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Sustainable Local Economic Development

Territorial competitiveness

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Introduction

~~Have the alleged benefits of economic integration been evenly distributed?~~

How is uneven development within the EU likely to affect the competitiveness and further economic and political integration in the EU?

National disparities in the EU

The EU is one of the most developed spaces in the World:

- GDP per capita below that of the USA and Japan...
- But well above any other large area of the world

However, wealth is and has been unevenly distributed across the EU:

- Until recently a core/periphery was visible
- **The core:** Austria, Belgium, Denmark, Finland, France, Germany, Luxembourg, the Netherlands, Sweden, the UK, and Northern Italy
- **The periphery:** Greece, Ireland, Portugal, Spain, and Southern Italy

National disparities in the EU (II)

Recent changes have led to a blurring of the distinction between core and periphery:

- Poor economic performance of some of the countries of the core (Finland, Sweden and the UK)
- High growth in the periphery (Ireland)

National disparities in GDP per capita and unemployment

	GDP per capita 1985			Unemployment	GDP per capita 2000			Unemployment
			rate 1985			rate 2000		
	€	PPS	%	€	PPS	%		
	EUR15=100	EUR15=100		EUR15=100	EUR15=100			
European Union	100.0	100.0	10.7	100.0	100.0	8.4		
Austria	108.4	108.2	4.4	113.0	111.7	3.3		
Belgium	102.3	105.5	8.9	106.2	110.7	8.6		
Denmark	140.7	112.5	5.7	145.3	119.0	4.8		
Finland	135.2	101.6	14.8	112.9	103.7	9.8		
France	117.4	112.0	12.0	102.3	99.0	9.8		
Germany	125.9	117.9	9.8	110.4	106.3	8.3		
Greece	49.2	60.6	9.6	51.0	67.2	11.2		
Ireland	65.9	60.9	10.1	118.9	118.8	4.2		
Italy	91.9	101.5	12.3	89.0	98.7	10.5		
Luxembourg	128.9	131.3	2.5	200.8	187.9	2.0		
Netherlands	109.7	103.4	5.2	111.7	114.0	2.6		
Portugal	29.1	55.1	6.7	50.0	75.7	4.0		
Spain	53.8	70.5	21.1	68.4	83.0	14.2		
Sweden	149.3	113.6	10.4	125.0	104.1	6.4		
United Kingdom	100.1	98.4	7.1	115.2	103.1	5.6		

Regional disparities in the EU

Strong national contrasts hide even greater regional contrasts:

- In 1998, the GDP per capita of Luxembourg was 3.8 times greater than that of Portugal
- Hamburg's GDP was 6.7 times higher than that of Ipeiros (Greece)
- Andalusia and Extremadura had unemployment rates of 32.4 and 30.2%, whereas Salzburg or Belluno had a mere 2.2 and 2.3% respectively.

Internal economic disparities are evident in almost every single country in the EU

- **Italy** (GDP Lombardy 132.5 Calabria 59.2) (Unemployment Trentino 3.8% Campania 25%)

Regional disparities in the EU (II)

Strong regional contrasts also in:

