Introduction

It is well known that the European Union is anxious to close the competitiveness gap with Japan and the USA (EC, 1994). A major part in the disparity between European competitiveness and that elsewhere concerns perceived innovation deficits (EC, 1995). These two are considered also to be of fundamental importance to the improvement of social cohesion since, it is presumed, better economic performance is associated with improved prospects for employment (EC, 1996). The question of what kinds of innovation improve prospects for both competitiveness and cohesion is an important one (Edquist, 1997; MacIntosh and Francis, 1997). A problem in the past, however, has been that growth, competitiveness and employment gains have tended to be geographically overconcentrated. This leads to the kinds of agglomeration diseconomies suffered by cities like Tokyo, prompting attempts to decentralize growth opportunities to other regions. But when this has been stimulated by attempts to decentralize science and technology infrastructures, as in Japan and France, the results have often been disappointing.

This is now understood as a failure of top-down, linear thinking about economic development processes. Increasingly, in a world of interactive learning and innovation, firms are seeking to become more ‘embedded’ in a regional milieu where they can build up close supplier, training and innovation links. This is because, more and more, they seek to externalize production. Where this occurs, the regional economy where they locate becomes more specialized in not only production but also the soft infrastructural support aspects of business activity. As Krugman (1995) presents it, increases in intra-industry trade produce increasing returns to scale in a world of imperfect knowledge, and endogenous technical change reinforces a tendency to spatial monopoly. But the new kind of monopoly is more specialized than the universal monopoly that many large metropolitan centres used to enjoy. So regions have the capability to become specialist spatial monopolies. Global free-trade and the growing efforts of regional agencies and governments to promote the com-
petitive advantage of ‘their’ region further reinforce these tendencies with respect to the attraction of Foreign Direct Investment (FDI).

If this theory is true (and we have to accept that it may not be) then its implications for regions are profound. From being a *tabula rasa* on which are inscribed the results of past resource-based business decisions, decentralization effects of central government decisions, and the decisions of both indigenous smaller firms and indigenous or FDI large firms, the region now becomes a proactive space in which all of its assets are mobilized to try to secure regional economic competitiveness. Thus the building up of a strong cultural offer, the integration of universities with industrial requirements, and the focused training of young people and older unemployed people to fit into the new occupational needs of firms becomes more pronounced. Competitiveness as a regional attribute becomes a product of systemic interaction between diverse players who must be ‘associative’, ‘networking’, and consensus-minded. At the heart of this is the desire, if not the imperative, to be seen as innovative and supportive of innovation by firms and other organizations. To what extent can regions really achieve this?

In this chapter, the results of a large-scale EU-funded research project on ‘Regional Innovation Systems’ will be summarized and an attempt made to judge the degree to which diverse European regions match up to the theory and practice of ‘the new regionalism’. The research examined nine EU regions and two from Central and Eastern Europe and sought to find out the extent to which the competitiveness of regions was related to their degree of systemic innovation capability. Some surprising results ensued from the studies, both in terms of the competitive posture of European firms and their culture of innovation. Certain of these results suggest reasons for a relatively weak innovative capacity among European firms. Among the stronger findings was the conclusion that where regional governances are weak or passive, associativeness tends to be low. Yet the capability of firms to solve innovation problems internally is also low while their willingness to engage in cooperative solutions is high, but frustrated. The chapter proceeds by examining competitiveness problems of regional firms in the study, followed by an exploration of innovation problems. The conclusion is preceded by a section on policy-issues for regions.

**Theoretical constructs of the new regionalism**

The argument here links five fundamental theoretical propositions into a construct that aims to explain the role of proximity in economic competitiveness and the particular role of regions as organizational mediators. In a period of heightened, albeit asymmetrical, globalization in which innovation and supply-chain management are key factors of competitive advantage, the region takes on an extra salience in economic coordination.