



GROUP OF HIGH-LEVEL SPECIALISTS ON THE FUTURE OF COHESION POLICY

Cohesion Policy and its contribution to addressing different development needs of regions

Simona Iammarino

Department of Economics and Business, University of Cagliari, and Cañada Blanch at LSE

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Third meeting - Addressing different development needs of European regions

1. What is a regional development trap?

- The “regional development trap” (RDT) in Europe refers to *regions that face significant structural challenges in regaining previous economic dynamism or in improving wealth and prosperity for their residents* (Diemer, Iammarino, Rodriguez-Pose, & Storper 2020, 2022)
- Regions in, or at significant risk of, development traps, may face economic, social and political hazards for themselves, their nation, and Europe as a whole, representing a tricky challenge for policy makers at all levels of governance
- RDT framework provides an operative way for:
 - disentangling EU territories’ relative economic dynamics with respect to development trap risks
 - integrating in the EU Cohesion Policy reflections on the growing number of areas wedged between “rich” (core) and “poor” (peripheral) regions

2. Development traps in the EU regions

- EU economies *largely industrialised and advanced* relative to the world average in terms of most socio-economic indicators
- EU *heterogeneous subnational development trajectories* leading to RDT:
 - *'From above'*: formerly wealthy industrial regions experiencing decline or obsolescence of previously successful economic activities
 - *'From below'*: formerly lagging regions that, after rapid growth in the past, are stuck below the EU average
 - *'Stagnating'*: middle-income level regions that remained so over time
- EU national and regional economies *uniquely integrated in a specific multilevel and multidimensional institutional setting*

