firms within a particular region but the relations of local firms with firms outside the region is sometimes included.

Pyke (1998) distinguishes three types of enterprise collective which have become subject of promotional initiatives:

- vertical or supply chain networks;
- horizontal networks;
- sectoral clusters.

These three types may be linked in various ways. A cluster can comprise a number of horizontal and vertical networks while firms may at the same time participate in one or more vertical and horizontal networks.

Vertical networks consist mainly of linkages between large enterprises and other firms operating in the same supply chain. They are a mechanism to solve coordination problems and strengthen cooperation within the supply chain. Under traditional mass production regimes the manufacturing firms dominating a supply chain often tried to solve coordination problems by vertical differentiation, making more and more parts and components in-house, and their relation with their suppliers was mainly based on price and distrust. Much has changed in this sense in the past two or three decades, initially inspired by Japanese lean production practices.[9] These changes aim, among others, to reduce complexity of control and coordination (concerning ever more complex products containing more and more components), to build a long-term and trust-based relation between firms, to increase flexibility (e.g. just-in-time production) and quality, to reduce risks and ultimately to use the supplier relationship to strengthen competitiveness. Tendencies include (Womack et.al., 1991):

- The assignment of whole components (e.g. car seats) to a so-called first-tier supplier, which reduces dramatically the number of suppliers to deal with.
- Involvement of suppliers in the early stages of design of products.
- The exchange of information and personnel, including training by one enterprise to the other, joint problem-solving and the presence of suppliers in the leading firm's production facilities.
- Reduction of supply time to - sometimes hours - before use.

In sum, there is a tendency towards much more intense supplier relations and the role of the supplier becomes more important for the competitive of the manufacturer. This has again led to an increasing importance of space and geographical proximity. According to Womack et.al. (1991), lean production is most successful in terms of efficiency, quality and flexibility when all activities

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[9] See Womack et. al. (1991) for an analysis of lean production and the consequences it has had for supplier relations in the car industry.

involved in making a product, from design to assembly, occur in the same place. They quote a senior Honda executive as saying *"We wish we could design, engineer, fabricate and assemble the entire car in one large room, so that everyone involved could be in face-to-face contact with everyone else (Womack et.al., 1991, p.200)."* Suppliers and assemblers increasingly try to be close to one another to facilitate cooperation. This is true for established operations but also in case of new investment projects abroad. Western firms investing abroad often try to convince established suppliers in their original location to invest as well in the new location to continue the close cooperation.[10]

As an object of policy, vertical networks are often promoted in a local context with the aim of getting (small) local firms in the supply chain of large enterprises. This is expected first of all to have a positive effect on economic growth and employment. Second, an important effect often expected is that small firms can learn from large enterprises, through transfer of knowledge, technology and contacts, which would then improve their competitive capabilities. Third, it is expected to bind the large firms to the location as they become, to a certain extent, dependent on their local suppliers and invest in their mutual relationship.

Horizontal networks involve cooperation between predominantly small firms in a more or less egalitarian manner, can involve a range of possible issues and can vary in intensity (Pyke, 1998). According to Pyke, weaker forms of cooperation may involve information sharing, collective benchmarking or other forms of joint learning. Stronger forms of horizontal inter-firm networks may involve joint purchasing, marketing, research and development, up to common ownership of new products. The aim of such networks is to overcome the disadvantages of being small (while maintaining the advantages of being small), to strengthen competitiveness through cooperation and to cope with increasing competition. Horizontal cooperation is often promoted through intermediary agencies facilitating contacts, supplying information and investing resources in the improvements of the capabilities of such networks (see box 4).

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[10] See for example Keune and Tóth (forthcoming). They argue that large Western manufacturing investors in Hungary sometimes "invite" traditional suppliers to set up new production facilities close to the new manufacturing operation.

BOX 4: Supporting a network of small furniture producers in Bulgaria: The case of Mesta Mebel

The Mesta region in south-west Bulgaria has experienced severe economic decline and mass layoffs associated with downsizing State-owned enterprises and privatization. Traditional large enterprises in electronics and paper production suffered dramatic job losses and the regional economy has become more dependent on small enterprises. In 1996, an ILO/UNDP project established the Business Centre Mesta, an NGO in which all relevant regional stakeholders are involved. The Centre work on the promotion of economic development in the region in general and in particular supports regional (small and micro) enterprises.

