



2nd WORLD FORUM ON REGIONAL ECONOMIC DEVELOPMENT

Regions Make A Difference

Madeira (Portugal), 13–17 May 2006

Working Document

« The US national economy is actually the collection and integration of many regional economies. It is at the regional level where economic development is implemented and where the effects of economic shocks are felt. And it is at the regional level where talent development can help to spur economic growth. »

Emily Stover DeRocco, US Department of Labour

I. ARGUMENT AND FINDINGS

The theme of the Second Madeira Forum on Regional Economic Development argues that regions can make a difference when it comes to stimulating the competitiveness of regional companies. This argument is based on the following findings:

- a) There is a competitive advantage attached to proximity with key players and the ability of the latter to harness human, financial and intangible resources through formal and informal networks.
- b) Regions can derive a competitive advantage from their cultural, entrepreneurial and innovative spirit as well as from harnessing their endogenous potential. By their very nature, these advantages protect individual regions against any attempts at plagiarism, especially since those advantages rest on factors including talent, leadership, governance, networks, clusters, creativeness and a risk premium, i.e. on more than the mere provision of infrastructure. The competitive advantages derived will be commensurate with reliance on a sizeable critical mass of talent and venture capital.
- c) Regions are comparatively more able than States to adjust to the lifecycles of individual industries and to deploy entrepreneurial strategies that meet business needs.
- d) These days, regions can contribute to intangible investment by businesses. The understanding of "intangible investment" notably includes:
 - ✓ human asset development: education and in-service training;
 - ✓ knowledge assets: RTD, technological innovation, protection of intellectual property, leveraging new products and markets, experiences, software, know-how, etc.
 - ✓ process-related assets: engineering, governance, databases, compensation of innovative idea developers, etc.

II. DOCUMENT INTRODUCING THE ISSUES FOR DISCUSSION DURING THE FORUM

1. Can Europe become or the US stay the most competitive knowledge-based economy in the world?

« The United States has nothing to fear from the rise of China as low-cost manufacturing power and should concentrate on further growth in high-value industries. »
 Carlos Gutierrez, US Commerce Secretary

In March 2000, the Heads of States of the European Union adopted the Lisbon Strategy, a commitment to make the EU the most competitive knowledge-based economy in the world. Unfortunately, for a variety of reasons including namely the delivery method used, the lack of budgetary ambition, the absence of governance and the self-congratulatory approaches adopted by the Member States, the Lisbon Strategy is very unlikely to ever be more than a vain wish.

Admittedly, a number of decisions have been taken to address identified failures and the guidelines accompanying EU structural policy encourage Member States to design regional development programmes that are attuned to the objectives of the Lisbon Strategy.

However, while the EU faces crisis after crisis, its traditional competitors including the US, Japan and several emerging countries focus equal attention on their own competitiveness.

Worth recalling in this respect is that in the space of a few years, both Indian and Chinese SMEs have reached the status of world champions when it comes to both traditional and tech products. Examples include:

- ✓ Mittal Steel (India), the world's second largest steel producer, capable of threatening European group Arcelor, the industry's global leader;
- ✓ China International Marine Containers (China), leading the world container manufacturing industry with a 50% market share;
- ✓ Shanghai Zhendua Port Machinery (China), the world number one dock crane producer, with a 50% market share too;
- ✓ Guandong Galanz Enterprises (China), owning 35-40% of the world market for microwave ovens;
- ✓ Wipro (India), which closed a \$300 million contract with General Motors for RTD activities in the software industry, compared to \$500 million each for IBM and Cap Gemini.

In the US meanwhile, work and thinking has recently gone into enhancing the domestic potential for innovation and hence the growth and competitiveness of the US economy. In 2004 for instance, the Council on Competitiveness published a report entitled Innovate America focusing on the effort required in the US in the fields of talent, investment and infrastructure as key areas of a National Innovation Agenda.

In his 2006 State of the Union Address, US President G. W. Bush introduced a new programme called the American Competitiveness Initiative (ACI) focusing on the following priority areas:

- improving the technological environment;
- enhancing the protection of intellectual property;

- reviewing taxation of RTD-related activities;
- investing in talent and education.