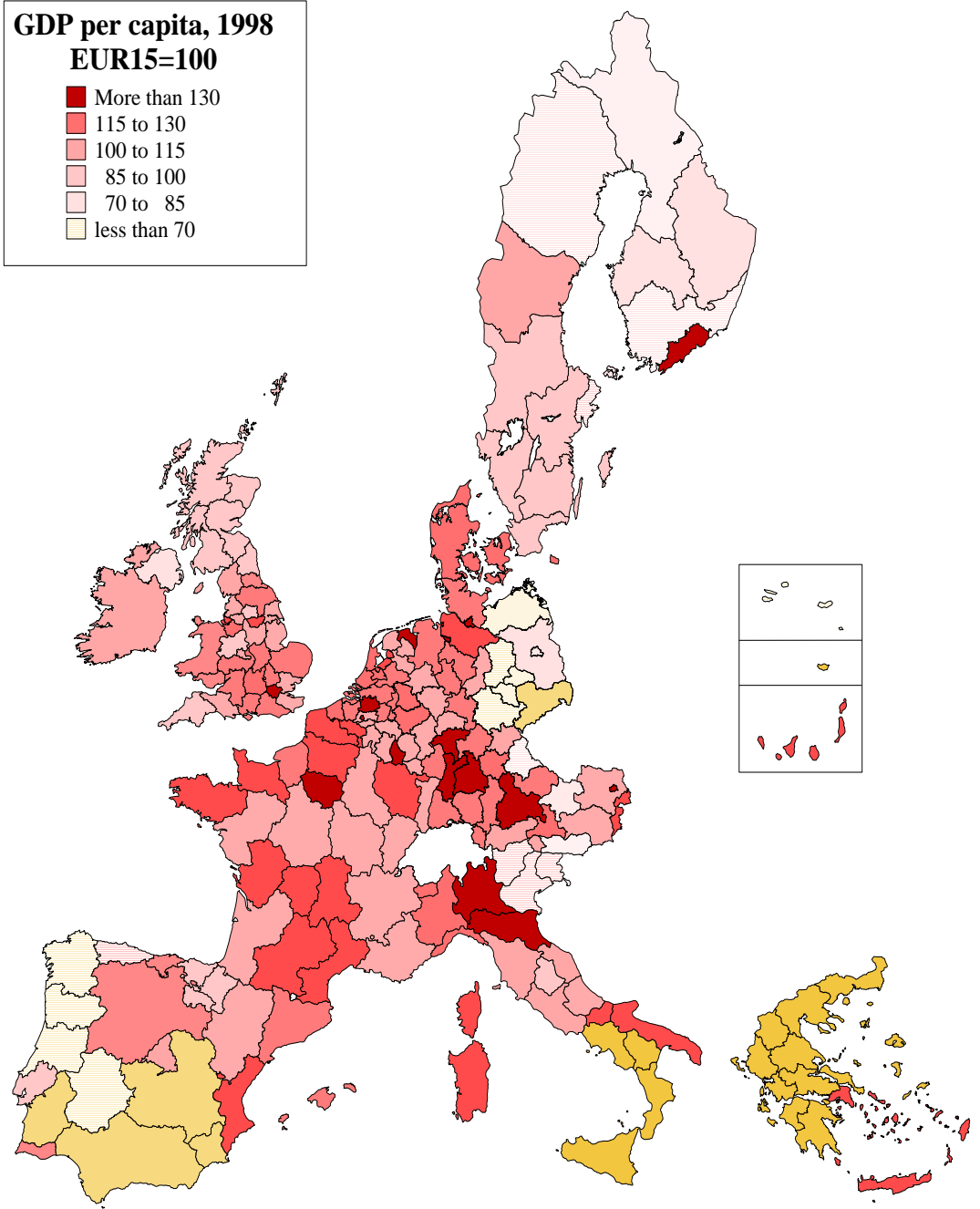
- Portugal (Lisbon and the North vs. the South and Centre)
- France (Paris vs. the rest)
- Spain (Northeast and Madrid vs. South and West)
- UK (South vs. North)
- Germany (South vs. North)
- Sweden (South vs. North)
- Belgium (North vs. South)

No regional contrasts in:

- The Netherlands

GDP per capita, 1998
EUR15=100

- More than 130
- 115 to 130
- 100 to 115
- 85 to 100
- 70 to 85
- less than 70



Factors behind the existence of territorial disparities

Factor endowment:

- **Inherited economic situation:** GDP per capita
- **Quality and quantity of human capital:** Skilled labour, matching skills with labour demands
- **Accessibility:** Infrastructure endowment
- **Innovation:** Generation and assimilation of innovation. Investment in R&D
- **Sectoral structure**

The need for intervention

~~Do territorial differences in factor endowment justify the implementation of European development policies?~~

Is a development policy really necessary?

The economic debate

Endogenous growth theory and new economic geography:

- Greater accessibility, higher skills, and greater capacity to generate and assimilate innovation will lead to the concentration of economic activity
- A development policy is needed in order to counterbalance this tendency

Classical Ricardian trade theory:

- Factor endowment is less important
- Integration leads to a rearrangement of economic activity
- Investment and innovation will flow to low cost areas
- Labour will flow to high cost areas
- Disparities will even out and policies are not needed

The economic debate (II)

Neoclassical growth theories:

- Decreasing returns to scale will lead to convergence
- Even without economic integration
- No need for development policies

Economic theory is inconclusive about the territorial impact of economic integration

The political debate

Economic integration is likely to enhance territorial disparities

A development policy is needed in order to achieve greater economic and social cohesion

