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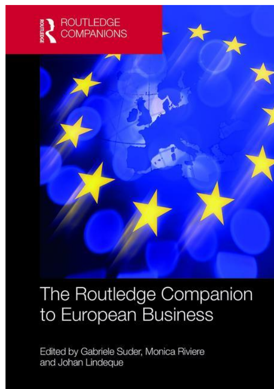

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Gabriele Suder, Monica Riviere, Johan Lindeque

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REGIONALISATION AND THE EUROPEAN PROJECT

Bruce Wilson

Introduction

One of the remarkable features of the European Union (EU) has been its decision that member states distribute resources across national boundaries, from the wealthier nations to the poorer. The purpose of this distribution has been variously to assist member states to redress regional inequalities, to strengthen competitiveness and to enhance the efficiency and innovative capacity of the Single European Market. While this has been an intergovernmental process, essentially, the progressive development of the policy and its instruments over 40 years has been targeted increasingly at engaging with European business.

Both in its processes, and in its practical impact, the EU's regional policy continues to be a central part of the overall framework of the EU's approach to developing a supranational political and economic entity. It accounts for around one-third of the EU's expenditure and involves complex challenges of focusing and redistributing resources from some member states mostly to poorer regions in other nation states. Since 2014, there has been much stronger linkage between the strategic objectives of Europe 2020, the EU's overarching strategic framework for this period, with a focus on building the 'Innovation Union', and the commitment of the European structural funds, which is the principal means for the implementation of the regional policy (see Foray et al. 2012).

While the commitment of expenditure from the structural funds has been managed through institutional negotiation, the direct and indirect implications for business have been very important. The sums involved have themselves constituted a significant proportion of investment, often leveraging other injections of resources, and the practical project outcomes have provided infrastructure to facilitate business access to markets, improved access to energy, enhanced skills for employees and, more recently, direct incentives and support for innovation (see EC 2014a, 2014b).

This chapter provides an introduction to EU regional policy, its role in promoting a more integrated Single European Market and on developing infrastructure to promote competitiveness, particularly for SMEs. It concludes with an outline of the current emphasis on public-private partnerships to promote innovation.

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EU regional policy: The background

The existence of regional inequalities was recognised in the earliest days of the European Economic Community, in the Treaty of Rome in 1957. In 1961, a Conference on Regional Economies prompted investigations which led to the first European Commission Communication on Regional Policy in 1965. The Directorate General for Regional Policy was established in 1968 with the purposes and parameters of regional policy being articulated in European legislation from the 1970s, reflecting a moral imperative to address inequalities. In keeping with the EU's 7-year multiannual financial frameworks, particular iterations of regional policy have been developed for each successive multiannual period since 1975. In 1975, the European Regional Development Fund (ERDF) was established to provide resources for regions to become more competitive, particularly in those areas dependent on agriculture, industrial change or structural under-employment. However, as an indication of the slow evolution of regional policy, member states retained ultimate control of the Fund, choosing themselves how their share of the ERDF would be allocated to the regions (see EC n.d.; Dudek 2014; and also Hooghe and Keating 1994).

This arrangement left room for member states' priorities to intrude into funding decision-making rather than the wider European objectives. In 1985, the President of the European Commission, Jacques Delores reported that disparities amongst regions were widening. This led to a further iteration of policy in 1988, emphasising that redistribution between richer and poorer regions across the different member states of Europe was needed in order to support and to mitigate the effects of the further economic integration that was planned as part of the development of the Single European Market. This led to three major reforms to regional policy:

legally (the use in a Treaty of the specific wording, 'economic and social cohesion');

financing (now three structural funds, with reinforced emphasis on the ERDF's role in addressing regional imbalances); and

regulatory (focused on five priorities, multiannual programming, involvement of relevant regional and local authorities in decision-making within member states, and ensuring that European funds were additional, not used to substitute for member state expenditure).