One of the growing sectors in the region is the production of pine furniture. There is an increasing number of small enterprises active in this sector since 1995, normally set up with own funds and without external financing. Until recently, these enterprises had not developed any form of inter-firm cooperation and competed among each other for orders. In 1998, the Mesta Business Centre established its fully owned commercial company Mesta Mebel to assist the furniture producers to access foreign markets and increase orders, upgrade the quality of their production and encourage contact between firms. Mesta Mebel serves the following functions:

- It finds Western markets for local produce. It establishes contacts with Western companies interested in furniture from the region, something that is hardly possible for individual small enterprises from the region. Also, the clients are interested in buying large quantities but not in dealing with numerous small companies. Therefore, Mesta Mebel makes the contracts with the Western companies and then subcontracts the order to a large number of small enterprises in the region. In this way, for the time being Mesta Mebel has been able to guarantee relatively steady production volumes and more than 30 regional enterprises now work for the initiative.
- It provides detailed information on the quality requirements of the foreign clients and organizes courses for the local manufacturers on quality control and production processes. It utilizes western experts on these topics (from volunteer organizations) on a regular basis. Mesta Mebel incurs all costs associated with the training activities, which are organized on the premises of the companies.
- It assesses the quality of the products before shipment, guaranteeing consistent quality levels to the clients.
- It manages the contacts between the Western companies and producers in the region, lowers language barriers, organizes all business trips to the region, handles all correspondence with Western clients and mediates between the requests of the foreigners and the capacities of the local businesses. It also organizes the logistics of the transport of the final products and the payment to the local producers.
- It markets the image of Mesta furniture abroad.

It seems Mesta Mebel has successfully helped small enterprises in the region to work on shared orders without losing their autonomous position. As a result, more and more local producers want to become subcontractors and Mesta Mebel has contributed to the creation of an estimated 200 plus jobs. Closer forms of cooperation are expected to develop in the near future. For the Business Centre Mesta Mebel is becoming a source of income to subsidize other activities which do not generate enough income to cover expenses. One of the potential problems of Mesta Mebel is that it may be seen as a sort of monopolistic power, controlling the business of a large number of small, voiceless enterprises and obstructing their independent development. However, the fact that the Business Centre is a community-based organization and is oriented towards economic development of the region instead of making profit lessens these fears. Also, the Business Centre provides training on how individual enterprises can find clients and establish commercial contacts, facilitating the option to work independently from Mesta Mebel.

Source: The information on the Mesta region and Mesta Mebel was kindly provided by Hanna Ruszczyk, Project Manager of the ILO SME promotion project in Bulgaria.

Sectoral clusters are *"...territorial groupings of hundreds or thousands of enterprises (usually mainly SMEs, but often also including some large enterprises), which are related to one another by virtue of being oriented towards the production and sale of related and complementary products and services (such as automobiles, leather products, computers and electronics equipment, or knitwear), and drawing on similar needs and competences*" (Pyke, 1998). Such clusters may comprise a number of vertical and horizontal enterprise networks.

As discussed earlier, sectoral clusters are believed to provide favourable agglomeration effects which may strengthen a firm's competitiveness. A well-known example of sectoral clusters are the industrial districts of the Third Italy. Here one can observe large agglomerations of SMEs active in, for example, textile, ceramics or other industries. These clusters contain the upstream and downstream processes and services going towards the manufacturing of a family of products, and there is close cooperation among enterprises and between enterprises and support institutions. Promoting sectoral clusters often means establishing or strengthening such support institutions for a particularly important local industry and facilitating cooperation processes. (See box 5.)

ERVET, the regional development board of the Emilia-Romagna region in the Third Italy stands out as the initiator of many exemplary initiatives of support to sectoral clusters. Established in the 1970s initially with the goal of supporting enterprise creation in disadvantaged areas within the region by facilitating access to real estate and primary infrastructure, in the 1980s ERVET started the provision of "real services" to help particularly small enterprises in overcoming the difficulties in acquiring the services needed to compete in an increasingly demanding market place (Mazzonis, 1996). It initiated industry-specific service centres for the machinery parts and tools industries, the footwear, knitwear and clothing industries, construction, and industrial ceramics. These service centres provide a wide range of services. For example, the construction service centre QUASCO and the Ceramics Industry Service Centre CENTRO CERAMICO carry out labour market surveys and analyses; provide information; assist in participation in trade fairs; carry out training; carry out quality testing and certification; and carry out research and development. Apart from this, ERVET established services that cut across sectors according to functional themes, including technology transfer, finance or marketing (see Mazzonis, 1996, for a detailed overview of the components of what is called the "ERVET system"). The provision of "real services" has been underpinned by several characteristic operating principles, distinguishing them from more conventional enterprise service programmes (Mazzonis, 1996):