This has been the dominating view since the Single European Act

Each additional step towards economic integration has been accompanied by cohesion policies:

- Single European Market ⇒ Reform of Structural Funds
- EMU ⇒ Cohesion Fund

The history of EU development policies

Disregard for supra-national development policies in the 1960s:

- High levels of economic growth (ca. 6% per annum)
- Regional convergence
- Strong national development policies

Establishment of an early regional policy in the 1970s (ERDF):

- Change of the political orientation of European governments
- British membership
- Power struggle between the Commission and the states

The impact of the early regional policy

The early European regional policy failed to correct economic disparities:

- Disparities did not shrink, they expanded during the late 1970s and early 1980s

The reasons for the failure:

- **Lack of financial resources:** Modest amount of funds
- **Lack of continuity of regional actions:** Five different stages between 1975 and 1989
- **Excessive extent of the range of operations and investments:** Projects funded in almost every region
- **Absence of a clearly defined structure and of a system of priorities:** 41,051 projects funded

The principles of the reform of the Structural Funds

The principle of concentration

3 objectives:

- **Objective 1:** Promoting the development and structural adjustment of regions whose development is lagging behind (for regions below the 75% threshold of the EU GDP per capita)
- **Objective 2:** Supporting the economic and social conversion of areas facing structural difficulties (Industrial and rural areas with high-long term unemployment and or high poverty levels)
- **Objective 3:** Adapting and modernizing policies and systems of education, training, and employment

The principles of the reform of the Structural Funds (II)

The principle of programming

- Individual projects should be included within a development plan
- Much greater emphasis of the design and implementation of coherent development strategies through multi-annual programming
- Stages:
 - Regional development plans
 - Community Support Framework
 - Operations programmes

The principle of partnership

- Involving as many actors as possible in the process
- Aim: to achieve close co-operation between the Commission and national, regional, and local institutions

The principles of the reform of the Structural Funds (III)

The principle of additionality

- In order to prevent European development policies from becoming mere substitutes of national development efforts

The principle of efficiency

- To guarantee the correct management and to monitor the efficiency of the implementation of European development actions

The Cohesion Fund

Political belief that EMU is likely to lead to a concentration of economic activity

Cohesion Fund established to provide financial contribution to projects in the fields of environment and trans-European networks

Four beneficiaries: countries whose GNP per capita is below 90% of the EU average

- Ireland
- Greece
- Portugal
- Spain

The efficiency of EU development policies

Development policies are, behind the CAP, the second most important set of policies in the EU

- One third to 36% of the EU budget; 0.38 of EU GDP

Has this effort paid off?

Have the reform of the Structural Funds and the introduction of a Cohesion Fund led to greater territorial cohesion?

