

REGIONAL POLICY AROUND THE WORLD

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“REGIONAL POLICY ON THE GROUND: RESULTS, OUTCOMES AND  
IMPACTS”

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*A crisis or simply a turning point in regional policy?*

Regional policy is alive although showing a significant change of paradigm. This change is not a very recent process even one may accept that the last trends of globalisation are introducing new challenges that have not been yet definitively tackled.

It is not yet clear what new paradigm will emerge and which will be the key elements of a new cycle of solid public policies targeted at improving development performance of the less-favoured regions or territories.

The end of the distributive phase of regional policy or the emergence of competitiveness issues are examples of formulations usually presented to announce that new orientations are arising. But the evolution of the theoretical discourse and the consolidation of a new family of public policies are completely different things. The gap between them is significant.

Within the framework of the EU policies, the great challenge is the change of cohesion policy orientations towards a new equilibrium (let's say a compromise) between the target of equal opportunities to territories (cohesion) and fostering competitiveness and innovation in less developed regions.

*What do we know about the evolving change of paradigm in regional policy?*

This will be the main focus of the paper, although we know that the OECD debate is more vast, requiring the integration of other interesting and effective non EU experiments. Following a very common title in economic papers and working on the state of art of regional policy in Portugal, my central question will be the following one: what do we know about this evolving change of paradigm in regional policy?

I will not elaborate about the difficulties in developing the distributive scope of regional policy. We all know that structural problems calling for distributive public policies have not disappeared in the present round of globalisation. On the contrary they have been reinforced and new kinds of disequilibria appeared. Why then ignore those questions in this paper? Although relevant, I think that those problems should be tackled by managing social development and labour market social protection policies. Within a

context of strong population ageing, what we need are territorially- focused social development and unemployment social protection policies and not necessarily regional policies as I conceive them here. We also need the strictly rigorous monitoring of spatial impacts of macroeconomic stabilisation policies.

On the contrary, my argument will be elaborated on the results, outcomes and impacts of introducing competitiveness goals in regional policies.

I will jump over all the controversies about the use and abuse of competitiveness concept (misleading, illusionary or a sound concept?) in regional analysis and policy. I will sustain a pragmatic view: a lot of national, regional and local governments and of regional or local agencies are now implementing strategies and programmes targeted at improving the competitive performance of regions and territories.

#### *Working on the concept of competitiveness*

Firstly, let me develop a working concept of competitiveness.

Following a tradition introduced by the resource-based theory of the firm, I will say that *competitive territories are those that, through pertinent combination of resources, including knowledge and organisational capabilities, succeed in developing an imperfectly imitable pattern of attractiveness within a relatively long period to sustain a local or regional strategy of value creation.*

This definition is important because it is an exploratory perspective on how to overcome the difficulties of combining the macro, micro and meso dimensions of competitiveness. It also shows how competitiveness and attractiveness are linked at territorial level. It is also important because it suggests what are the limits of regional policy, let's say that it illustrates the limits of public intervention in targeting competitiveness issues.

This is, as I have already underlined, a resource-based perspective. To achieve a competitive performance is to succeed in operating a cooperative and manageable combination of resources, able to generate a rare, valuable and not imitable situation and able to be recognizable by the market, in order to attract people and organisations to live, work, invest and create there.

So, in this context, regional policy cannot:

- Produce by itself the right cooperative and manageable combination of resources, substituting for the role of players;
- Generate the recognition of the market.

On the contrary, regional policy can:

- Support the accumulation of strategic resources (input completer), helping to generate a favourable climate to the search of good combinations and invest in governance solutions (gap filler).

The simple identification of what regional policy can and cannot do it will be enough to isolate some best practices and some failures in regional policy strategies. But we also need an evidence-based approach, which organises the vast evidence that we have concerning results, outcomes and impacts of experiments focused on competitiveness at the regional or local level.