- The basic target unit should never be a single enterprise but, rather, a network of enterprises and the ensemble of inter-firm relationships that characterizes it. In other words, policy should be based on aggregations and should call into play social as well as economic relationships. The more visible and explicit the aggregation, the better the policy will work.

- Actions should arise out of a continuous monitoring of the development of local production systems and their needs.

- Actions should be designed and implemented with the strong involvement of local interest groups including, in particular, business associations.

BOX 5: Supporting the New York garment industry cluster: GIDC

The Garment Industry Development Corporation (GIDC) in New York is a service agency established by an industry, labour and government consortium to serve the needs of a cluster of around 4,600 mainly small garment firms (average size: 21 workers). Increasing demand from retail conglomerates and import competition has seriously challenged this industry and has indicated weaknesses concerning skill levels of workers, under-utilized technology and domestic market orientation.

An important part of the GDIC's focus is on the training programmes. These provide vocational training in specialized skills for both labour and management. The programmes include: improvement in sewing techniques; sewing machine maintenance and repair; pattern grading; computerized pattern grading and marker making; and supervisory training courses. Training is delivered through specially created institutions like the Garment Industry Training Centre, the soon-to-be-opened Fashion Industry Modernization Centre and a Training and Technology Extension Service.

The GIDC provides training for over 1,000 garment workers and management personnel every year. Further, the training provision is expected to increase as the Fashion Industry Modernization Centre comes online. A feature of the GIDC strategy is that training is provided in conjunction with other initiatives aiming to raise the competitiveness of the cluster. These include: the promotion of quick response technologies; demonstration projects highlighting benefits such as faster turn times, better customer service and more accurate forecasting; the carrying out of studies of the industry's needs; the provision of consultancy and extension services to address issues such as more effective organizational practices; the provision of an international marketing service designed to establish apparel lines in foreign markets, including helping local firms to export and encouraging buyers to come to New York; and the facilitation of inter-firm cooperation and flexible networks, as reflected in the group exhibits in trade shows and the development of an electronic sourcing network between contractors, jobbers and retailers. An information service is provided in English, Chinese and Spanish, through brochures and newsletters; and an employment referral system helps firms locate employees with the production skills they require and assist unemployed members and GIDC trainees in finding work.

Source: Herman, B. 1998. 'Sew what: The New York apparel industry in the global economy: Inevitable decline of possibilities for industrial upgrade', paper prepared for the international workshop: Global production and local jobs: New perspectives on enterprise networks, employment and local development policy, ILO, International Institute for Labour Studies, Geneva. Cited in ILO (1998).

A regional development strategy may also have the objective to build *new* sectoral clusters as a way of promoting enterprise development and employment creation. An interesting example of such cluster building as part of a regional development strategy can be found in Kapfenberg, Austria, as described in OECD (1995).[11] After the decline and restructuring of the local Böhler steelworks, Kapfenberg seemed to have little economic future, workers went on early retirement and there was substantial outward migration of young people. It needed to define a new, more diversified industrial strategy to regenerate the local economy and revitalize the population. It designed an economic renewal plan, based mainly on the development of an industrial park. An initial assessment of Kapfenberg's particular strengths highlighted above all the highly skilled workforce and the well-

[11] This case is described in OECD (1995) pp. 61-63 and is here presented in summarized form.

developed industrial infrastructure. It was argued advantage should be taken of the skills of workers, mainly specialized in steel product fabrication, through their adaptation to other, but similar industries, instead of trying to develop completely new "sunrise" industries or the service sector. In particular, the aim was to develop a new industrial base through the revival of industrial occupational skills in small and medium-sized firms clustered in close proximity to each other.