The efficiency of EU development policies

Before the Reform, little or no catch-up in the cohesion countries

- No convergence in Greece or Spain
- Slow convergence in Ireland and Portugal

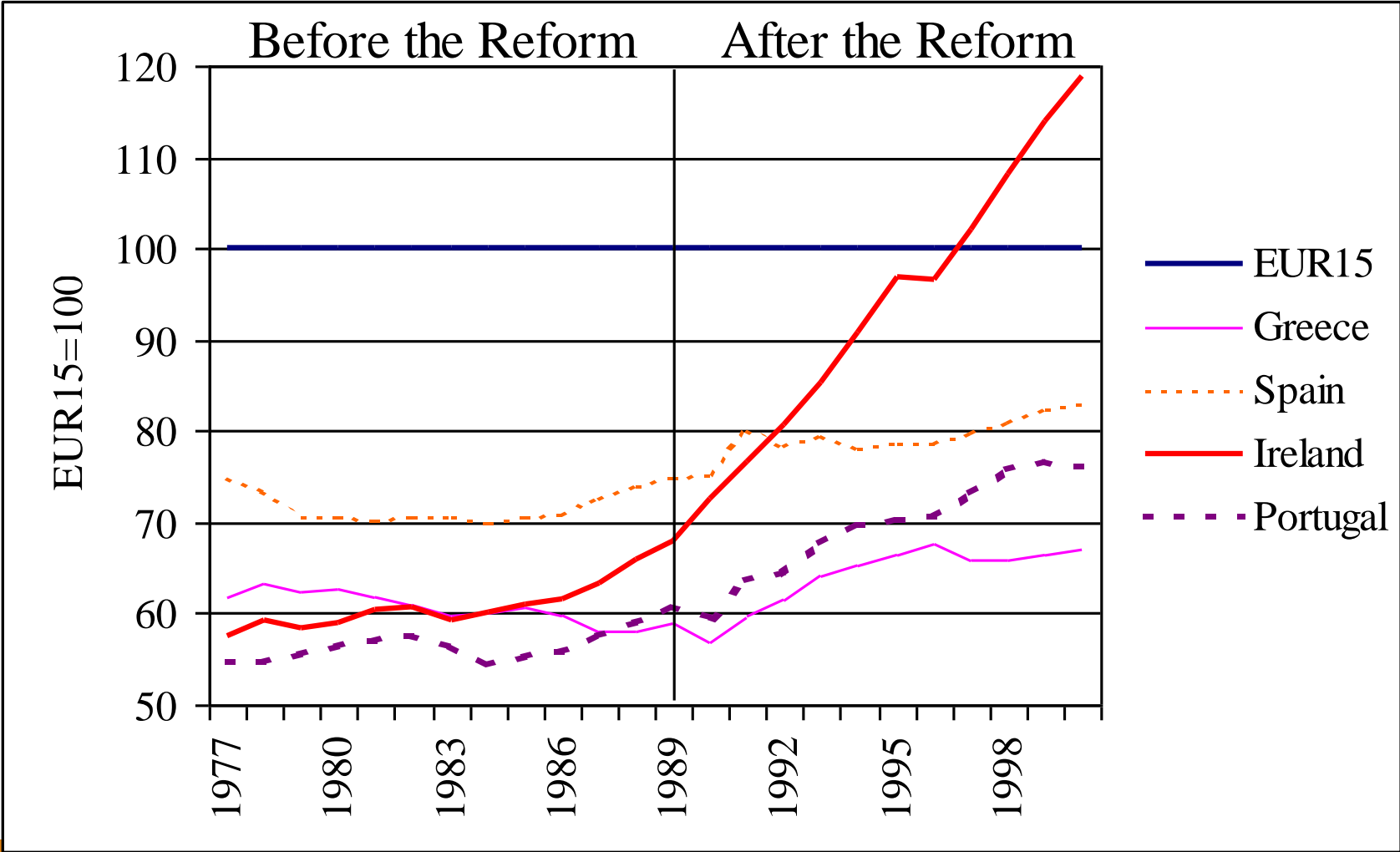
Since the Reform, the four Cohesion countries have converged to the EU average

- Greatest convergence in Ireland
- Lowest convergence in Spain

Convergence has also been fuelled by slow economic growth in the core

- Especially in Finland, Germany, Italy, and Sweden

Evolution of GDP per capita in the Cohesion countries



The efficiency of EU development policies (II)

