1. **INTRODUCTION**

A number of developments are changing the context for enterprise promotion. First of all, we are seeing a huge increase in the scale of competition at international level, with multinationals playing a crucial role in this intensification, as they source from an ever-wider range of locations around the world. However, small and medium-sized enterprises (SMEs) are also exporting more and proving that, under the right conditions, they too can compete on world markets. Regional economies - that is, those of regions within national borders - are occupying a new position as increasingly they are being linked into global economic structures and processes, aided by various factors including information technologies, the liberalising of trade, and the creation of new transnational trading blocs, such as the European Union, the North American Free Trade Zone and the South American MERCOSUR.

**Decentralisation**

Against this background of intensified global competition, the multinationals’ move towards decentralising their activities, and greater prominence for national regions, as well as the desire of governments to move economies towards higher value-adding activities, there has been a growth in new initiatives to promote enterprise at regional and local levels, with particular emphasis on SMEs. Widespread disillusionment with the ability of central governments to deliver effective ‘top-down’ support to local economies has led to a trend towards locally driven, ‘bottom-up’ development initiatives in which the private and public sectors are joined in partnerships.

**New opportunities**

In many ways, the environment for SMEs has become more favourable. New technologies have given them the ability to produce flexibly while maintaining efficiency. In fact, as mass production and economies of scale are no longer considered essential for success, size has to some extent given way to flexibility as a key attribute, which means that new opportunities have arisen for small companies.

However, the opportunities are available above all to those which are inserted within strong networks of firms, or of firms and institutions. This is because, in today’s conditions, it seems that the key to competitive success lies in the capacities of whole networks rather than in those of individual companies. The fact that the value of networking is now widely recognised is evident from the proliferation of new types of relationship between individual firms, and between firms and supporting institutions, now being forged in countries all over the world.

The implication for policy-makers of this changing environment is that there needs to be special emphasis on action at regional and local levels, and that the focus should be on developing the effectiveness of entire production and institutional systems, rather than simply on individual companies. The aim should be to create an integrated networked approach to development - involving interfirm networks, institutions and support programmes - at the level of national regions.

2. **NEW PROCESSES AND RELATIONSHIPS**

Future strategies for regional development will probably focus on encouraging the principal players to form new types of relationship and to work together in new ways. Already we see, alongside a trend towards decentralised regional support, such as the creation of regional development agencies and technological, training and financing bodies, attempts at promoting new types of partnership: between these various institutions, between institutions and firms, and between individual firms. Some of these new partnership arrangements are designed to operate locally, within the region concerned, while others are angled outwards, operating as part of global supply chains. The effect of all this is that strategies to promote a high value-adding local economy are moving away from the top-down approach and instead are adopting much more interactive processes.

**Networks and clusters**

An illustration of the new approach is the rapid growth of initiatives which target not so much the individual company as a network or a cluster of companies. The basic idea is that a firm will benefit from being part of a strong network or cluster. Consequently, policies should be aimed at strengthening the all-round capability of the broader grouping, and at helping the small companies in particular to gain maximum benefit from their relations with other enterprises. In this context, it is possible to broadly distinguish three types of initiative, promoting: **vertical networks**, **horizontal networks**, and **sectoral clusters**.

**Vertical networks**

These involve companies that are part of a supply chain, which in many cases is led by a larger company. The object of initiatives promoting vertical networks is to strengthen linkages between these companies. In recent years there has been a significant growth of interest in these networks, partly because of the extensive reorganisation occurring in global supply chains. A rapid increase in outsourcing has occurred, changing interfirm divisions of labour and responsibility (‘what is done where’ - for example, which company, in which country, manufactures the components of a vehicle, and which assembles them into a vehicle). New logistics systems aided by information technology are also a factor in the restructuring of global supply chains. A vertical (supply chain) network can be beneficial in many
ways. For example, a problem that exists in many developing countries is that the local branch plant of a multinational may not have strong links with local suppliers; moreover, it is likely to be carrying out only relatively simple, low value-adding activities. At the same time, many small firms - in developed and developing countries alike - are facing the possibility of losing their traditional sub-contracting relationships with larger companies as the latter restructure their supply chains and make greater use of outsourcing. Consequently, local and regional authorities promoting economic development are anxious to find ways of strengthening local supply chain linkages, and of raising the level of value-adding activities, both of branch plants and of local companies generally.