In practice, this meant the establishment, on the land of the steelworks, of the Kapfenberg Industrial Park with facilities to support small businesses and help them establish a market position. The park is associated with the Niklasdorf Technology Centre, which acts as a new-business incubator and gives advice until a company has established its production process and market. Then, it can move to Kapfenberg where larger facilities are offered for up to ten years with a purchase option. In this way, the businesses can evolve alongside other operating companies in more advanced stages. The occupation rate of the park is over 80% and the local authorities are considering buying more land. The SMEs of the cluster generally manufacture high-quality niche-market and specialized finished products using high-technology production processes in industries like metal processing, materials engineering, mechanical engineering, automation and control engineering, as well as environmental protection and waste management. Apart from local SMEs the park also hosts an American car component manufacturer. They complement the high-grade output of the still important steelworks. Because of its continuing presence, a significant element of the development strategy was to maximize the advantages offered by proximity to Böhler. Because of the focus on high value-added sectors wages levels are high and fulfil the expectations of the former steelworks employees.

The development plan comprises other economic and cultural projects as well, including a sports complex-hotel and the renovation and conversion of the local castle into a conference centre, both aimed at boosting visitors to the town and strengthening the social, cultural and economic life. According to the OECD document, the whole project has been clearly defined at the local level and combines a vision of the region's development path with how that path fits in with national economic and policy trends.

3.5 Inward investment

One of the main objectives generally incorporated in regional development policies and strategies, be it from the national or regional perspective, is the promotion of inward (domestic or foreign) investment. From the national perspective, Keynesian regional policy used to offer incentives to firms to invest in the less favoured regions, through direct financial aid or infrastructural development. In the past decades, neoliberal regional policy has stressed the importance of inward investment as well, but without advocating for direct enterprise support. Rather, it has emphasized deregulation and market mechanisms and the attracting role of low wages, education and training and other supply side measures. Often it results in the downgrading of labour standards. Comparable approaches have prevailed at the regional level as well, although the Keynesian approach may have survived longer here because regions are less restricted than national governments to provide financial incentives to investors.

Attracting inward investment by a downward adjustment of wages or other labour standards, and by offering other cheap production factors and financial incentives, may attract firms but may also have a number of negative effects. From a macro perspective it may lead to predatory price competition between regions, in the US context described variously as "buffalo hunting", "cannibalism", and "the second war between the Federal States" (Sengenberger and Keune, 1996). Similarly, in Europe, a harsh competition of regions, areas and communities has been taking place which has entailed significant relocation of industry and services across regions. In a destructive way, wages have often been downscaled as a matter of competitive regional policy, below-cost rents have been offered to multinational companies, etc. (ibid.). From a regional perspective, this has proved not merely costly, driving a number of areas and cities into deep financial deficit, but has been ineffective as well, because capital has not remained in the region when its economic situation deteriorated or the incentives were exhausted. Why? The main reason, among others, is that plants which are attracted by this kind of subsidy are frequently the offshoots of large companies, or "extended workbenches", and are particularly sensitive to business-cycle fluctuations.

As argued in section 2, the 'new regionalism' does not give overriding importance to attracting inward investment in the way described above. Instead it focuses in the first instance on promotion of endogenous growth, through investing in the local physical and social infrastructure with a view to developing the area's own resources, encouraging innovation and new technologies and products, and generally improving the quality of work and life in the area. This does not mean they reject inward investment or ignore it. Rather, it is argued that inward investment should be attracted not simply by untargeted money, or cheap land or labour, but by the competitive advantages the region as such provides, in terms of the quality of the environment and social relations, the material and immaterial infrastructure, the access to information and new technologies, the availability of finance, or the opportunities for establishing relations with international companies.

The advantage of such an approach to attracting investment seems threefold. First, an emphasis on providing a high-quality competitiveness-promoting environment may attract enterprises not primarily interested in low wages and may thus attract better-quality jobs. Second, it is more likely that incoming enterprises will become embedded in the local economy. If they choose a region because of the specific environment it offers, they will establish intimate relations with those parts of the local environment that are of interest to them. This will make them to a certain extent 'dependent' on the region. Also, it reduces the risk that they would move to other locations once, for example, wages rise or tax holidays come to an end. Third, as not attracting investment but upgrading the 'competitiveness' of the region as such is the objective, promotional measures are in principal of benefit to the entire regional economy instead of only to the incoming enterprise (see box 6).

BOX 6: Foreign investment in Györ, Hungary: Motives, policies and effects

The region of Györ in North-West Hungary has been one of the most successful regions in Central and Eastern Europe in terms of Foreign Direct Investment (FDI) inflows. The region provides a good example of the diverse motives foreign investors may have to invest in a particular region, of what the role of regional policy is in this respect and what the effect of FDI on a regional economy can be. Foreign investment in Györ should be seen in the wider context of increasing international competition and the opening up of the Hungarian economy.