The speakers contacted to discuss this issue are:

- Mr José Luis Barroso, President of the EU Commission;
- Mrs Deborah L. Wince-Smith, President of the Council on Competitiveness (USA).

The sources below are available for further information:

- Innovate America <http://www.compete.org>
- "Creating an Innovative Europe", a report published in January 2006
<http://europa.eu.int/invest-in-research/pdf/060119Aho%20report%20final.pdf>
- American Competitiveness Initiative <http://www.whitehouse.gov/stateoftheunion/2006/aci/>

2. The Competitiveness of Regions in the Global Village

« No region can pretend to unbreakable competitiveness. »

Alexander Devos, CHM – Cross Helmet Manufacturing

In a globalised economy, individual regions must benchmark their performance with and differentiate themselves from, other regions of the world. In this context, they need to focus on:

- both the sources of their ability to attract talent and multinational companies and entrepreneurs' own perception of regional competitive advantages;
- investment in innovation among regional companies in light of relocation trends and temptations;
- RTD investment in so-called emerging countries by both multinationals and public authorities;
- the competitiveness of third country economies;
- the impact of growing energy costs on regional competitiveness;
- trends in and obstacles to, the competitiveness of countries and regions including Russia, Brazil, Poland and Tunisia.

It emerges from a study conducted by KPMG Entreprises (F) that:

- ✓ the smallest SMEs are comparatively less export- and innovation-driven;
- ✓ SME beliefs about key success factors evolve: while price remains an important variable, business managers increasingly turn to other levers to differentiate themselves (technology, marketing, economic intelligence, etc.);
- ✓ setting up factories abroad in developing countries serves productive as well as commercial aims. Partnership quality is a key success factor in such endeavours;
- ✓ the majority of business managers argue that investing abroad helped preserve—and sometimes even create—jobs in France.

It is useful to exchange views in an attempt to answer questions including:

- ✓ Where are the most dynamic regions on the different continents?
- ✓ How did they develop and enhance their competitive advantage?
- ✓ What threats do emerging economies pose to regional competitiveness in developed countries?
- ✓ What is the likely impact of emerging economies on regional disparities?

It is equally useful to determine the types of companies and functions that are comparatively more likely to be relocated.

Finally, it seems that the number of direct foreign investors investing in Chinese and Indian companies is growing both in Europe and the US. Does this create opportunities or threats for regions and local businesses in both these countries?

The speakers contacted to discuss this issue are :

- Sergio Fernandes Cardozo – Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (BR)
- Jeff Finkle – International Economic Development Council (USA)
- Konstantin Fokin – Ministry for Economic Development and Trade of the Russian Federation
- Andy Levine – Development Counsellors International (USA)
- Peiqiang Liu – China Association of Development Zones *
- António Mechia – Electricidade de Portugal (P)
- Abdelkarim Misbah – Office de Développement du Centre Ouest (TN)
- Paul O'Donovan – Welsh Assembly Government (UK)
- Marzena Piszczek – Małopolska Agency for Regional Development (PL)
- Vijaya Latha Reddy – Indian Embassy in Portugal *
- Laurent Sansoucy – OCO Consulting (F)
- Martial Thévenot – KPMG S.A. (F)
- Nadia VITCHEV – Imeriti San Diego (USA)

The sources below are available for further information :

- American Competitiveness Initiative
<http://www.whitehouse.gov/stateoftheunion/2006/aci/>
- KPMG Entreprises – Innovation plutôt que délocalisations : Le choix des PME
http://www.oseo.fr/recherche_technologie/opportunités_et_conseils/actualités/innovation_plutot_que_delocalisations_le_choix_des_pme

3. Investing in talent

« In our changing economic times, knowledge industry is gaining critical mass and momentum and universities are at the centre of it all. »
Charles Hoslet, Wisconsin University

Human capital has become the single most important raw material of regional development. Therefore, public authorities will need to invest in talent and in its attraction and retention. There will be a need to actively involve universities in this process by assigning them a role in regional development. This new role will include elements of:

- ✓ entrepreneurship stimulation;
- ✓ innovative business development (spin-outs – spin-offs);
- ✓ commercial utilisation of research outcomes;
- ✓ transfer of knowledge and know-how toward SMEs;
- ✓ securing access to laboratories for regional businesses.