This was also a period when the administrative dimensions of regional policy implementation were subject to fierce debate (see Dudek 2014). For a start, the determination of regions for policy implementation purposes did not mirror the existing administrative boundaries within member states. Overall, there are approximately 270 EU regions. Far from being self-evident, this has been very much a contested issue. In the first decade or so, member states retained control over the designation of EU regional policy areas. However, in 1988, the European Commission achieved Council support for the determination of regional boundaries at EU level, with consequences for which regions became eligible for one category of support or not. The structural funds regulation, OJEC No. L185 of 15 July 1988, introduced an EU-wide typology of regions (objectives 1, 2 and 5b) using EU criteria and indicators. Objective 1 areas were determined by top-down criteria (EU averages of Gross Domestic Product (GDP) per head) and the Commission oversaw, and intervened in, the selection of objective 2 and 5b areas (Mendez et al. 2006, p. 588).

For the subsequent decade, there continued to be intense struggle over these processes. In the negotiations for 2000–06, the European Commission exercised considerable pressure to limit the scope of regions benefiting from regional funds so as to enhance their impact. Progress was made with this objective, partly because negotiations ensured that the transition would be measured and without unintended impact on regions from which funds were withdrawn.

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Further reforms occurred in 1993 and in 1996. The Cohesion Funds were established, and funding was increased considerably. From 1988 to 2005, the Union invested more than €800 billion in the 'less favoured' regions with the main beneficiaries being Greece and Portugal.

In 2004, circumstances shifted considerably with the accession of ten additional member states, mostly from central and eastern Europe (and a further two in 2007). The focus of redistribution shifted, as the formula used to allocate resources put the spotlight on many of the new member states. This formula used the measure of GDP per capita; the regions most favoured in the redistribution were those with less than 75 per cent of European GDP per capita, while those with less than 90 per cent were entitled to a lesser allocation. Since 2006, most funding has gone to the regions in the newer member states in Eastern Europe (see EC n.d.).

A new regional policy agenda for Europe

In 2006, three new objectives were articulated for the new 7-year multiannual financial period, 2007–13: to encourage convergence, regional competitiveness and territorial cooperation. Council Regulation 1083/2006, 11 July 2006, provides general provisions on the ERDF, the European Social Fund (ESF) and the Cohesion Fund. Its aim is to promote the 'harmonious, balanced and sustainable development' of European regions, assisting them to address 'economic, social and territorial inequalities, the acceleration of economic restructuring and the ageing of the population' (see EC 2006). The Regulation goes on to define the context, objectives, criteria for eligibility, financial provisions, and the principles and rules for partnerships. With respect to the latter, specific funding has been established to facilitate sharing about the implementation of regional activities. Overall, these resources were to complement the initiatives taken by individual Member States to address regional issues within their own borders. In keeping with the principle of subsidiarity, the EU could act only in ways which went beyond and added value to the action taken by a particular member state or a subordinate level of government within its borders. For example, member states were restricted from using finances from the regional policy to replace existing expenditure. For example. only a small amount of spending on education has been eligible for funding from the Cohesion Fund. However, the Cohesion Fund does support the training of around 10 million low skilled, long-term unemployed and young people each year through various local development initiatives.

The European Commission, through its Directorate General Cities and Regions, has a key role in implementing the policy:

> EU regional policy is carried out by national and regional bodies in partnership with the European Commission, a system known as shared management. Unlike annual national budgets, the regional policy budget is set for seven years, making it inherently reliable and a valuable resource for private investment to draw upon … The Commission works with the EU countries as they draw up partnership agreements outlining their investment priorities and development needs. They also present draft operational programmes (OPs) breaking down the objectives into concrete areas for action. These can cover entire countries and/or regions and can include cooperation programmes involving more than one country. The Commission negotiates with the national authorities on the final content of these investment plans.
>
> All levels of governance, including civil society, should be consulted and involved in the programming and management of the OPs. (EC 2014a, c)

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Competitiveness was improved, for example, through construction of new motorways, railways or broadband, which facilitated access to markets, and increased speed to market, as well as improving the supply of more skilled labour. Insofar as employment increased from these initiatives, so also did the capacity for local consumption.