A number of factors have made Györ one of the leading FDI-receiving regions. In the early 1990s, Györ had a number of attractive companies to offer for privatization. Some of these companies offered foreign investors a ready and cheap entry to the Hungarian and the Central and Eastern European market. Others constituted a good base for the development of low-cost export activities. Györ also had a number of companies which attracted financial investors. Access to the local market of Györ itself has also motivated many investment projects, notably by large foreign retailers (which succeeded in capturing local consumption) and investment in the local construction industry, often serving the process of re-industrialization in the region.

Another group of investors have a prime interest in using Györ as an export base. Naturally, comparatively low wage costs played an important role in their decisions. Low wages and other cheap production factors like transport, maintenance or security, give Györ a major advantage over many other locations in Europe. However, low wages are not a unique advantage for Györ and, in fact, wages are substantially lower in East Hungary or in countries like Romania, Ukraine or Bulgaria. A decisive factor here for many enterprises has been the availability of a pool of highly skilled labour. This advantage has been strengthened by the willingness and ability of local vocational schools to adapt their programmes to the needs of the restructured and new enterprises. Also a number of traditional (foreign) suppliers to large multinational corporations (MNC) with transplants in the region have come to Györ to be close to the end assembler.

A further major advantage of Györ is the exceptional geographical location of the region, on the border of the EU and close to large cities like Budapest, Vienna and Bratislava. Also, the well-developed local infrastructure has been of major importance, including the Györ industrial park which offers all necessary utilities to facilitate the start-up of companies. Apart from this, there were a number of production halls of former State-owned companies available in the region to foreign investors.

A final factor has been the active role of local actors and institutions. It is characteristic of the local companies that they themselves actively looked for interested investors corresponding to the company's particular needs. Local institutions like the municipality, the labour office or training and education institutions have been important in providing a flexible and responsive environment for investors, in establishing foreign contacts, in developing the industrial park and the local infrastructure, and in adjusting the profile of the local labour force to the need of the new companies. Local actors and institutions have not only been of importance in attracting initial investments but also helped them to grow, often far beyond the initial investment plans, through supportive policies. Investors in Györ can receive financial incentives from the local government, mainly tax breaks. The importance of this in attracting foreign investment should not be overstated, however, as most regions in Central and Eastern Europe have similar schemes.

Foreign direct investment has without a doubt been the motor of development in the Györ region. It has provided the region with the necessary capital so badly needed to restructure and modernize large parts of the local economy, has maintained a large number of jobs in existing enterprises and created many new jobs in greenfield investments or through expansion of privatized enterprises. This does not mean, however, that the effect of FDI on local employment has been without controversy.

In the process of acquiring and restructuring local companies foreign investors laid off large numbers of employees. Also, State-owned companies sold to strategic foreign investors in many cases severed relations with local suppliers due to changes in their product portfolio and their integration into the existing supplier networks of their new strategic owners. In cases where FDI enterprises entered in direct competition with local companies, notably in the retail branch, their employment effect has most likely been negative as they often compete directly with the traditional local small retailers. On the other hand, there is a palpable trickle-down effect of foreign enterprises to local enterprises that has led to direct job creation in transport, construction, security companies or cleaning enterprises, or indirectly in the hotel branch.

Although FDI dominates the region and contributes to strengthening dynamism and development, in many respects for the time being it has only to a limited extent integrated into the local economy. At present, most large foreign enterprises have only a very limited number of local suppliers, accounting for minimal shares of their inputs. Another important limit to the impact of foreign investment in Györ is that particularly the R&D activities, have remained in the West. In the international division of labour, Györ definitely is not at the bottom, considering FDI enterprises provide many semi-skilled or high-skilled jobs. However, it is far from the top, considering that practically no foreign enterprise has any important R&D department in Györ while technologically advanced parts, intermediate goods and materials are usually imported. Foreign enterprises employ only a small number of highly educated (technical) professionals. This, combined with the limited use of local suppliers, restricts the transfer of technologies and knowledge from foreign enterprises to the local economy, and limits the upgrading of endogenous technological capabilities.