The emphasis in future may be less on aspects such as regulations imposing minimum local sourcing, or the simple provision of information about potential local suppliers, and more on the ways in which intermediary agencies can actively develop networks linking firms along the supply chain. For example, Singapore’s Local Industry Upgrading Programme encourages multinationals to source components locally by ‘adopting’ particular SMEs or sub-contractors. In return for a commitment by multinationals to provide on-the-job training and other assistance to these local firms, the government provides a package of assistance to the latter, including cost-sharing grants and loans for the purchase of equipment or for consultancy and training [1]. In Brazil, the intermediary institution SENAR is responsible for implementing the Programme to Upgrade Small Suppliers, which hooks into existing supply chains in the footwear and other industries, and assists small firms to upgrade their activities in the light of the specific requirements of their customers, the larger companies in the chains [2].

Supply chain initiatives can aim at linking up local firms to customers and international markets. They can also assist the growth and long-term sustainability of these firms by addressing the issue of their strategic position in the chain. For example, a company can be helped to move on from being just a ‘labour only’ supplier, or one that merely carries out simple assembly tasks, to being an own-product manufacturer, brand-owner and seller. An example of this was a scheme to develop the footwear supply chain of an international shoe company’s branch plant in Bangkok: it involved actions to link the plant to new rural suppliers of labour, who initially carried out simple assembly activities, and then helped them progress to higher levels of activity [3].

Lastly, it is worth mentioning that supply chain initiatives might also encourage the start-up of new activities to fill a need within a supply chain. For example, a market intermediary could be created to carry out multiple roles such as those of sales agent, network co-ordinator, or capacity-building agent. In Kenya, in fact, it seems that the Kenya External Trade Authority (KETA) has been acting as both a merchandising or commission agent - as a market intermediary between largely artisan crafts producers and major buyers - and a capacity-building institution, carrying out surveys of production capabilities, advising on documentation, and training local entrepreneurs and staff in aspects such as production organisation, quality inspection, and packaging for export [4].

Examples of supply chain initiatives

TAIWAN: the Centre-Satellite System programme, promoted and administered by the CSD Industrial Coordination Centre, aims to strengthen supply chains composed of either larger manufacturers and their small suppliers, or large raw material suppliers and their small manufacturer customers. The object is to encourage big and small firms to form stable networks to upgrade quality, improve management, lower costs and streamline operations [5].

MALAYSIA: the Vendor Support Programme [1].

CHINA: Production Networks for Exports Programme.

MEXICO: the CIMO agency is involved in helping to develop supply chains in the automobile sector [6].

GERMANY: the Institut fuer Arbeit und Technik is helping the development of supply chains in the automotive sector in North Rhine Westphalia [7].

UNITED KINGDOM: regional development agencies such as the Welsh Development Agency, Scottish Enterprise and the Northern Development Company are all active in promoting supply chains [8].

Horizontal networks

The promotion of horizontal networks involves assisting groups of predominantly small firms to co-operate in a more or less egalitarian manner on a range of possible issues. This co-operation can take many forms, ranging from relatively ‘weak’ to full-blown joint activities. At one end of the scale, the ‘weak’ (but no less important) forms of collaboration can include, for example, the sharing of information, collective benchmarking, mentoring programmes, and generally engaging in joint learning. These ‘weaker’ kinds of collaboration might be referred to as ‘learning networks’. One example of a learning network is PLATO, a well-known mentoring programme in Belgium. In this, entrepreneurs from SMEs are brought together in groups of 10 to 15 in order to exchange managerial experience and to benefit from the counselling provided by executives from large companies. The PLATO model has been extensively replicated in other countries.