3. Measuring regional development traps: the DT index

3 dimensions of economic dynamism



GDP per capita



Productivity

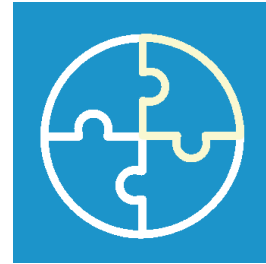


Employment

3 benchmarks



The region itself in the past

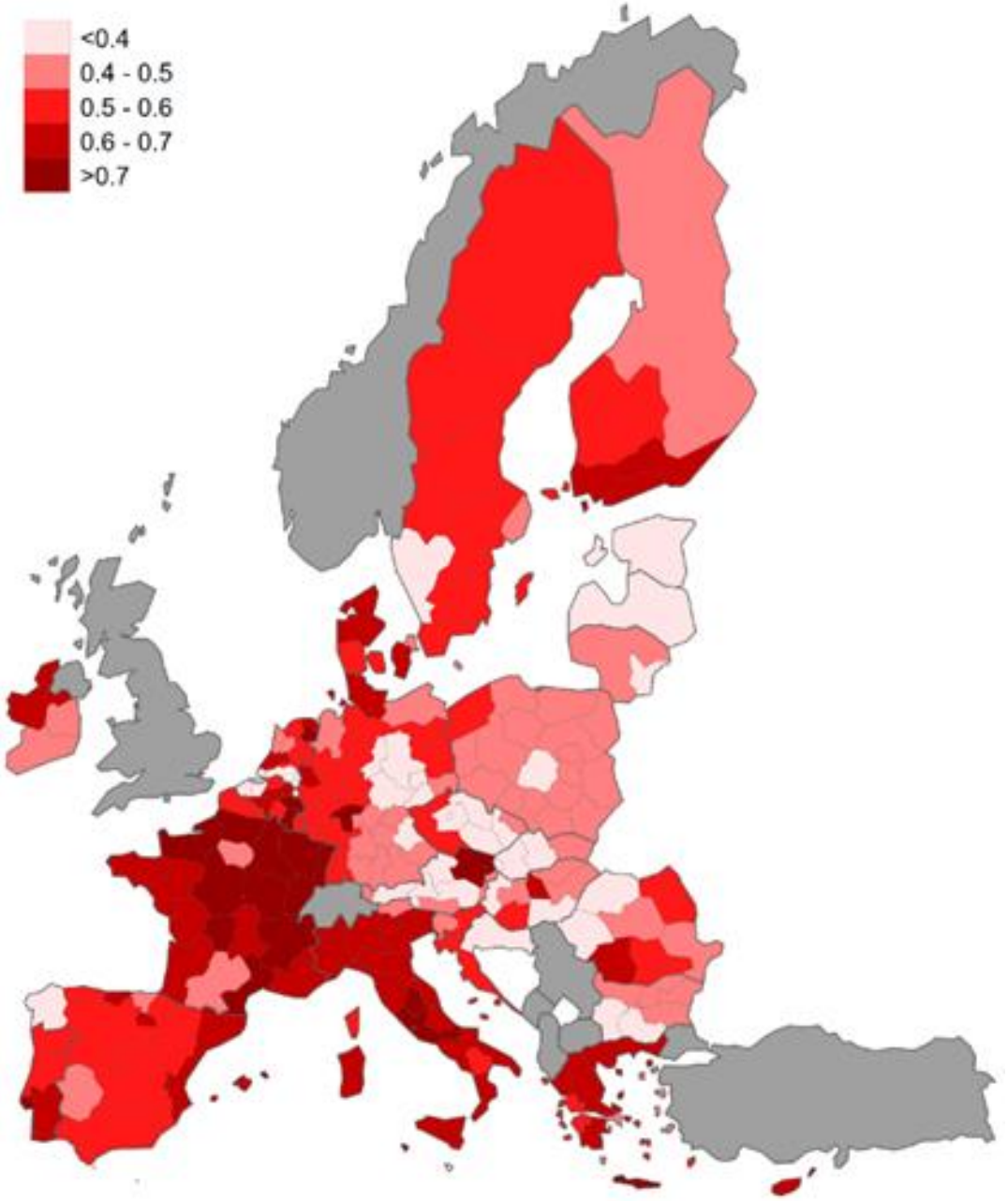


The country it belongs to



The EU

4. Identifying risk for EU regions



Map 1. Likelihood of being in a development trap: DT at NUTS2 level, 2001-2018

5. Main features associated with DT index



- **Economic structure:** DT consistently and negatively connected with manufacturing, and positively with non-market services

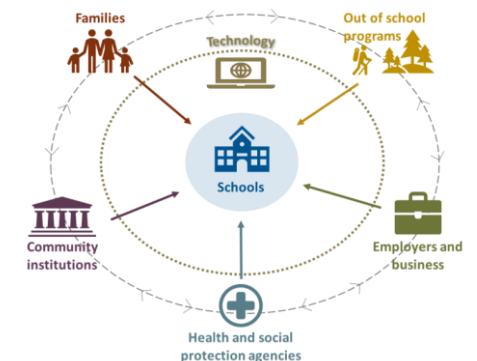


- **Demographic structure:** DT positively associated with high dependency ratios



- **Innovation and skills:** negative correlation of DT with GERD, led by high-income regions, and with employment in S&T, only in low-income regions

- **Institutional quality:** strong negative relationship between DT and EQI, in high-income and, especially, middle-income regions

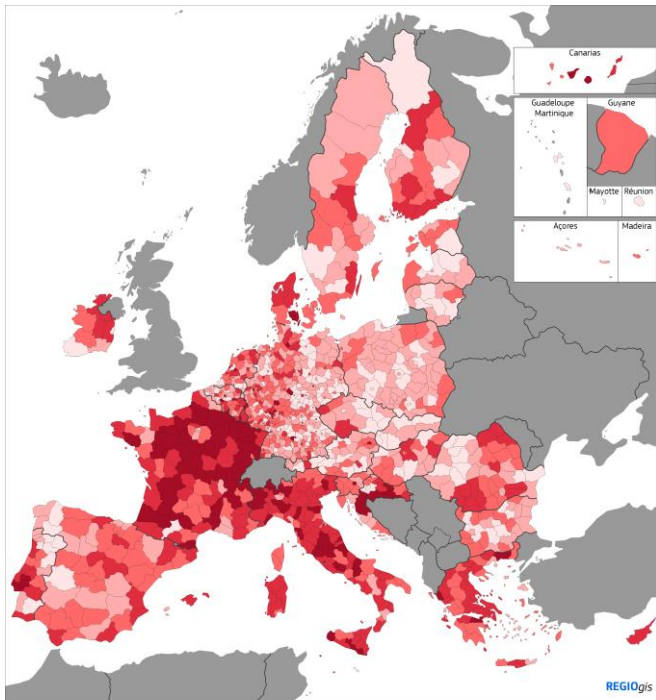


6a. RDT as a diagnostic kit: advantages for policy makers

- *EU level*: clear and reliable framework for analysing comparative dynamic trends across EU regions, providing grounds for experimenting new policy schemes on selected trapped, or at high risk to be trapped, regions, concentrating efforts and increasing opportunities for policy evaluation
- *Member State level*: useful to understand regions within the national and EU dynamic context across flexible time windows, and to identify new forms of support for less dynamic regions beyond their level of income
- *Regional level*: valuable to identify stagnant areas and industries, to align bottom-up and top-down initiatives, to think about new strategies to re-generate and re-vitalise economic opportunities
- *All governance levels*: helpful to signal priorities in policy debates; to summarise and communicate to the public complex issues; to facilitate public awareness and institutional change by questioning prevailing dichotomy in regional development policy targets, including in the policy debate regions wedged between cores and peripheries