Source: Keune, M. and Tóth, A. (forthcoming). *The Emergence of a Globally Competitive Region? Foreign Investment-led Regional Development and the Role of Local Actors in Györ, Hungary, Employment and Training Paper, ILO Geneva.*

4. Shaping and organizing regional development

4.1 Introduction

As argued and illustrated earlier, within the framework of national and international structures and processes, the achievements of a region depend to an important extent on the activities of and choices made by local actors and institutions. In the words of Dunford (1995), the (relative) success of a region in terms of economic structure and performance is *"... connected with differences in their resource endowments and the ways in which these resources are used, and therefore with variations in their institutions and modes of governance, in their approaches to the development of infrastructure and skills and in the economic and development policies they pursue."* This raises a number of questions on how to conceive and organize regional development, which will be discussed below. In 4.2 we will briefly discuss what development actually means and what its main objectives may be. In 4.3 we will take a close look at problems of cooperation, concertation and coordination.

4.2 What is development?

The aim of regional development policy is obviously development. But rarely do policy makers ask the question, What does development actually mean? Generally, policy programmes, aimed at for example, enterprise promotion, infrastructure improvements or training or environmental protection are designed and implemented with the implicit assumption that their sum will result in 'development'. However, without a clear vision what development is, it is quite uncertain if this will be the case. Clarity on the broader principles of development is needed to determine the potential contribution of individual policies. Sengenberger (1994) provides a useful framework in this respect. He distinguishes four basic normative targets development ideally needs to meet, arguing that it should be (ibid. p.19-20):

- *Endogenous*, meaning that a region strives to mobilize its own resources to the fullest extent possible, in order to gain a degree of independence and diversity of economic activities with the effect of minimizing vulnerability in respect of particular product and business cycles. Endogeneity is not to be equated with autarchy; it does not preclude investment from outside, external financial support, or cooperation with other units. External investment and assistance should, however, be committed to furthering local development objectives.

- *Balanced*, which means that various units, say adjacent local areas or regions, coordinate their activities, and co-develop their resources, to the mutual benefit of all units, and with a view to equalizing the chances of long-term development in order to promote social cohesion.

- *Sustainable*, which may be defined as the attempt to produce desirable outcomes not merely in the present period of time, but in subsequent periods as well, or meeting the needs of the present generation without compromising the needs of future generations.

- *Comprehensive*, meaning that it should be geared to multiple objectives, including not only quantitative ones such as growth and employment, but qualitative ones as well, such as broad participation in decision making; equal treatment of race, gender, nationality; a healthy environment; opportunities for social and cultural identity; or joint conflict resolution.

Naturally, these are ambitious targets, hard for many regions to meet consistently. Also, their realization does not only depend on the action of one individual region but as well on, for example, action of other units, general features of socio-economic development of the country or larger area a region belongs to, and developments in the world economic system. However, the framework does provide orientation to evaluate the pros and cons of particular policies and their broader impact on and potential contribution to development in a region. For example, inward investment should not only be evaluated on the number of jobs it creates, but also on the quality of the jobs, the longer-term strategy and stability of the enterprise, or its effect on the environment. Training policies should not only aim to satisfy short-term demand but longer-term needs as well. Decreasing labour standards as a means of competition may have negative effects on development in a region and cause other regions to follow, decreasing overall development chances. Considering such wider impacts or tradeoffs of policies allows for a better understanding of their real impact. The framework indicates as well that, as argued in 2.4, development requires a broad perspective and needs to address objectives beyond the competitiveness and prosperity of the enterprises in a region. Also, individual policies should be assessed on their mutual compatibility and complementarity. The extent to which this actually happens depends among other things on how regional development is organized (see 4.3).

4.3 Cooperation, concertation and coordination

Dunford's observation cited in 4.1 raises three crucial questions on the organization of regional development: (i) who should make the choices on how resources should be used, what institutions are useful and what the proper development approach is; (ii) how to achieve synergy between efforts made in various policy areas, assuring they point in the same direction, aim to realize shared objectives, and count up to what could be a comprehensive regional strategy for development; and (iii) how to assure that economic development is accompanied by social inclusion and demarginalization. Or, how can problems of cooperation, concertation and coordination be solved.