#### *Organising the vast evidence on results, outcomes and impacts*

One possible way of organising the evidence results is the convergence analysis. This evidence is fuzzy. When the universe of regions is relatively homogenous (low level of regional disparities) absolute convergence usually emerges, which is to say that less developed regions grow at higher comparative rates. On the contrary, when we have patterns of high level of disparities, generally we have no absolute convergence at all and the results about conditional convergence (convergence  $\beta$ ) are generally not convincing.

Data about convergence results within the enlarged EU are a good illustration of this fuzzy evidence on convergence. It is not possible to show that structural funds have an effective impact in the absolute convergence of the EU regions.

The analysis of the evolution of some indicators of disparities ( $\sigma$  convergence) such as the coefficient variation or the THEIL indicator is a good alternative to follow the data available. Here the Portuguese experience is a very good illustration of how fuzzy the

evidence is: disparities increase along the upwards of the trend cycle and on the contrary they fall along the downward trend.

The Portuguese experience is also a good case study because it shows that after several periods of EU structural funds programming the convergence effectiveness depends on the indicators that we choose to measure it. In terms of public amenities (social overhead capital) the evidence shows that regional policy succeeded in reducing the gaps between regions (NUTS III level). However, when we measure the results in terms of income per head or per employed people (productivity) they are a clear indication that convergence is not operating.

It seems that a short and intermediate conclusion may be formulated. Everybody is aware of the need of introducing competitiveness in regional policy goals but a lot of interrogations still wait for an answer on how to do it.

Competitiveness-oriented experiments of regional policy are more effective when they embrace territories in which entrepreneurship culture and resources are socially embedded. This conclusion is extensive to territories in which declining industries or services are experimenting strong processes of reconversion but always with available supply of entrepreneurship although sometimes needing renovation.

This is the case for example of regional innovation policies targeting territories in which a critical mass of technology-driven resources and organisations already or still exists. We may have governance problems, critical shortfalls of some specific resources or the need of revising or changing the strategies of some organisations. But what the evidence shows is that in these situations it is easier to achieve competitiveness-oriented results than in situations in which entrepreneurship is the lacking resource.

The critical problem is not improving or upgrading the competitiveness base of a specific region. We have now a robust number of best practices that may be used as benchmarking references, although in the need of a careful analysis of transferability to other contexts. The dimension of the entrepreneurship endowment in these cases is variable and surely one should be aware of its important role. But generally in these good practices we don't face an entrepreneurship problem.

The critical dimension of competitiveness-driven regional policy is to enlarge the competitiveness base of a specific region and increasing the number of territories capable of generating additional sources of income. Here we have a true entrepreneurship problem. Cohesion policies improved significantly the public amenities endowment but they were a minor contribution to produce a favourable climate to the supply of entrepreneurship. Surely it is always a solution to attract exogenous supply, but it is practically impossible to generalise these policies to all regions in these difficult conditions. Additionally, evidence available shows that it is easier to capture good practices within endogenous processes of competitiveness creation than in exogenous experiments.

#### *Implications for a new generation of regional policies*

The available evidence on results, outcomes and impacts of competitiveness-driven regional policies shows that we should be aware that regions combining high density with very low density territories and low density regions will face enormous problems in launching this new kind of policies.

The worst case is definitively the situation of low density regions without gateway cities or internationalised agglomerations. In our view, in these cases, first we have a development problem and regional development policies should be beyond fostering a competitiveness strategy. It is not a question of enlarging the territorial base of competitiveness but instead of creating it at same time that we try to solve or minimise the entrepreneurship problem.

The inertia of the fall of density of rural areas is very strong in situations such as the case of Portugal, in which competitive agriculture is practically absent. We will have probably two decades or more in which density will be very low, generating a no return trajectory. The debate that will be launched in this workshop is crucial to fix an approach to these areas, developing brand strategies for specific territory-products. Public services policies and integrated transport and mobility solutions will be key factors for hope.