6b. RDT as a diagnostic kit: warning for policy makers

- DT dynamic nature makes it exposed to annual fluctuations



Development trap index 1 at NUTS-3 level, 2001-2018

Likelihood of being in a development trap

- <0.4
- 0.4-0.5
- 0.5-0.6
- 0.6-0.7
- >0.7

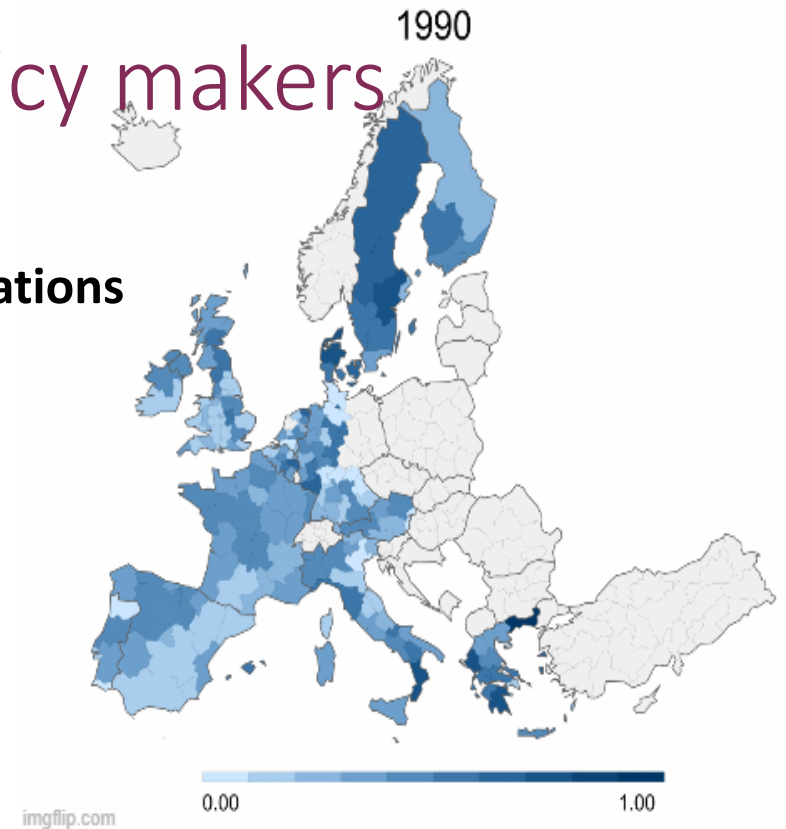
This index measures if a region's growth is lower than that of the EU, of its country or of the same region during the previous five years. It considers GDP per head, productivity and employment per head growth over a five year period. A region scores 1 for each time its growth is lower. This score between 0 and 3 is then rescaled to 0-1. Source: DG REGIO calculations based on JRC and Eurostat data

0 500 km

© EuroGeographics Association for the administrative boundaries

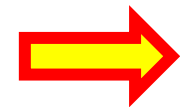


- DT sensitivity to geographical scales



AND

- DT responsive to the definition of regional income categories
- Critical missing factors behind RDT