Further along the scale, a closer form of co-operation might involve joint promotion or advertising campaigns, joint training schemes, the sharing of common services, and sharing the cost of attending trade fairs or of maintaining overseas sales offices.

The strongest forms of collaboration could involve activities such as joint purchasing, marketing and research and development, membership of export consortia, or common ownership of new products - possibly with the creation of jointly owned ‘network’ companies. These stronger collaborative groups can be described as ‘business
networks’. There are now many programmes for promoting these closer types of interfirm network to be found around the world; for example, in Norway, Mexico, New Zealand, Taiwan, the USA, Chile and Korea.

**The Korean Business Co-operation Programme**

The Korean Business Co-operation Programme is run by the country’s Small and Medium Industries Promotion Corporation (SMIPC). By the end of 1996, it involved 4,000 SMEs organised into 250 business networks. The programme embodies many features of similar networking programmes in other countries, set up to promote various stronger forms of horizontal cooperation. It illustrates:

- the role of an intermediary agency which not only organises the network programmes but also links up firms to institutional support services;
- the utilisation of network brokers to assist small firms formulate common projects;
- the implementation of a clearly defined, staged programme through which networks pass;
- the possibility of drawing up formal agreements or forming separate network companies (although networking arrangements do not necessarily include these);
- the provision of financial subsidies to assist the establishment of networks.

As it becomes ever-more imperative for small companies to face up to the reality of global competition, to boost their capacity to innovate, access new markets, and meet rising customer expectations, the significant role that can be played by these horizontal networks of cooperating firms is increasingly evident.

In some cases, horizontal networks and the programmes to promote them may complement vertical supply chain initiatives. For example, a number of small companies may decide to cooperate with each other, in a horizontal network, in order to respond to a client company’s stepped-up demands regarding quality, productivity or innovation, or as a means of becoming integrated into a local or global supply chain. Sometimes it will be an intermediary agency which will encourage simultaneous horizontal and vertical co-operation. For example, supply chain programmes promoted by the Welsh Development Agency encourage the formation of first and second-tier ‘supplier associations’, which are effectively learning networks helping to raise the capability of local small firms [9]. In Sweden, in programmes to promote horizontal co-operation, managed by the Swedish Board for Industrial and Technical Development (NUTEK), groups of small firms make written agreements and/or form separate network companies for a variety of purposes, including that of coming together to form a first-tier ‘systems capability’ within supply chains led by larger firms, as well as enhancing their ability to access final markets in their own right.

**Sectoral clusters**

Initiatives to promote vertical and horizontal networks can also form part of a more general strategy concerning the development of sectoral clusters. These clusters are groupings of hundreds or even thousands of enterprises (mainly SMEs but often also including some large companies), all involved in a particular sector, in that they are engaged in some way with the production and sale of related and complementary products and services, such as automobiles, leather products, computers and electronics equipment, or knitwear. Thus a knitwear cluster might include not only knitting firms but also dyers, yarn producers, textiles machinery firms, chemical companies manufacturing products used in textile processes, packagers, shippers and others, as well as a range of supporting bodies.

**Examples of sectoral clusters in developing countries**

**INDIA**: there are about 350 ‘modern SME clusters’, according to a survey carried out as part of an ongoing UNIDO programme; these are mostly in the larger towns and they cater for national and international markets. There are also about 2,000 ‘artisan-based rural clusters’, serving mainly local markets. The survey conservatively estimates SME clusters to be responsible for 60 per cent of Indian manufacturing exports [10]. Examples of the specialisation categories include textiles, in towns such as Pannipat (which alone produces 75 per cent of total blankets made in India), Sanganer, Palli, Jodhpur, Surat, Mysore, Sambhalpur, Bhiwandi and Bhiwara. Tiruppur, Cuttack and Delhi are known for their hosiery clusters, with Tiruppur accounting for 80 per cent of the country’s cotton hosiery exports. Ludhiana, in the Punjab, manufactures hosiery, and also 95 per cent of India’s woollen knitwear, 85 per cent of its sewing machines and 60 per cent of its bicycles and bicycle parts. Leather and leather garments and footwear are concentrated in Madras, Kanpur, Howrah and Agra [10].