The Directorate General manages two of the major funds, the ERDF (easily the largest fund, heavily concentrated in the regions with lowest GDP/head) and the Cohesion Fund (co-finances transport and environment projects in member states whose GNP is less than 90 per cent of the EU average), as well as a fund directed towards candidate countries to develop transport networks and environmental infrastructure. The Directorate General also manages disaster assistance.

Given the scale of resources, and the intentional geographic spread, it is not surprising that there have been large numbers of outputs. Estimates indicate that 400,000 SMEs were supported financially, and that one-third of the 3 million jobs created in the EU between 2007 and 2013 were attributable directly to regional policy expenditure. With respect to infrastructure, one-third of total expenditure went on transport. This included the Trakia motorway in Bulgaria, completing the route between Sofia, the capital, and Burgos, the country's largest port. Other projects focused on urban transport, reducing congestion and increasing efficiency, such as the reopening and electrification of the line between Nantes and Chateaubriant in France (see EC 2016).

For the 2007–2013 period, the Cohesion Fund could be allocated to projects in Bulgaria, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. Spain was eligible to a phase-out fund only as its Gross National Income (GNI) per inhabitant was less than the average of the EU-15.

Hence, this iteration of regional policy encompassed a complex interplay amongst initiatives intended to facilitate economic competitiveness in poorer regions, and improve social cohesion and stronger recognition of territorial connections across borders. The Single European Market benefited from the strengthening of the poorer parts of the EU to both produce and to consume successfully as part of the largest marketplace in the world.

In addition, a major initiative of the Cohesion Fund in this period was to enhance environmental sustainability across the EU and its member states. The Europe 2020 Strategy has a target to achieve 20 per cent of its energy consumption from renewable sources. To achieve this target there had to be significant investment in solar and wind energy in southern Europe, the North Sea coast and along the Atlantic by both private and public sectors. More funding at local and regional levels was required also to facilitate progress in treating waste water in particular in the southern and eastern member states.

When the 2007–13 round of regional policy implementation was launched, there was considerable optimism about the prospect that these initiatives would lead to greater convergence in the economic and social standing of European regions, and of the Single European Market as a whole. These were predominantly public-sector initiatives, but their intent was to stimulate and facilitate business expansion throughout Europe. In this context, regional policy needs to be seen alongside the Schengen Treaty and the Eurozone as a key means of facilitating the conditions for effective European-wide movements of people and goods. To achieve the required outcomes of the Europe 2020 Strategy, there needed to be close coordination between the Europe 2020 Strategy, regional policy and other EU policies so that initiatives were not implemented in isolation. The intention was that, over time, the products and services of poorer regions would be able to compete in the wealthier areas of Europe, the incomes and living standards of their populations would improve and their markets would offer similar opportunities for consumers as in the wealthier regions. By 2020, when Europe was to be 'smart,

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sustainable and inclusive', it was anticipated that the current disparities revealed in the Fifth Report on Economic, Social and Territorial Cohesion (see EC 2010) should be reduced greatly.

The impact of the global financial crisis

All the hope and expectation of the 2007–13 financial period was dashed by the impact of the global financial crisis. Not only did it lead to deep crisis in the European banking system and to a decade of very low or negative economic growth, it halted and even reversed the progress made towards regional economic convergence. A report released in April 2017 has demonstrated that the crisis has jeopardised almost two decades of progress towards greater EU cohesion, interrupting the convergence process and undermining most of the earlier economic advances (see EC 2017). The analysis has shown that not all the poorer regions of Europe have been affected in the same way, and that structural reforms can make a difference. As in earlier OECD work (OECD 2009), it was found that regions within member states often have greater similarity with regions in other member states than they do with their national macroeconomic profile. However, the capacity for business to work efficiently in some regions is shaped very much by national policies.