Worth underscoring in this context is that since 1999, the Province of Quebec (Canada) operates a unique and effective scheme called VRQ (“Valorisation-Recherche Québec”) to leverage university research outcomes based on the principles below:

- CAD260 million invested in leveraging university research outcomes in 1999-2005;
- pooling of university research potential;
- setting up of four research exploitation companies.

In parallel, strategic business investment will increasingly need to target creativeness and design. Obviously, public authorities will need to promote this type of investment in regional SMEs.

Indeed, companies are under constant pressure to cut production costs, improve quality, go international and renew their product range in the face of ever shorter product lifecycles. This can only be achieved through investment in human resources. Regions must support the reinforcement of skills available locally.

Talent is increasingly a key factor of regional competitiveness, in the sense that:

✓ Products and services increasingly contain knowledge resulting either from science and technology or from intangible factors including design, branding or intellectual property, i.e. factors that systematically stem from human assets and their creativeness;

✓ Good and services of limited value added or whose production involves a high degree of labour intensiveness or repetitive tasks are increasingly threatened by relocation or automation—though the latter involves employing less but more skilled staff these days;

✓ The critical mass that is needed for technological development is growing, therefore calling for specialists in ever greater numbers.

Furthermore, there is evidence of a concentration of expertise in an ever smaller number of centres of excellence. As a result, the competitive advantage of regions failing to focus sufficiently on talent would be significantly reduced over time, inevitably exposing them to a wide range of negative impacts on employment and growth.

In the long run, attracting foreign talent (MBAs, MScs, DSEs [Doctors of science and engineering]) will become as important for regions as attracting foreign companies. In this field, Europe is far behind the US, where 35% of DSEs are of foreign origin.

This poses the question of the attractiveness of European graduate schools and for instance their ability to attract a significant share of the \$5 million in financial loans granted by India to national students who are willing to study abroad.

The following issues will therefore be discussed during this session:

- ✓ Regional awareness of the role of universities in stimulating regional development;
- ✓ The role of universities in the emergence of knowledge clusters;
- ✓ The results of the active efforts of the Catholic University of Leuven (B) to develop a centre of excellence;
- ✓ Leveraging university research at regional level (Quebec, Andalusia).

The list of guest speakers for this session includes:

- Mr Filipe De Jesus Pinhal, Millenium BCP (P);
- Gilbert Drouin, Valorisation-Recherche Québec (CA);
- Martin Hinoul, Catholic University of Leuven (B);
- Mr Lee Munnich, University of Minnesota (USA);
- Mr Yoshiyuki Okamoto, Hosei University Tokyo (JPN);
- Mrs Aino Sallinen, Rector of the University of Jyväskylä (FIN);
- Mary Walshok, University of California, San Diego (USA).

The documents below are available for further information:

- A Mutual Learning Platform for the Regions: The Leuven Models
http://www.innovating-regions.org/download/Leuven%20as%20a%20growth%20pole_Hinoul.ppt

- VRQ Annual Report 2004-2005
http://www.vrq.qc.ca/images/documents/rapport_vrq_2004_2005.pdf
- Knowledge Clusters and Entrepreneurship as Keys to Regional Economic Development. University of Minnesota
http://www.bth.ca.gov/capartnership/pdf/knowledge_clusters_final_report1.pdf

4. Entrepreneurship

« Between 60 and 80% of net new jobs have been created by small firms; the bulk have come from new firms under two years old. »
Chad Moutray, Small Business Association