**PAKISTAN**: clusters are particularly prevalent in the province of Punjab; Sialkot is noted for its sports goods and surgical equipment industries, Gujarat for electrical fans, Faisalabad for textiles and electrical products [11].

**INDONESIA**: in Java, there are many industrial clusters composed entirely of small firms, as in the case of the footwear industry of Cibaduyut, and of the metal goods manufacturing clusters [12].

**AFRICA**: in Ghana, the Kumasi metalworking cluster comprises about 5,000 workshops; Kenya has garment clusters in the Nairobi area [13]; Sudan, Zimbabwe and Tanzania also have examples of industrial clusters [14].

**LATIN AMERICA**: there are many examples of
(Usually the firms are all located in the same district, but there are examples of programmes designed to promote sectoral clusters of firms spread over a whole region, or even nation-wide.)

These clusters are more numerous in some countries than others, and while some are very successful, some are less so. They are especially profuse in developing countries (see box below), but there are a number of well-known examples in industrialised countries, such as those of the industrial areas of Italy, Valencia in Spain, and, in the USA, the computers and associated products clusters in places such as Silicon Valley and around the Boston area.

There are ample opportunities for developing both vertical and horizontal forms of collaboration within these industrial clusters. For example, in the case of the Changwon Machinery Cluster in Korea, research and development associations have been formed to help small firms in particular to develop new technologies; joint storage facilities have been established, and a number of small companies share buildings or resources such as waste treatment [15].

New approaches adopted by institutions

As these networks and clusters develop, there seems to be a focus emerging on new types of approach by the intermediary institutions, and on new types of relationship between various partners within the context of networks and clusters. The intermediary bodies are becoming more client driven and showing themselves to be better at responding to their clients’ changing needs.

The general trend is echoed by UNIDO’s activities in India, which are directed towards supporting networks of firms rather than focusing solely on individual firms, and to facilitating a bottom-up, client-driven approach, where the private sector is encouraged to take the lead in identifying what assistance it needs from service providers [16]. This client-driven, responsive approach is also exemplified by the cluster development programme in Arizona, USA, where specific industrial clusters, such as optics, are identifying their own service needs, and the institutions are then providing services tailored to meet these needs [17]. At the same time, links are being encouraged between other bodies connected with the clusters of firms. For example, in the case of the electronics cluster in Scotland, the Scottish Enterprise agency is promoting and facilitating new kinds of links between partners including industry associations, training institutes, universities and research organisations.

In general, there is growing interest in collaborative approaches at every level: not only at the level of networks and clusters, but also across whole regions, as in what is called the ‘concertation’ approach, described below. This broader perspective is concerned with not only the raising of firms’ capacity but also the question of ensuring access to markets, especially international markets. Emphasis on this aspect has been very important for the development of many sectoral clusters, such as those engaged in the production of cotton knitwear at Tiruppur, India, surgical instruments at Sialkot, Pakistan, and footwear in the Sinos Valley in Brazil [2].

In many countries, the first step taken in programmes to develop new clusters has been to bring together local and regional representatives of the private and public sectors for discussions. This is true of many of the countries covered in a recent survey of clustering strategies in the OECD area [18]. In some cases, regional committees and associations are formed to play a major part alongside intermediary institutions and support agencies in getting the cluster programme off the ground and continuing to encourage and develop the cluster.

Nicaragua

UNIDO’s programme for networks and clusters

The objectives include the following:

**The development of horizontal networks:** ‘network brokers’ are being trained and utilised for developing 30 horizontal networks covering about 300 enterprises in six sectors - woodworking and furniture; garments; food processing; leather and shoe production; metalworking; and crafts. Each group is being helped to move through a structured phased programme towards the eventual development of joint projects and is being assisted to link up to institutional support structures.