There has been some argument that the failure to reduce regional inequality was a result, in part at least, of the design of the policy and its implementation. Some of the criticism has included:

- regional policy was aimed too broadly, a 'catch-all' policy without a clear mission;
- the early focus on transfers had a 'welfare' rather than business development agenda, which meant there was insufficient focus on growth;
- the complex supranational intervention meant that the policy instruments were inadequate to achieve the kind of intervention needed in local economies;
- these instruments meant that the programmes were excessively complex and bureaucratic to administer, compounded by limited capability in the newer member states (especially);
- it was difficult to demonstrate conclusive benefits, particularly to economic growth;
- governance arrangements were often distant from programme implementation, especially in those circumstances where national management committees were not well connected with regional authorities;
- funding opportunities were too complex, illustrated by the number of funds, their distinct yet overlapping purposes, and the requirement for matching funding; and
- it is a challenge to maintain an effective multi-layered intergovernmental, multi-annual, cross-sectoral system of monitoring and accountability (see EC 2017; see also Bachtler et al. 2017; and Fratesi and Wishlade 2016).

This all means that there continue to be significant inequalities across European regions. Even after the decade of growth of the 2000s, the wealthiest regions of the EU had eight times the growth of that of the poorest regions. There is also wide disparity in transport infrastructure across the regions of the EU. Many of the central and eastern member states do not have direct access to motorways, air transport or high-speed rail, which lowers their employment rates and GDP per head as companies struggle to bring their goods and services to market at a competitive price. Broadband has assisted many of these member states to gain access to EU-wide markets and even new global markets. However, broadband across the EU is far from universal, despite the current priority on the implementation of the European Digital Single Market. Some member states (such as Romania) have as few as 45 per cent of their households with a

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broadband connection, while in the Netherlands, 91 per cent of households have a broadband connection. This has led to calls for more of a coordinated approach to the investment and delivery of infrastructure across the EU (see Bachtler et al. 2017).

The new priority on innovation

In the final years of the 2007–13 EU budget period, there was intense debate over the priorities and focus for the 2014–2020 period. The overall strategy, Europe 2020, continued to set a clear context for these discussions, together with a new urgency about how the structural funds, specifically the ERDF and the Cohesion Fund, could be entwined more closely with other related policy areas, and become integral to stimulating economic growth. A new College of Commissioners and a new EC President, Jean-Claude Juncker, had brought new energy to bear on 'jobs and growth' and, notwithstanding a slight budget cut, the regional policy structural funds continued to be a major source of funding to contribute to these objectives, throughout Europe. As noted by one Member of the European Parliament, 'Cohesion funds will be changing from a compensation or transfer-based approach into a targeted investment instrument based on knowledge, sustainability and jobs' (EC n.d.)

Hence, the conceptual framework for the implementation of the new regional agenda is fundamentally different from that which has been adopted in previous funding periods. The new orientation has been captured in the slogan 'smart specialisation', or RIS3 (regional innovation smart specialisation strategies). Interestingly, the new approach has its origins in the European Commission's Directorate General for Research and its concern to strengthen business investment in research and innovation, well before the urgency of economic malaise had been recognised.

In the mid-2000s, well before the financial crisis, business investment in research and development was 30 per cent less than that in the United States. The Commissioner for Research convened a group of economists to advise on an approach to ensure that knowledge became a critical resource for growth (see EC 2009). However, the agenda quickly became much larger:

> The new situation thus calls for a more complex agenda to address both the new matters at hand (structuring policy response to some urgent and global challenges; managing the new financial constraints) and the original mandate from the Commission (improving general conditions for R&D and innovation). One should note that the various parts of the agenda are completely intertwined: i) only an effective and efficient system of research and innovation would allow Europe to successfully respond to the global challenges posed above; ii) reciprocally, the seriousness of these challenges may foster collaborations between likeminded countries to credibly commit to R&D programs that need to be launched to address the global problems; iii) the mobilization of such resources, however, is likely to be adversely affected by the financial crisis' impacts on the fiscal situation of the EU's Member States. (Foray 2009, pp. 7–8)

The initial work of the EU's science-business group extended quickly into collaboration with the Organisation for Economic Cooperation and Development (OECD). A new policy framework was developed in order to focus European regional authorities on processes for increasing research and development activity, reducing fragmented initiatives across the EU and promoting regional innovation systems. The EU–OECD working party examined both the European experience of place-based innovation systems and the evolving character of global value chains (GVCs) with the conclusion that EU structural fund investments needed to be focused on the

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application by regional businesses of those knowledge assets within a region that had potential to be successful in global markets.