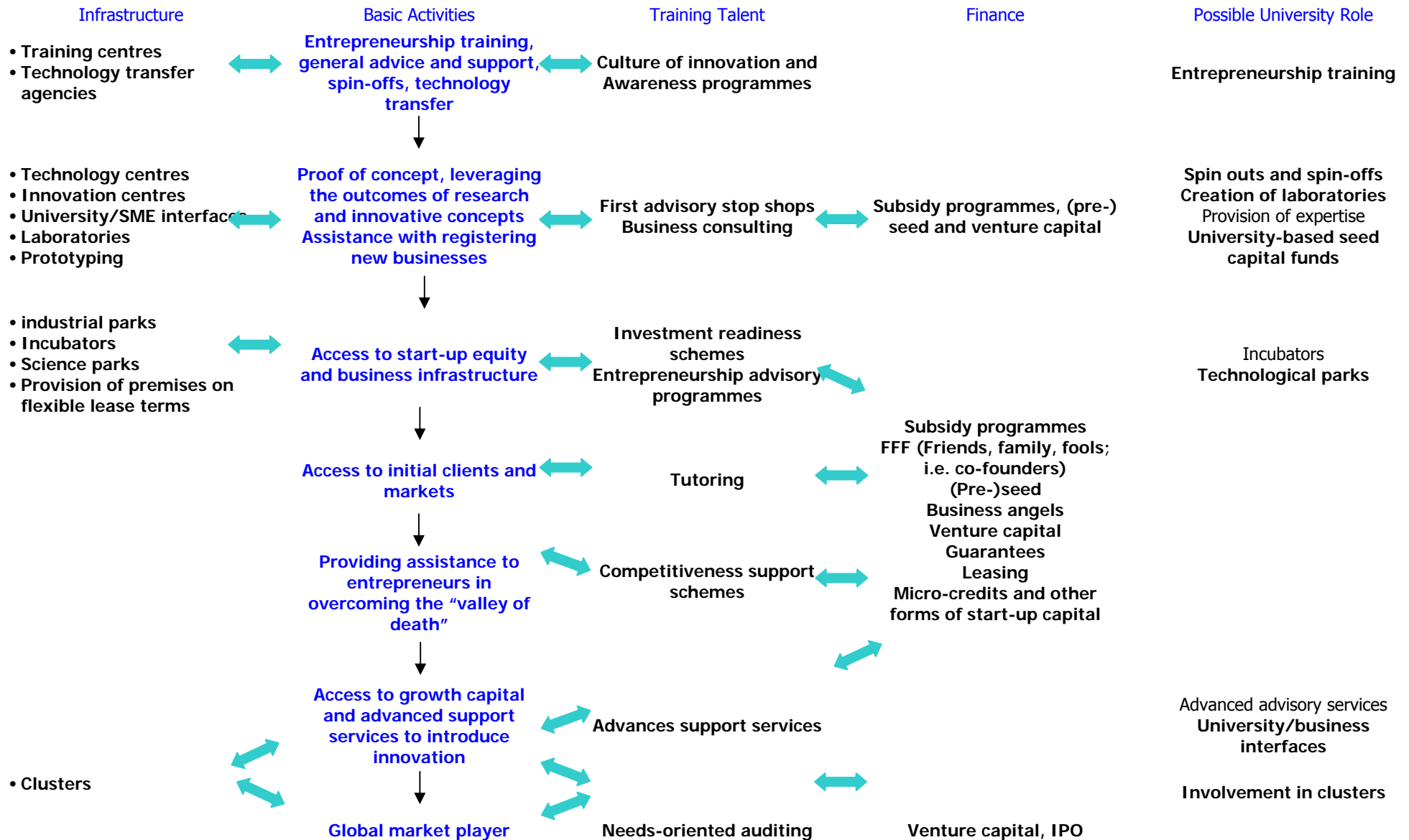
Entrepreneurship too, has become a major key to regional development. Europe, the US and Japan alike focus a great deal of attention on boosting the rate of business development and the number of "gazelles", i.e. companies that have the potential to sustain high growth rates for several years.