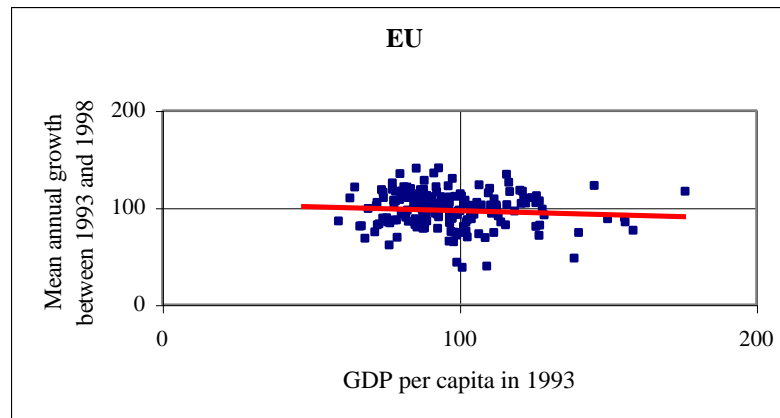
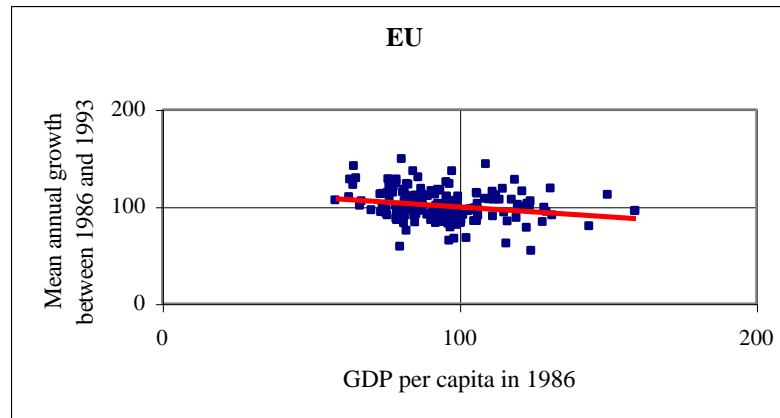
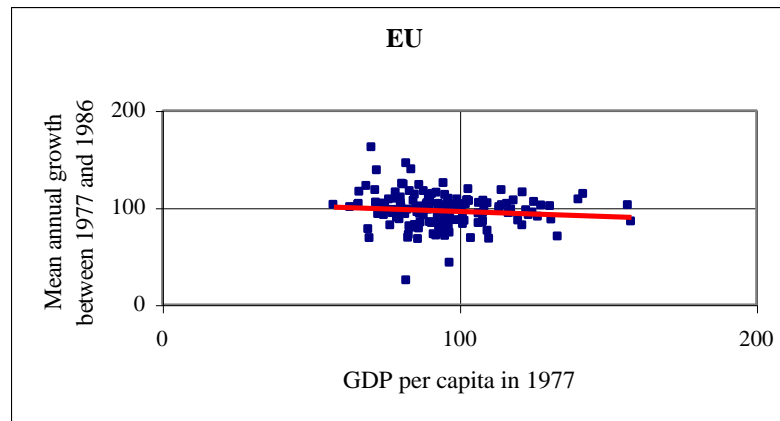
The catch-up since the Reform of the Structural Funds has led some authors to claim that regional intervention in the EU has been a success