This was a dramatic shift for the EU. The policy parameters shifted from enabling firms in poorer regions to trade across Europe, to enabling companies from all European regions, including the poorer ones, to be more globally competitive. The sometimes radical, contemporary restructuring of GVCs carries threats but also new opportunities for companies and regions which have seen themselves previously as being tied to a particular sector or phase in the value chain. Whereas value chains used to be relatively linear, through various phases of production and distribution, they are now much more flexible. Specific activities that have been integral to a particular production process (design or component production, for example) can now be applied to the production of other kinds of goods and services. Production processes have become more dispersed internationally because companies relocate activities through a network of their affiliates and independent suppliers. They do this in order to maximise efficiencies, either horizontally or vertically, in the links between various production activities and markets (see OECD 2013).

Hence for 2014–20, the focus on innovation took centre stage. 'Smart specialisation' is central to the new policy approach, its importance reflected in the condition that a Smart Specialisation Strategy be adopted in order for a region to qualify for the structural innovation component of the ERDF. This ex ante conditionality was very effective in that more than 200 regional and national RIS3s were generated in the first 18 months of the programme (see EC JRC 2017).

In this context, smart specialisation becomes relevant as regions can analyse their core assets, specifically those in which they have a comparative advantage, and seek new market opportunities which result from the more dispersed and flexible GVCs (see OECD 2012). In other words, place-based innovation becomes shaped by the emerging global opportunities. Focusing regional knowledge assets (scientific and technological, as well as applied) on emerging global niche markets (specialised 'diversification') is a key objective of the EU's smart specialisation process.

Alongside the requirement that regional authorities develop an RIS3 in order to be eligible for structural innovation funds, the EU has made available a range of resources to assist regions in their development of an RIS3. In summary, this is an engaged planning process which brings together 'entrepreneurially minded public sector officials with business, academic and community participants to examine local (knowledge) assets and identify new opportunities in restructured value chains. 'Entrepreneurial discovery' enables knowledge-based assets (not industries) to be the central focus of analysis (see Foray 2014). While the public sector plays 'a catalytic role' in driving innovation and growth in a particular place (see Mazzucato 2013), the inclusion of companies in a region's entrepreneurial discovery process is crucial. Their intelligence about local production processes and about potential markets is critical to a region understanding where its distinctive knowledge assets are (not always in a science institute), and to identifying the entrepreneurial opportunities (see Foray et al. 2012).

In a number of respects, these reforms were directed at overcoming some of the criticisms of previous iterations of the regional policy. The emphasis on entrepreneurial discovery was a means to put much more emphasis on the insights and role of regional stakeholders rather than national management committees. These processes also required the direct engagement of business ('entrepreneurial') representatives in the development of a region's Smart Specialisation Strategy.

The emphasis on cross-regional collaboration has also been a significant variation from the previous 'vertical' orientation of regions to national management committees or to Brussels. The S3 Platform facilitates peer review workshops in which a number of regions can meet and

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share insights into the process of implementation. The S3 Platform also facilitates cross-regional collaboration, particularly where regions have similar knowledge assets, and can strengthen the overall European competitive advantage through collaboration rather than competition. Through its various activities, a large network of regions and individuals committed to the successful evolution and implementation of smart specialisation has formed to promote mutual learning and transnational collaboration (see EC JRC 2017).

Considerable effort has been invested in building 'horizontal' linkages with other initiatives, such as Horizon 2020, the work on digital Europe, key enabling technologies, creative industries, green growth, social innovation, regional research infrastructures and science parks. Science parks are seen as a key infrastructure resource for research-intensive enterprises, as well as facilitating interaction amongst firms with similar interests. They play a key role with start-ups and spin-offs in the provision of support services and visibility for high-tech firms, constituting an 'eco-innovation' milieu (see Foray et al. 2012, p. 76).