The business support services available in most regions are rarely very effective because they tend to be:

- fragmented
- generic (i.e. non-specialised);
- poorly (if at all) mainstreamed in a supply chain;
- supply- rather than demand-driven;
- inadequately supported by advisory services (investment readiness) geared toward maximum take-up by users;
- rarely evaluated;
- insufficiently focused on the detection of entrepreneurial growth businesses or projects.

Regional authorities should streamline the range of business support services they provide by developing integrated regional systems, a concept resting both on first contact or diagnosis advisory shops complemented by a network of organisations that are able to provide specialised, high value-added services and on a supply chain using the model presented in the table below:

MODELLING THE REGIONAL COMPETITIVENESS SUPPLY CHAIN BASED ON ENTREPRENEURSHIP AND INNOVATION



Regions need to segment their provision of support services according to the following typology of businesses:

- ✓ businesses of regional dimension (roots and market);
- ✓ entrepreneurial growth companies;
- ✓ global companies and possibly multinationals.

The main challenge consists in securing a constant regional flow of new entrepreneurial growth companies, as they form the category of businesses that generate value added and jobs. Europe is trailing the US in this field. Indeed, the vast majority of listed EU companies were already listed in the early 60s while in the US, a high proportion of newly created companies are already listed.

Whereas European regions still promote the concept of one stop shops, their US counterparts are testing the concept of "no wrong door", aiming to ensure that *"every part of a region's small business support sector should provide an initial assessment of the entrepreneurs' skills and needs and identification of the best place for entrepreneurs to receive services to address those needs"*.

In Japan, The Organisation for Small and Medium Size Enterprises and Regional Innovation (SMRJ) set up on 01 July 2004, offers "solution and support" to ambitious SMEs and regional development through (i) support for company founders and expansion into new business; (ii) supports for SMEs to strengthen their management foundation; (iii) supports adjusting to changes in the business environment; (iv) providing industrial premises; (v) providing information on SME related measures. SMRJ has also built a support network throughout Japan which comprises SME universities, industrial parks and offices.

This session will attempt to answer the following questions:

- ✓ What are the main themes of entrepreneurship policies respectively in Europe, the US and Japan?
- ✓ What are the main hurdles facing the stimulation of entrepreneurship respectively in the US, Japan and Europe?
- ✓ What are the best performing tools to improve the rate of new SME development?
- ✓ How can SME access to funding sources be improved?
- ✓ What are the delivery mechanisms of the best performing SME support services?

The list of guest speakers for this session includes:

- Mr Horacio Da Silva Roque, Banco Internacional do Funchal (P);
- Erik Pages, EntreWorks Consulting (USA);
- Valerio Porfiri, Banca Intesa (I);
- Clive Reeves – Scottish Enterprise (UK)
- Mrs Maive Rute, DG Enterprise and Industry, EU Commission;
- Mr Yusuke Sami, SMRJ (JPN);
- Jaime Serrão Andrez, Instituto de Apoio às Pequenas e Médias Empresas (P);

The sources below are available for further information about the different issues:

- <http://europa.eu.int/comm/enterprise/smie/index.htm>
- Building systems for Entrepreneurship Support. Erik Pages in Economic Development America, Winter 2005 <http://www.entreworks.net/whatsnew/05/EDAWinter2005Final.pdf>
- SMRJ web site <http://www.smrj.go.jp/utility/english/index.html>

5. Creating Knowledge Regions

"Your ability to learn faster than your competitors may well be your only lasting competitive advantage."

Peter Senge, Director, Learning Centre, Sloan School of Management, MIT

The knowledge economy requires action targeting both companies and regions on four different planes:

- a) knowledge development or acquisition;
- b) investment in human capital to harness and use knowledge;
- c) information flow management to constantly improve processes & products and support services in the case respectively of businesses and public authorities;
- d) capitalising upon knowledge and know-how to develop new products and services.

While the need to support fundamental research cannot be underestimated, regional authorities undeniably need to focus more attention and effort on applied research, the commercialisation of research outcomes and the most suitable regional technology transfer stimulation schemes.

