

Regional Policy in the European Union

Lessons for developing countries?

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Learning from European regional policies?

- The Preamble to the Treaty of Rome concluded by the founding members of the European Community (1957) underlines the necessity *‘to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing between the various regions and the backwardness of the less favored regions’*.
- There are some obvious parallels between efforts to reduce economic disparities in Europe and efforts to support developing countries in other parts of the world
- Can developing countries learn anything from the experiences with regional policies in Europe?

Cohesion and convergence

- In the course of time the European Social Fund (ESF), the European Regional Development Fund (ERDF) and the Cohesion Fund were created to finance various programs in support of social cohesion and economic convergence
- Early on a distinction was made between core (advanced) regions, regions in industrial decline (restructuring regions), and backward, often peripheral regions
- Underlying assumption is that supporting lagging regions to develop and/or restructure quickly and catch up with leading regions will increase overall well-being and support for a strong European Union

Cohesion and convergence

- In the course of time, funding increased so that the various programs grew to (now) over one third of the EU budget
- At the same time, aims of the programs broadened and around 2005 about half of the population of the EU lived in regions eligible under some regional program
- Since 2007, *all* regions can participate in various regional programs under varying conditions depending on their level of economic development
- A major distinction was made between ‘convergence’ regions and ‘competitiveness and employment’ regions
- Some (mainly Eastern European) countries consist mainly or completely of convergence regions

Traditional instruments

- Constructing physical infrastructure
- Providing training for unemployed
- Supporting SMEs creating jobs
- Relocation of government services
- Encouraging investment by large companies
- Founding schools and universities

Results / Lessons learnt

- Jobs were created, lagging regions did not fall further behind, sometimes grew a little faster, but seldom caught up with the more advanced regions
- Many restructuring regions are still struggling, but there are some successes in recovery/renewal
- Difficult to say to what extent positive performance was a result of policy

Results / Lessons learnt

- ‘Easy money’ not always well-spent
 - Sometimes corruption and fraud
- Governance/Government is important
- An increasingly sophisticated system for monitoring and evaluation was developed
 - Sometimes almost inviting ‘fraudulent’ (bending the rules) behavior

Shifting focus

- Limited success and economic crisis have led to shift in focus in regional programs
 - from catching up to competitiveness
 - from infrastructure to entrepreneurship
 - from de-industrialization to *smart* re-industrialization
- Attention for lagging regions is lagging . . .
 - Better to make sure that the core regions are competitive than propping up the backward regions
 - Infrastructure is important, but it is equally important that there are companies that make use of it
 - Knowledge, especially knowledge of new technologies, is essential to economic development everywhere
- Innovation is important in *all* regions, not just in core/advanced regions

Shifting focus in regional policies

- Regional programs now also support investment in research, development and innovation
- As a consequence, some old questions are now being posed for lagging regions, that previously were mainly posed (and sometimes answered) for the advanced regions. Questions about:
 - the relationship between knowledge and innovation
 - the institutions that support innovation
 - the importance of proximity between actors in innovation
 - the role of entrepreneurship in innovation
- Answers to these questions turn out to be more context-dependent than researchers like to think

Theoretical debate

- The identification of *regional systems of innovation* has opened the eyes (again) for the complex institutional preconditions of innovation and economic development
- The '*triple helix*' concept of bringing together knowledge institutions, public authorities and business has informed the design of governance structures
- Discussions of *knowledge* and innovation show
 - that knowledge should be considered as process or practice rather than a thing that can be possessed
 - that physical proximity between knowing persons is not sufficient for transfer/communication of knowledge to take place
 - that innovation requires many kinds and types of knowledge, most of them not in any way to be considered 'new'

Theoretical debate

- Evolutionary theories of innovation have helped to understand the importance of history . . .
 - Path dependency
- . . . and of variety and selection
 - The notion of *related variety* points to the fact that chances of success in achieving regional advantage are larger if existing knowledge and strengths are recombined
 - The notion of *smart specialization* underlines that market forces can effectively select between various entrepreneurial initiatives
 - Smart specialization also emphasizes the need for regions to find applications of *general purpose technologies* that fit the specific and characteristic strengths of the region
- A distinction is made between “*between regions specialized in the basic inventions and regions investing in specific application domains*”

Theoretical debate

- Evolutionary theories are more helpful in describing and explaining the past than in the formulation and execution of regional policies
 - Notions of path dependency and related variety tend to prevent thinking in terms of leaps in development and radical innovation
 - Notions of entrepreneurial choice processes have great difficulty in identifying the relevant timeframe: when will it be clear which of many entrepreneurial initiatives deserve continuing support?
- Debate about open innovation reminds us of the fact that regions – even more than countries - are rather artificial units of analysis
 - ‘Leakage’ of funds and people to other regions than intended is a neglected problem

Lessons for developing countries?

- ‘Catching up’ means engaging in innovation, not imitation
- Foreign Direct Investment (subsidiaries of large companies) only has a lasting impact if it can be linked to local strengths and results in local innovation
- Identifying and understanding the particular strengths of the region/country is essential
 - Think in terms of comparative advantage
- Maintaining and promoting variety inside the country is an important condition for long-term adaptability
- History is important, but it does not determine the future

Lessons for developing countries?

- Applying/combining general purpose technologies with knowledge available in the country
 - may result in ‘smart specialization’
 - does not necessarily require the presence of high-tech companies and advanced universities inside the country
- Maybe the notion of ‘appropriate technology’ should be unearthed to underline the need for making country- and region-specific choices
- Governance and control are needed, not only to avoid corruption and abuse of scarce resources, but also for all participants to know what is happening so that they can act fully informed
 - The importance of institutions in economic development was underlined by Gunnar Myrdal long ago – time to revisit his work

Relevant publications by the presenter

- Vissers, Geert & Ben Dankbaar (forthcoming), Spatial aspects of interfirm collaboration, an exploration of firm-level knowledge dynamics, *Regional Studies*
- Vissers, Geert & Ben Dankbaar (2014), Starting up and growing stronger: life lessons from a biotechnology company, *Management & Organizational History*, Vol.9:1, pp. 45-68
- Vissers, G. & B. Dankbaar (2013), Path dependence and path plasticity: Textile cities in the Netherlands, *Zeitschrift für Wirtschaftsgeographie*, Jg. 57 (2013) Heft 1-2
- Vissers G. & B. Dankbaar (2012), Knowledge and proximity, *European Planning Studies*
- Prud'homme van Reine, Peter & Ben Dankbaar (2011a), The Dynamic Interaction between Corporate and Regional Cultures: The Case of Southeast Netherlands, *Tijdschrift voor Economische en Sociale Geografie*, Vol. 102, No.5, pp. 532-547
- Prud'homme van Reine, Peter & Ben Dankbaar (2011b), A Virtuous Circle? Co-evolution of Regional and Corporate Cultures, *European Planning Studies*, Vol. 19, No. 11, pp. 1865-1883