Universities and R&D centres are integral partners in the entrepreneurial discovery and innovation process. The EU approach clearly acknowledges the increasing intensity of knowledge as a crucial economic resource, and the immense potential of its digitisation for generating new market opportunities. Universities contribute skilled labour supply and research expertise, and also play a part in regional analysis, governance and global connectedness.

While there is a requirement that an RIS3 will be produced, there is very clear acknowledgement of regional differences. Specific issues arise about administrative and workforce capability, the distribution of R&D resources, infrastructure and previous experience with enabling technologies. Wider lessons of EU regional policy underscore the importance of sensitivity to multi-level governance, encompassing not only the EU and member states, but also regional authorities themselves, cross-border authorities and major regional institutions such as supranational regional investment houses. Resources to support initiatives such as clusters, science parks, university–business links, start-up financing, green growth and social innovation are all available, but none is presumed to be integral to an S3 Strategy.

Hence, not all regions are expected to be able to generate strategies with equivalent depths of analysis, nor to demonstrate the same readiness for collaborative leadership or technological advance. The EU has promoted various case studies of particular regions that indicate the value of the smart specialisation process. Flanders, southern Sweden and the Basque regions have all developed smart specialisation strategies which provide road maps both for regional governance and for the investment of funding from the EU's Cohesion Fund.

Ironically, the strong emphasis on sciences, research and innovation can be counter-productive to the wider agenda around regional policy. A region's R&D capability is shaped by pre-existing science and innovation capability, leading in turn to greater disparity. Less developed regions need to build more comprehensive innovation agenda with a primary focus on education and capability more so than on research intensity.

Another challenge for the next iteration of regional policy is the priority that will be placed on cross-border initiatives. Already, regional policy initiatives are presented as key levers for the implementation of the wider 'smart, sustainable and inclusive' strategy. It seems likely that projects that enhance cross-border activity will gain stronger support.

Conclusion

This chapter has suggested that EU regional policy is an integral part of the overall programme of the development of the Single European Market, and hence facilitates the environment for businesses to grow and prosper. This in turn is seen as being central to enhancing the living

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standards and prosperity of European citizens, not least in those Central and East European nations that have joined the EU since 2004. Since 2014, the regional policy framework has been extended to promote export and trade not only across the 28 member states, but globally, seeking to leverage key knowledge assets to promote regional business engagement with emerging GVCs.

Key features of the EU regional policy model include:

(a) a coherent vision for the economic, social and environmental future of the city regions and other spatial areas which make up the supranational region;
(b) a willingness of wealthier nations to contribute directly to enhancing the well-being of other nations in their region, albeit with a strong element of self-interest;
(c) recognition of the value of international perspectives in building the Single European Market;
(d) the evolution of policy over 35 years illustrates the importance of openness to negotiation and dialogue about both key concepts and implementation, as very difficult tensions can be resolved over time;
(e) the lessons of EU regional policy underscore the importance of sensitivity to multi-level governance, encompassing not only the EU and member states, but also regional authorities themselves, cross-border authorities and major regional institutions such as supranational regional investment houses;
(f) the importance of effective coordination of different authorities in the same geographic space;
(g) the significance of a comprehensive approach to regional development policies, linking economic, social and environmental concerns so that the outcomes in one domain support those of another.

Far from being an altruistic programme of transfers from the larger and wealthier countries to the poorer, regional policy has been driven by a complex mix of economic, social and political motives. While its economic and social dimensions have been crucial aspects of the outcomes delivered for particular regions, it has also played a key role as an incentive for greater economic integration in the EU more broadly. In its current phase, the priority on innovation emphasises regions focusing on their competitive advantages in an increasingly knowledge-based economy, thus enabling them to gain access to new markets, not only in Europe but also strengthening their international competitiveness in global markets.

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