It seems evident that regional centres of excellence and in some cases clusters promote either the development and commercialisation of knowledge by major operators (large enterprises, research centres, universities) or innovation within SMEs and SMIs.

Several countries and regions recently discovered the virtues of clusters (Japan and DG Enterprise and Industry of the EU Commission) and competitiveness centres (France, Wallonia).

As indicated in section I above however, any attempt to transfer economic development tools needs to reckon with three parameters:

- there are limits to franchising regional development policies and tools;
- intangible regional factors and assets are important;
- there is a need to achieve critical mass.

In the global knowledge-based economy, clusters are facing new challenges these days, including investment in innovation, internationalisation of relations and identifying the functions that can be relocated to deliver competitiveness gains through reduced production or input costs.

According to Philippe Even, Director of Institut Necker (F), *"three quarters of US research originates in 15 cities and in England, as much as 85% of the research potential is located in London, Oxford and Cambridge. Even in Germany, research is concentrated in seven or eight cities and conurbations"*.¹ Hence the need to *"avoid the confusion between the need for excellence in research, the need to achieve a critical mass and spatial planning"*.

According to a study by A.D. Little, the benefits for top innovative companies are as follows:

- ✓ Companies believe that enhancing innovative ability is today the most important lever to increase profitability and growth;

¹ Les Echos, 09 March 2006

- ✓ Customer contact and excellent business intelligence form essential components of Innovation Excellence;
- ✓ Both large multinationals and small companies can be innovation leaders in their industries;
- ✓ Achieving Innovation Excellence can boost the EBIT margin through :
 - increase rate of innovation
 - shorten time to market
 - increase sales
 - reduction of development costs
 - reduction of product cost.

These conclusions need to be taken into account when formulating regional innovation support schemes for SMEs.

A number of issues will be discussed during this session, including notably:

- ✓ The support provided to clusters by the Japanese administration from METI (19 clusters) and the Ministry of Education and Research (18 clusters in 2004). The aim of METI-supported clusters is to promote new business development and networking, while knowledge clusters are designed as innovation systems featuring academia, research institutes and companies. They are managed by bodies appointed by regional authorities;
- ✓ The challenge of clusters and competitiveness centres in Wallonia: the place of SMEs in both types of schemes;
- ✓ The ability to innovate among comparatively smaller regions;
- ✓ The best ways of stimulating innovation in SMEs and the possible future of European SMEs;
- ✓ The resources allocated by Sendai Centre of Excellence (JPN) to the preservation of its competitive advantages through internationalisation.

The list of guest speakers for this session includes:

- Gen Amano, City of Sendai (JPN);
- Francisco Manuel De Oliveira Costa, Sociedade de Desenvolvimento da Madeira (P);
- Mr Satoshi Fukasawa, Development Bank of Japan;
- Stéphane Gagné, Agence Wallonne à l'Exportation (B);
- Michael J. Orlando, Federal Reserve Bank of Kansas City (USA) *;
- Antonio Rodriguez Moral, A.D. Little Madrid (E);

The sources below are available for further information:

- Innovation Excellence 2005. How Companies use Innovation to Improve Profitability and Growth. Arthur D. Little <http://www.adlittle.com/insights/news/?id=19>
- Do Only Big Cities Innovate ? by Michael J. Orlando and Michael Verba <http://12.154.48.181/publicat/econrev/PDF/2q05orla.pdf>
- Cluster Brochure 2004 of the Ministry of Education, Culture, Sports, Science and Technology (JPN) http://www.mext.go.jp/a_menu/kagaku/chiiki/cluster/h16_pamphlet_e.htm
- Stimulation of Regional Clusters and International Exchange <http://www.jetro.go.jp/en/stats/survey/surveys/20040614.pdf>

6. The Support of the EU to Regional Competitiveness and Attractiveness

Several instruments are available to the EU Commission in helping regions strengthen their competitiveness. Top-performing instruments include:

- the cohesion policy;
- the research policy;
- the enterprise and innovation policy.