The identification of development objectives for a region and the elaboration of an effective regional development strategy requires strong involvement and intervention of many actors in a region and the building of cooperative relations and social cohesion. Social cohesion and also social inclusion have increasingly been emphasized as a precondition for economic success, instead of only being a product of economic prosperity (Hudson, 1998). However, building cohesion is a difficult task considering the variety of interests and asymmetric power relations. Not all relevant actors and institutions, particular the more powerful, may be interested in sharing decision-making power and access to resources. Also, in regions where social and economic forces are fragmented, collective action may prove hard to achieve (Garmise, 1995). Marginalized groups, such as unemployed or migrants, often do not have a collective representation, while large cities or large enterprise can easily use their strong power position to dominate the discussion. In this context, Dunford (1995) points to the danger of uneven intra-regional development when resources are concentrated on a few privileged poles of economic growth and a few international cities. Apart from increased backwardness of the lagging areas in the region, this would be likely to lead to decreased overall economic performance as the more advanced sectors of the regional economy cannot be fully independent of other parts of the regional economy and their efficiency also depends to a certain extent on the development of less advanced sectors and areas.

There have been many attempts to build consensus-based regional development strategies and some of them have proven very effective both in promoting economic development and in achieving social objectives. The most well-known example may again be that of Emilia-Romagna in the Third Italy. Garmise (1995) claims that *"...the real lesson of the Emilian model for the other regions in Europe can be summed up in two words: progressive government. Implementing informed social and economic policy and working through a productivity coalition with the key social and economic players, Emilia-Romagna has been able to effectively juggle the competing demands for a prosperous economy, social justice and legitimate political interventionism."*

This productivity coalition in Emilia-Romagna is embodied in the earlier discussed ERVET regional development agency. This is but one example of what Scott (1995) calls "regional forums of strategic choice and action". He agrees that such forums can be essential for regional economic success in the modern world, and can be either of limited scope or more ambitious. The latter is true of regional economic councils (e.g. in Germany) that regularly bring together major local constituencies (e.g. employers, banks, workers' organizations and municipal governments) to debate questions of long-term industrial order in an effort to forge viable strategies of regional management.

Such forms of strategic cooperation may well include higher level actors as well. Actually, particularly in the weaker regions it should indeed do so, because the disadvantaged position of such regions generally makes it more difficult for them to solve their problems on their own. For example, a strong cooperation between regional actors and the central government has played a major role in the relatively successful restructuring of the former coal mine region in South Limburg in the Netherlands.[12] This cooperation took the form of the Limburg Prospect Papers, a contract specifying that both parties (the centre and the region) would work together on a central objective, being the elimination of the backward position in which the region found itself as a result of the closure of the mines (Ruijters, 1992). According to Ruijters two factors have formed the foundation of the region's recovery. One is the fact that the restructuring policy was constantly tailored to take into account the natural advantages and circumstances in the region. The other is that, following a clear vision of what had to be done in the region, the province, municipalities, social partners, social organizations and the national government worked together in a spirit of agreement and enthusiasm to give shape to the restructuring policy.

An interesting contrast is formed by the restructuring attempts in Belgian Limburg where the closing of coal mines started much later. Here, restructuring policies started in the late 1980s have, after initial success, not been able to reduce unemployment to acceptable levels or to create new economic dynamism (Baeten et al. 1999). The authors conclude that the reasons for this lack of success include the absence of a real regional development strategy; the fragmentation of the regional political scene, domination of party politics and the resulting obstacles to regional cooperation; the loss of the backing of the Flemish government and the European Commission; and the obscure and inefficient distribution of restructuring funds. They conclude that *"The choreography of regional political power, its articulation with other and higher scales of governance and the making and breaking of alliances and hegemonic project formation are, indeed, decisive in shaping the trajectory of socio-economic restructuring in the region. In sum, a regional analysis and planning that ignores the subtleties of power relations, their institutional configuration and shifting power geometries will invariably fail to account for or influence regional economic development trajectories (Baeten et.al., 1999)."*

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[12] In the late 1950s, two-thirds of the male population of the region was employed in the mining industry and many others in related activities. Between 1965 and 1974 all mines in the region were closed, which had a devastating effect on the local economy and labour market. In the mid-1990s the region was again in quite good shape and labour market indicators were around the national average.