**The development of vertical networks:** involving the identification of large companies wishing to be part of a strategy to develop integrated supply chains, and advising them on how they can best reorganise their procedures to this end, and on appropriate sub-contracting and purchasing practices; helping small firms form horizontal networks which will help them develop their capabilities and become first-tier suppliers; linking the small firms to technical support institutions and services; and facilitating co-operation agreements, including the formation of joint work plans (such as strategies to improve quality, just-in-time delivery, new products, etc.) and other forms of cooperative assistance between firms along the supply chain.

**The development of sectoral clusters:** specialised clusters in specific geographical areas are being developed through coordinated action; three types of area are identified - those with strong specialisation already in place, those with very little existing industry, and those falling in between these two categories.

Each network or cluster operates autonomously, but a Project Advisory Committee (PAC) has been established, including representatives from both the
Methods of acquiring international knowledge

Technological knowledge can be acquired from external sources by, for example, licensing arrangements between foreign and local companies, the use of international consultants, sending local people abroad for training, and encouraging multinationals’ branch plants to engage in mentoring partnerships with their local supply chains. It is possible that, when proposals for inward investment are being considered, local intermediary agencies could purposely favour those foreign companies at the ‘high knowledge end’ of global supply chains. This could help the overall drive to upgrade local industries. One agency that has followed this line is Scottish Enterprise, which is aiming to develop a design complex around Cadence Design Systems on the basis that this company is able to introduce into the Scottish electronics cluster crucial knowledge of the most sophisticated aspects of silicon chip design [21].

Acquiring knowledge in Korea

The Changwon machinery cluster

The Changwon machinery cluster is composed of 248 core firms in various metal industries, plus suppliers and service providers. The acquisition of foreign technologies has played a major part in the cluster’s development. By 1988, 45 firms in the cluster had imported 208 technologies from 161 foreign firms through various modes of technology transfer such as licensing agreements and plant imports. The technologies included, for example, factory and warehouse automation, and technologies for manufacturing aircraft parts. Another means of acquiring knowledge was through overseas training; by 1988, more than 5,000 people had been sent abroad to learn about machine building, design, assembly automation, quality control etc. Once a primary technological base had been established through the import of technologies, the machinery industries embarked on the development of indigenous technologies, investing heavily in order to develop their own products, such as mechanical presses, remote control systems, assembly hoists, engine parts, and disc brakes [15].

Disseminating knowledge among enterprises

In networks and clusters, knowledge can be transferred between small firms and from large to small firms: about technologies, best organisational practices, markets, designs, fashions and so on. However, the knowledge flows more easily in some cases than others.

Various strategies exist to encourage knowledge transfer between enterprises, and between workers in individual enterprises, including benchmarking, group experience exchange, workshops, factory visits, mentoring programmes (such as the PLATO programme mentioned earlier), and other forms of ‘learning networks’. An example of the latter is found in the textiles and clothing industry in the UK where the Teamworkers’ Users Group...
has about 20 members and aims “to promote the competitiveness of textiles and clothing firms through the exchange of information and experience relating to teamwork” [22]. Activities, which include meetings and factory visits, are co-ordinated by the Centre for Work and Technology. There are also more formal arrangements involving the transfer of knowledge, such as co-operation agreements to share ideas and jointly develop new products and processes.

Knowledge can also be encouraged to flow along a vertical supply chain. This can happen simply by the lead company being willing to help develop its suppliers, or there can be a triangular relationship between it, its small suppliers and an intermediary institution; the latter can broker co-operation along the chain, at the same time providing specialised training courses and other forms of technical assistance. For example, in Malaysia, the Vendor Support Programme seeks to upgrade local suppliers through a range of support services and training initiatives such as the Penang Skill Development Centre and by encouraging the need for innovation and constant improvement, the whole issue of how this assistance is provided becomes particularly significant. There are in fact widespread attempts to develop better linkages between local enterprises - especially small ones - and technology transfer agencies, training institutes, universities, business associations and other bodies. Two examples are Chile’s RED CETTEC technology transfer programme, and India’s Sponsored Research and Development Programme [1].