From the European Regional Development Fund (ERDF) and the European Social Fund (ESF), the cohesion policy supports improved competitiveness among Europe's regions with infrastructure subsidies and investment in regional schemes focusing on entrepreneurship, innovation, RTD and vocational training. The aims of these schemes notably include:

- Making Europe and its regions more attractive places to invest and work:
 - Expand and improve transport infrastructures
 - Strengthen the synergies between environmental protection and growth
 - Address Europe's intensive use of traditional energy sources
- Improving knowledge and innovation for growth
 - Increase and improve investments in RTD
 - Facilitate innovation and promote entrepreneurship
 - Promote the information society for all
 - Improve access to finance
- More and better jobs
 - Attract and retain more people in employment and modernise social protection systems
 - Improve adaptability of workers and enterprises and the flexibility of the labour market
 - Increase investment in human capital through better education and skills
 - Administrative Capacity
 - Help maintain a healthy labour force

Parallel to its legislative work, DG Regio is working out studies and financing projects concerning the competitiveness of regions. We can mention, inter alia, the mapping which has just been disseminated by the promoters of the EPSON project in this matter. The maps published cover 10 topics, of which : competitive regions, territorial specialisation in the service sector, cultural and creative knowledge, ...

Alongside its objective of scientific excellence, the research policy also delivers schemes to improve the RTD potential of regions.

Programmes geared toward this objective fall under the "Capacity" strand of the 7th Framework Programme. Some aims of this strand include:

- Optimising the use and the development of research infrastructures
- Strengthening innovative capacities of SMEs and their ability to benefit from
- Supporting the development of regional research-driven clusters
- Unlocking the research potential in the EU convergence and outermost regions

The speakers contacted to discuss in this session are :

- Louis Bellemin, European Commission, DG Research
- Peter Ungar, European Commission, DG Regio

Reference documents :

- Mapping regional competitiveness and cohesion – EPSON Briefing 2, March 2006
<http://www.espon.lu/online/documentation/programme/publications/3947/espon-briefing2.pdf>
- FEDER 2007-2013 http://europa.eu.int/comm/regional_policy/funds/2007/index_fr.htm
- What is FP7 <http://cordis.europa.eu.int/fp7/faq.htm>

III. DIME-EURADA TRAINING SESSION

DIME is a European Science & Technology Framework Programme 6 *Network of Excellence*. It consists of more than fifty of Europe's leading science, technology and innovation research institutes. A key part of DIME's brief deals exclusively with regional innovation strategies, systems and policy instruments. Its responsibilities include exchanging and disseminating knowledge on regional innovation, innovative clusters, knowledge economies, regional science and technology policies and innovation outsourcing *inter alia* to innovation stakeholders. In partnership with EURADA the DIME network proposes a programme as its Training Day immediately following the EURADA annual conference in Madeira, 17 May 2006.

It has become clear that there are three overwhelming areas of demand for training on the part of policy-makers with economic, innovation and regional development responsibilities². In broad terms, these are the following, in descending order of urgency :

- Regional Innovation Systems and Local Industry Clusters
- Knowledge Economics
- Globalisation of Science, Technology and R&D.

Put in simple language, policy makers are interested in understanding and becoming Technological Top Regions (TTRs) or "Hot Spots" – "... a regional agglomeration that manages to create added value and economic growth through a well worked 'value chain' ranging from knowledge creation to commercialisation and diffusion ... a concentration of research, technology and innovation in a concentrated geographical area³". Accordingly, and in line also with EU DG Research's recent commissioning of DIME and PRIME (a separate FP 6 NoE) advice on the construction of regional advantage (CRA) the synthesis programme is offered below. It aims to assist policy makers to evolve policy mechanisms to facilitate the achievement of these regional aspirations, thus we offer to conduct a training day entitled "*Policy Platforms : The New Approach to Regional Innovation Strategy*".

² *Regional innovation systems in the Lisbon Strategy* (2005) De Bruijn, P. & Lagendijk, A., Nijmegen

³ *Quick Scan Public Policies to Support "Hot Spots" in Europe*, P. Boekholt et al., Technopolis (2005)