The picture is, however, not as simple

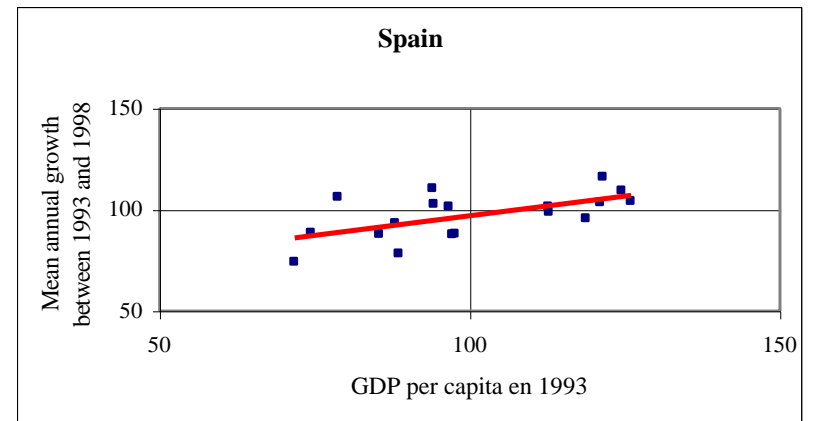
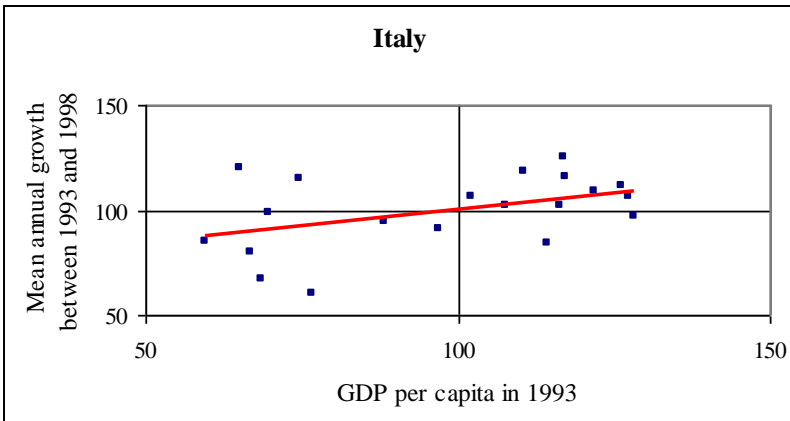
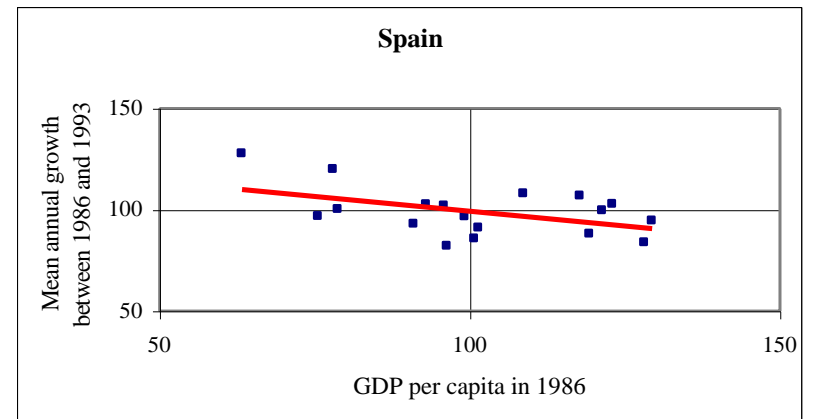
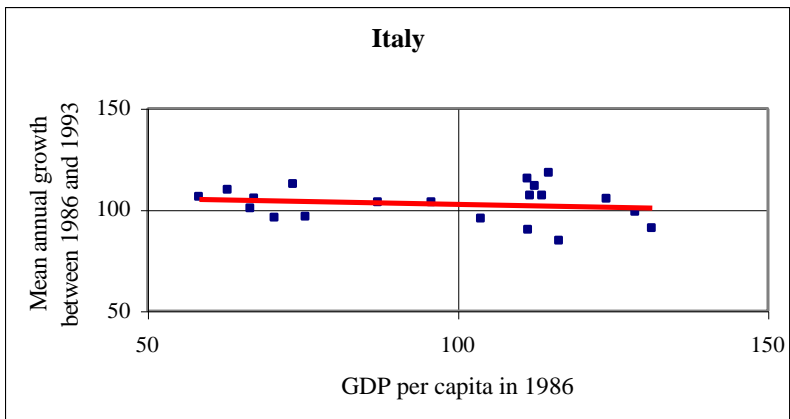
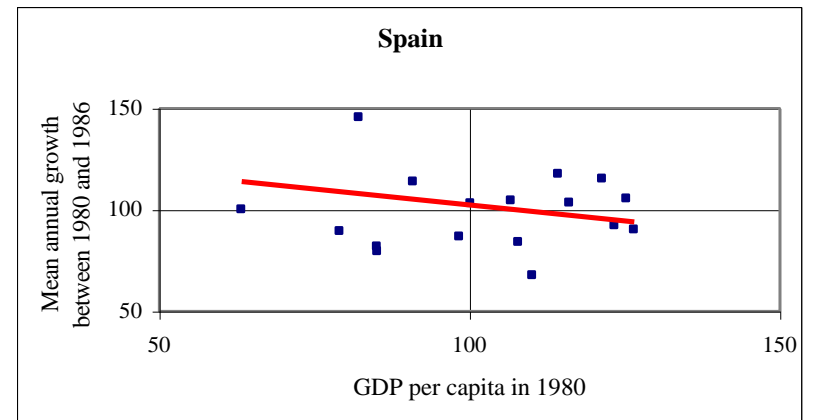
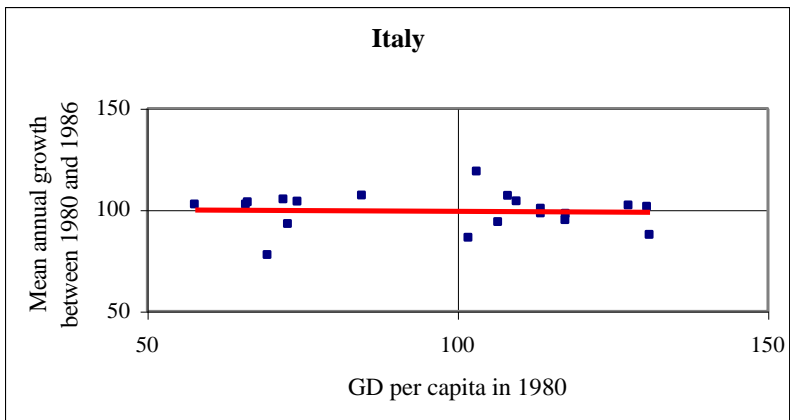
A closer look at development within the Cohesion countries reveals a more complex pattern