UNCTAD’s EMPRETEC programme is seeking to establish networks of Centres for Innovation and Enterprise Development in developing countries; these centres will promote technological innovation in manufacturing firms (mainly SMEs) and encourage the creation of ‘innovation networks’ between firms and institutions such as universities, R&D institutes, and engineering consultancies [23]. Many sectoral clusters are served by sector-focused research, training and other support institutions.

When intermediary organisations are acting as brokers in the formation of interfirm networks and clusters, they can also assist the companies to link up with a range of support services. And the trend is for the companies to define their own service needs. For example, in the USA, the Appalachian Center for Economic Networks (ACEnet) is an intermediary body that is not only brokering new kinds of (horizontal) relations among small firms to create business (or ‘flexible manufacturing’) networks but also helping the development of new kinds of relationship between these Networks and community service providers [24]. In Mexico, the Consejo Nacional de Empresas Integradas (CONEI) aims to strengthen relations between firms inside business networks and also those between the networks and various training, finance, technology, exporting and other services [6]. In Sweden, NUTEK is an intermediary body that is encouraging small firms to join together in order to make common demands on technology suppliers. The aim is to switch attention from promoting technology transfer through assistance to technology suppliers, such as universities or technological institutes, and to focus more on encouraging small firms to make stronger demands, thereby making technology transfer more demand driven. At the same time, efforts are being made to improve coordination between Sweden’s suppliers of technology and know-how - universities, industrial development centres, technical institutes, technology parks etc. - to create a national referral network which can be accessed at any one point.

4. WORKING TOGETHER: REGIONAL CONCERTATION

There is a noticeable growth of cooperation and partnership between the public and the private sectors at regional or local level in the context of network and cluster development. This is indicative of the new approaches to economic development that are emerging. There are many motives for this trend towards ‘concertation’, or working together, including the desire to: avoid duplication of programmes and initiatives; maximise resources; create new synergies; facilitate change through negotiating on, and reaching consensus on, potentially conflictive issues; and to tie business and economic issues to broader community

### Taiwan

**Inter-Industry Exchange Networks**

Taiwanese companies seem to engage readily in knowledge transfer within horizontal networks. Since 1993, the China Productivity Centre has been promoting the formation of ‘inter-industry exchange networks’, for sharing information and developing innovative business ideas, technologies and products [5]. Also, as part of a general effort to move the electronics industry in particular towards the high-value end of global production chains, horizontal R&D co-operation is being encouraged by intermediary institutions such as the Industrial Technology Research Institute (ITRI). For example, the Taiwan New PC Consortium, comprising 32 Taiwanese manufacturers in the personal computer industry, is developing new computer systems with the help of the ITRI; membership of the consortium enables companies to position themselves at the leading edge of new microprocessor technology [5].

At the broader level of the sectoral cluster, it is obviously important that there should be mechanisms in place for an effective spreading of knowledge. These can range from informal dialogue, ‘in the street’ and in clubs and associations, to training and technology transfer schemes. There is also spin-off from the movement of personnel from one firm to another. In Korea’s Kumi electronics cluster, particularly in the 1970s, there was widespread co-operation in training schemes [15]. Leaders of work groups spread ideas relating to best practice through seminars, courses and visits to other factories in the cluster.

**Transferring knowledge from institutions to firms**

In addition to schemes for spreading knowledge between firms, assistance from institutions is still necessary and, as

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**Table: Inter-Industry Exchange Networks**

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<td>Taiwan</td>
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and welfare issues.

In Europe, in particular, we see a strong growth in decentralised, locally-driven initiatives which seek to engage a range of participants in common development projects [25]. For example, the European Commission is facilitating concertation at the local level through schemes such as the Territorial Employment Pact programme, the Regional Innovation and Technology Transfer Strategies and Infrastructures (RITTS) programme, and the Regional Innovation Strategies (RIS) programme. All these programmes adopt decentralised ‘bottom-up’ approaches and involve a broad range of local participants with a view to promoting change, innovation and employment at regional level within individual countries.