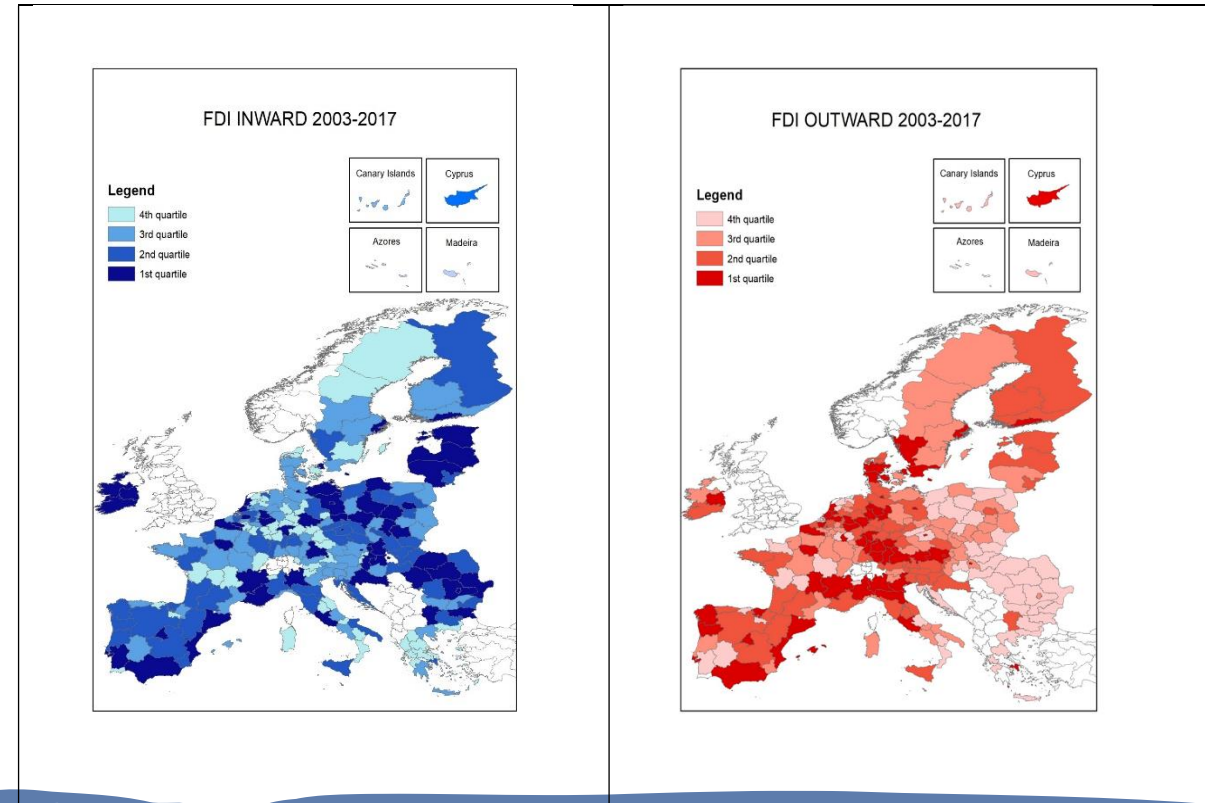
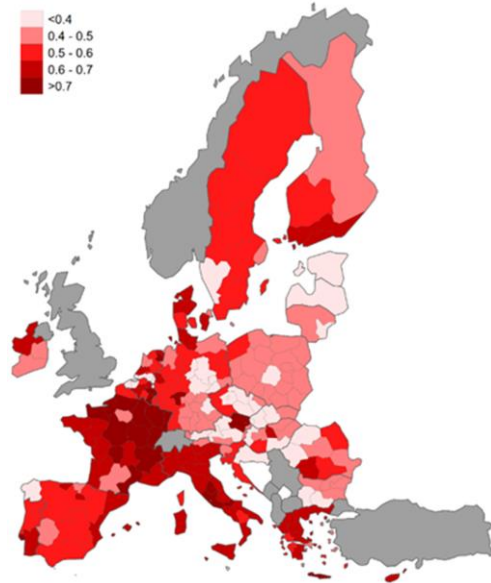


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7. Missing factors behind RDT

- Association of DT with international integration and global connectivity of utmost importance in the analysis of factors behind RDT and ways to address them
- E.g.: seemingly negative correlation between DT 2001-2018 and both inward and outward FDI flows 2003-17, supported also by qualitative case-studies

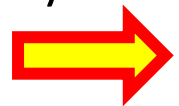


8a. Key policy insights



What policy makers can do?

1. Increase awareness of the problem (development traps seem to be a main source of discontent)
2. Identify regional trajectories over shorter and longer terms and at various geographical scales
3. Add trapped/nearly trapped regions to policy portfolios (those regions feel they don't matter)
4. Experimenting new policy tools on selected regions in/or at risk of development traps
5. Expand opportunities for policy evaluation
6. Pay attention not just ex post, but also in a forward-looking mode (risk prevention)
7. Design tailored place-based strategies aimed at revitalising and regenerating simultaneously economic and social fabrics (heterogeneity of stagnation trajectories at all income levels)



8b. Key policy insights

- Extract value from territorial capital: e.g. adopting conservation strategies of natural, cultural and artistic heritages, leveraging technological shifts to, e.g., linking new forms of tourism and certified and branded agricultural activities

TO COMPLEMENT

- Strengthening regional S&T&I systems and FDI attraction for integrating resilient sectors in continental GVCs
- Revise educational systems to produce new skills and competences

NOT ONLY FOR

- STEMs and R&D-intensive activities

BUT ALSO FOR (possibly predominantly in trapped regions)

- Upgrading both KIBS and public services quality, advancing coordination, planning and organisational capacity, and ultimately accelerating institutional change

8c. Key policy insights

- Harnessing 'global connectivity' for regional development (Crescenzi and Harman 2023)
- Re-vitalising entails to establish intra- and extra-regional connections – through capital and labour flows – to provide new opportunities to local residents
- Understanding the structure and evolution of GVC and FDI networks
- Identifying the potential for integration of cities and regions a central reflection of future public policies
- Governance and policy design for European value chains need necessarily coordination at the EU level
- Mega-trends - green energy and digital transitions - crucially intersect with European GVCs