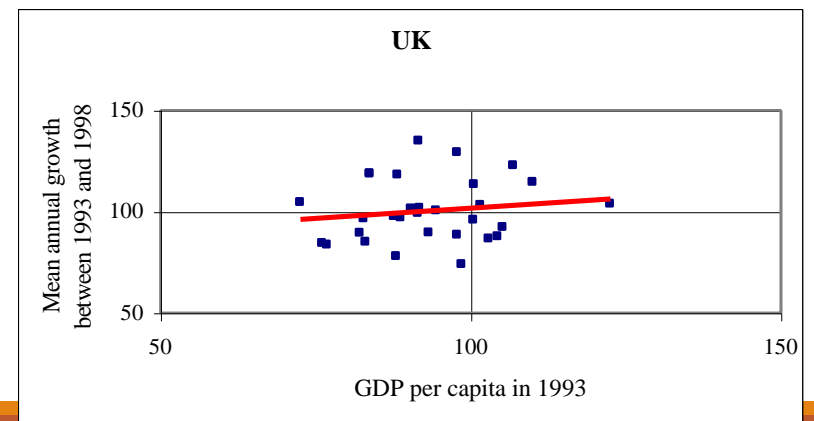
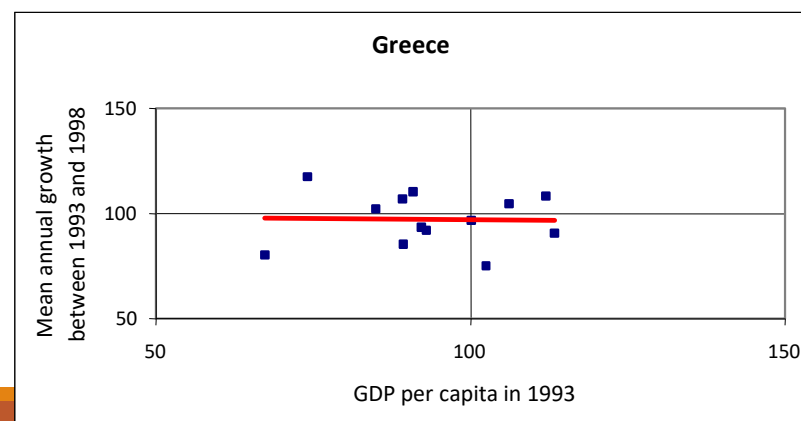
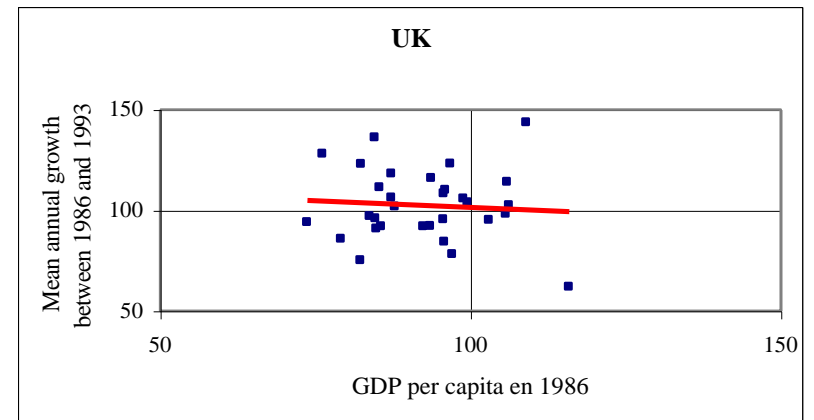
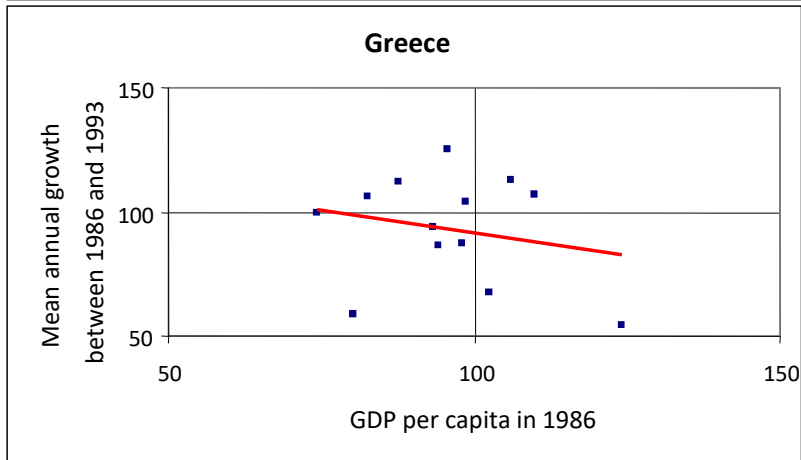
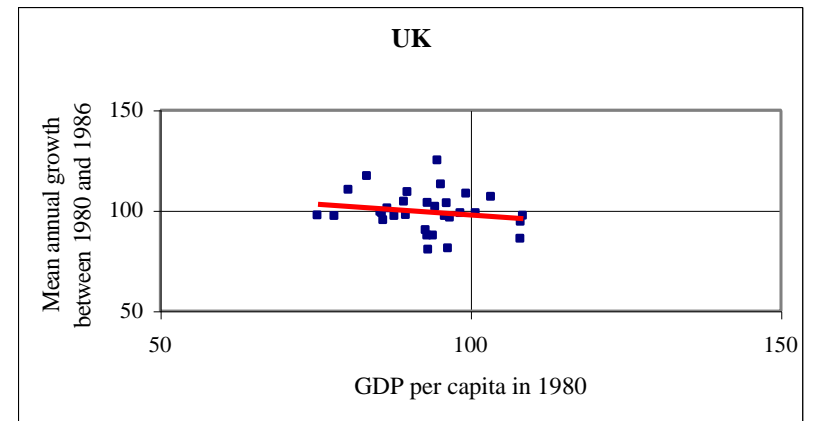
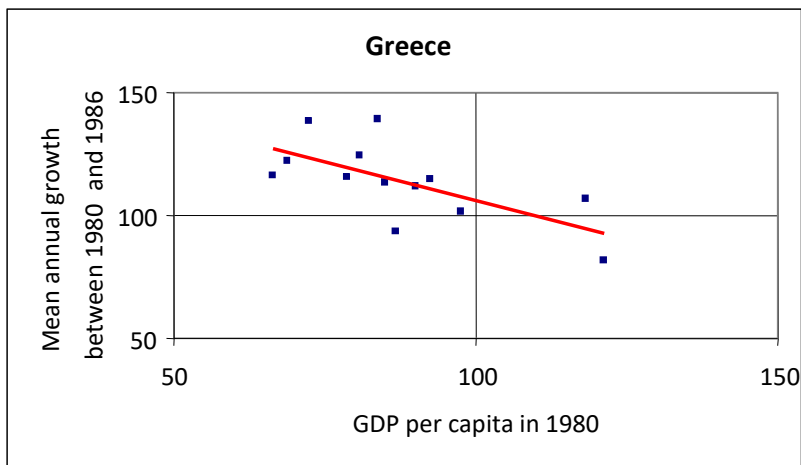
- The higher growth has taken place in some of the most advanced regions (Madrid, Catalonia, Dublin, Lisbon)
- Large concentration of company headquarters, R&D centres, financial, insurance, and real estate
- In contrast, many Objective 1 regions have lagged behind

European convergence



But
divergence
within
states...





The efficiency of EU development policies (III)

~~Many assisted regions have not performed particularly well~~

- Growth in parts of Southern Italy has been sluggish
- Tendency towards greater polarization in many European countries

Since the implementation of the Reform, mixture of national convergence and regional divergence

- Inequalities across States have fallen by 25%, but regional inequalities within states have risen by 10%

The efficiency of EU development policies (IV)

Over time, there has been no change in the Cohesion States

The number of regions qualifying for Objective 1 has remained stable

- If anything, the number has increased
- Many regions of core countries (Merseyside, South Yorkshire, Burgenland) have been incorporated..
- But few peripheral regions (only Abruzzo, with parts of Ireland and Lisbon – among others – being phased out)

The analysis of unemployment trends highlights divergence

- Greater polarization in unemployment rates

Conclusion

European development policies have evolved from a minor and rather haphazard policy in the 1980s to the second most important policy of the EU

Achieving economic cohesion is, however, proven more elusive than expected

- National convergence...
- But regional divergence

There are voices starting to question this degree of intervention, since it may lead to the formation of sheltered economies

Reference and source

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