The fall of population in low density rural areas (negative crude rates of natural increase and no inward migration) is a structural and deep process. Albeit, it is not necessarily a fatal situation. In some cases (F. Oliveira Baptista, 2008), the transformation of rural areas in consumption spaces succeeded in inverting the demographic trend, although maintaining low density patterns. New local development strategies should be conceived in order to adapt to the new compositions of social capital and of social overhead capital. Competitiveness-driven policies in this context should be understood as development strategies targeted at improving and diversifying local sources of income generation, not ignoring the key importance of small urban centres in organising more vast territories, the location strategies of public services and the need of territorially-focused social security policies. Spatial planning at the regional level and local development strategies should be necessarily integrated.

The most interesting case is the example of regions combining high density and internationalised areas and very low density territories, as it is the case of the North and Centre regions of Portugal.

In these cases, competitiveness-driven regional policies should combine exogenous and endogenous development approaches to territorial competitiveness. We need critical masses of territories capable of creating value at global level, so we need a competitiveness perspective of territories and of spatial planning. We need also a clear identification of the global spaces in which territories will search for being recognised by the market as imperfectly imitable. “City-regions”, “gateway cities”, “strong regional innovation systems” or “cluster networking” are alternative models to prepare these regions to the global competition, not ignoring the punctual examples of competitive agriculture that should join these dynamics.

What role should low density rural areas play in this approach? These areas should be cooperatively managed to play a role in the whole strategy. In some cases, they are key resources to balance the environmental background of the region. In other cases, they will be sources of leisure activities, an attractiveness resource or true factors of identity in global spaces.

The critical transition of cohesion-driven regional development policies towards competitiveness is a great challenge in these typologies of regions. The necessary agglomeration of knowledge and entrepreneurial resources is not usually compatible with the primacy of local political decision-making processes. New governance models should be tested in which the role of local authorities will be weaker, facilitating the process but not leading or catalysing it. Knowledge and entrepreneurial-led partnerships are often scarce. Organisational and institutional factors are usually critical factors of success of this family of regional policies.

The integration of low density rural areas in regional innovation strategies will be an additional critical factor. Rural areas are normally marginalised in high-tech regional innovation experiments. New combinations of knowledge resources should be tested. There are good examples of combinations such as “art and food”, “wine, culture and heritage”, “science and local products and brands”, “wine tourism” that can be identified in the good practices literature. These combinations are not high-tech but they involve knowledge resources to be mobilised within the visionary framework of a global regional innovation strategy.

#### *A policy-oriented summing-up*

We already know a lot about the transition of distributive regional policies to competitiveness-driven ones. The combination of competitiveness and innovation strategies opens a new field of policy interventions. At the same time, territorially-focused labour market and social welfare policies progressively substitute the distributive cohesion family of policies.

Endogenous knowledge and private and social entrepreneurship resources are critical success factors of competitiveness-driven regional experiments. The exogenous promotion of diversified spaces is possible but challenging considering the acute competition on attracting FDI investments that the new globalisation trends are generating.

In low density rural areas not linked to globalised territories, competitiveness-driven regional policies are a special case of development strategies (development economics

is back again). Sometimes, hidden and non canonical combination of resources can be generated allowing for increasing returns experiments of value creation. But generally local development strategies should accommodate very low density patterns of human life, recreating social overhead capital and mobility models.

In unbalanced regions which combine high and low density territories, the available evidence shows a lot of configurations to face the global economy. “City-regions”, “gateway cities”, “strong regional innovation systems” or “cluster networking” are alternative models to territorial competitiveness. The integration of low density rural areas is important in order to avoid the marginalisation of these areas, particularly in what the access to knowledge resources is concerned. The evidence also says that governance problems are critical, independently from the degree of decentralisation and political attribution that regions have. Distributive cohesion policies gave to local authorities a prominent role of leadership and of catalysers in implementing regional policies. On the contrary, competitiveness-driven regional policies ask for new public-private partnerships, particularly knowledge and entrepreneurial-led ones, in which local authorities are simple local facilitators. At the same time, new coordination problems arise in order producing positive externalities.

We already know a lot, but a lot remains to be tested and assessed.