BOX 7: An attempt at concertation and coordination in Poland: The Regional Contract for the Province of Katowice

In 1995, representatives of socio-political, professional, local government ad economic circles in the Katowice region prepared the *The Regional Contract for the Province of Katowice (KR)*, the Polish mining and heavy industry region which is confronted with severe social and economic problems. The *KR* is an important attempt to create a new economic and social order in the region and to devise a development strategy for its long-term future. The contract, estimated to last for at least 20 years, is composed of three complementary parts. First is a Regional Social Pact (RUS), which contains a joint declaration to cooperate in a Programme for the Restructuring and Development of the region. It was signed by the Local Parliaments of Self-Government, the Upper Silesian Economic Society, the Regional Economic Board, the Regional Economic Chamber, the Regional Solidarity Union, the Federation of Communes of Upper Silesia and Northern Moravia, the All-Polish Association of Trade Unions, the Upper Silesian Union, as well as numerous other institutions.

The second part of the *KR*, the Region-Government Agreement, contains a list of the major activities for reform of the region and indicates how certain basic activities should be carried out and how to measure their results. The signatories of the KR agreed that among the strategic areas to be restructured are: education, social security, environment, infrastructure, local government, the economy, finances and the institutional structure for implementing the *KR*. Part Three of the *KR* is entitled Comments to the Regional Contract, and is a supplement to the previous parts. It contains more details on strategic actions to be taken by the co-signatories of the document.

There are three main parties participating in the *KR* and its implementation. First are entities from the region – communes, enterprises, steel works, mines, coal companies, important regional institutions, federations, foundations, and chambers of commerce and industry. The second group which is party to the *KR* is the centre - mainly central government, its agencies and other centralized institutions. The third party will be, in the future, supranational entities, mainly the European Union with its various outlets and agencies. The projected structure for implementing the contract is to have a form of public-legal agreement between representatives of the region and the central government. The construction of the KR allows for annual renegotiation of agreements between the government and representatives from the region.

Source: Szczepanski, M. with Cybula, A. 1998. 'Economic Restructuring and Employment Promotion in the Katowice Voivodship 1989-1996', in: Keune, M. (ed). 1998. *Regional Development and Employment Policy. Lessons from Central and Eastern Europe*, ILO, Geneva.

5. Conclusion

This paper provides a discussion on the role of regions, regional institutions and regional policy in promoting development in Europe and the United States. In recent decades, increasing importance has been given to this subject. This increased attention has been linked to a number of developments in modern capitalism, including the "crisis of Fordism"; the growing importance of the local environment for enterprise competitiveness; the assertion that regional economic performance is more and more related to characteristics that are socially and politically created and that endogenously produced features are important sources of competitiveness for enterprises; changes in economic geography; and an often perceived declining capacity of the State to regulate the economy.

This has led to profound changes in the orientation of regional development policy. In the 1980s, Keynesian principles, including income redistribution and welfare policies to stimulate demand in the less favoured regions and the offer of State incentives to individual firms to locate to these regions were largely abandoned. They were replaced by a pro-market, neoliberal approach, putting its faith in the market mechanism and seeking to deregulate markets and to underpin entrepreneurship in the less favoured regions. Both approaches have had modest outcomes. As a result, a "regionalization of regional policy" has recently been observed, incorporating a regionally differentiated strategy that takes into account the variety of local economies. Regional policy according to this approach focuses on bottom-up promotion of endogenous growth, mobilizing all a region's resources, possibly with support from the centre. This approach seems more promising although a number of (potential) pitfalls have been identified, including a lack of attention to demand considerations and the drying up of redistributive transfers.

One of the consequences has been a growing consensus that regional institutions and actors can play a meaningful role in promoting economic development within the national and global context. Among the proclaimed advantages of policy making at the regional level are the possibility to coordinate closely between different policy areas and actors, to create synergy and efficient use of resources, to attend to region-specific problems, and to build on particular regional strengths and advantages. Section 3 examined the regionalization of regional policy in four main areas: technology transfer, innovation and information; training, retraining and employment creation; support to particular groups of enterprises, promoting inter-firm cooperation in horizontal networks, vertical networks or sectoral clusters; and promotion of inward investment.

The effectiveness of policies aimed at regional development depends not only on their direct outcomes but also on their wider impact on and contribution to overall development in a given region and on their mutual compatibility and complementarity. Regional development requires a broad perspective and the involvement of a range of actors. Long-term economic success is rarely achieved based on economic policy alone: it also needs success in terms of social cohesion and social inclusion. And social inclusion may well depend on the extent to which the various local and external actors, institutions and social groups concerned are participating - or are included - in decision-making processes, and on the cooperation and coordination existing between them.

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