In a growing number of cases, this regional concertation process is going hand-in-hand with networking and cluster promotion. For example, in the USA, according to a recent review of OECD experiences, cluster-based policy involves the active organisation of ‘focus groups’, in which firms, institutions and regional development agencies can engage in dialogue and interaction. In Austria, the Styrian Industrial Promotion Agency, assisted by a consulting firm, Agiplan, is developing an automobile cluster at regional level, that is, within the province of Styria (Steiermark). Numerous meetings have been held with delegates from leading companies, science institutions, associations and other bodies that are partners in the development project. The object is to identify suitable initiatives and potential partners within the cluster for specific projects, and to define strategies [26].

In the German state of Bremen, a programme for converting a cluster of high-tech plants involved in defence work is encouraging a region-wide ‘concertation’ approach among a range of local companies and organisations. The programme has given priority to promoting group or network forms of action, including cooperative projects between firms and between firms and research institutes [27].

These network projects are being supported by a new institutional infrastructure, providing services in areas such as demonstrating, testing, training, consultancy and research. The state office managing the programme is being advised by a regional consultancy committee which includes representatives from the main regional companies and institutions in the field of defence conversion; the committee is acting as an integrating force, encouraging co-operation between chambers of commerce, employers’ associations, trade unions, universities, representatives of the peace movement and others.

**Enabling regulatory frameworks**

These strategies to promote new interfirm and firm-institution networks and clusters are accompanied, in some cases, by the introduction of new regulatory frameworks designed to accommodate evolving economic and social needs, including the needs of smaller firms in particular. Many countries are looking for ways to reduce monetary and fiscal barriers that impede small firms’ development, and to loosen bureaucratic regulatory procedures - for example, cutting the time needed to obtain authorisations for new business start-ups, or easing reporting requirements in relation to taxation and other matters.

Another area where governments can take action is that of labour market and welfare regulations relating to small firms and to mobile workforces. Indeed, a major challenge is how to create new labour market and social security systems that facilitate active worker involvement in modernisation and change. The importance of lifetime learning and of training that is more focused and relevant to changing needs has to be recognised. Measures should be taken to foster an entrepreneurial culture which is open to new ideas and which encourages firms to upgrade and new businesses to be created.

Lastly, authorities must provide appropriate physical infrastructure - such as transport, power, water, and telecommunications - at the level not only of broad territories, but also of specific industrial sites, including science or technology parks.

5. CONCLUSIONS

The changing global context is having an impact on local and regional economies. Global integration and international competitive pressures are intensifying at a time when some of the traditional competitive advantages - such as relatively low labour costs - enjoyed by certain countries, or regions within those countries, are increasingly perceived as transitory. Moreover, the pace of change appears to be accelerating.

With regional economies facing these pressures, there is an ever-greater need for finding ways, at regional level, of improving capacity to acquire and disseminate knowledge, increasing productivity, promoting higher value-adding activities and strengthening connections to international markets.

Consequently, we can expect to see a growing emphasis on strategies for encouraging supply chain and horizontal networking, and sectoral clusters. This requires the development of decentralised, ‘bottom-up’ structures and processes, with adaptable institutions and appropriate programmes. We are already witnessing this development, and it seems probable that the future scenario will be one of institutions and programmes much more firmly embedded in processes of ‘concertation’, both within networks and clusters, and at the level of whole regions.

Governments and their agencies can provide crucially important assistance to this development by acting as both enablers and facilitators. In the enabler role, they can develop regulatory and institutional capacities where these are inadequate or non-existent; as facilitators, they can broker new kinds of networking and association, in both the public and private spheres. By such means, governments can play an effective part in raising capacity for innovation, improving competitiveness, and maintaining social cohesiveness.

**References and Further Reading**


