



ΕΛΛΗΝΙΚΗ ΔΗΜΟΚΡΑΤΙΑ
Υπουργείο Οικονομικών

Globalization, Agglomeration & Convergence: the challenges for Cohesion Policy

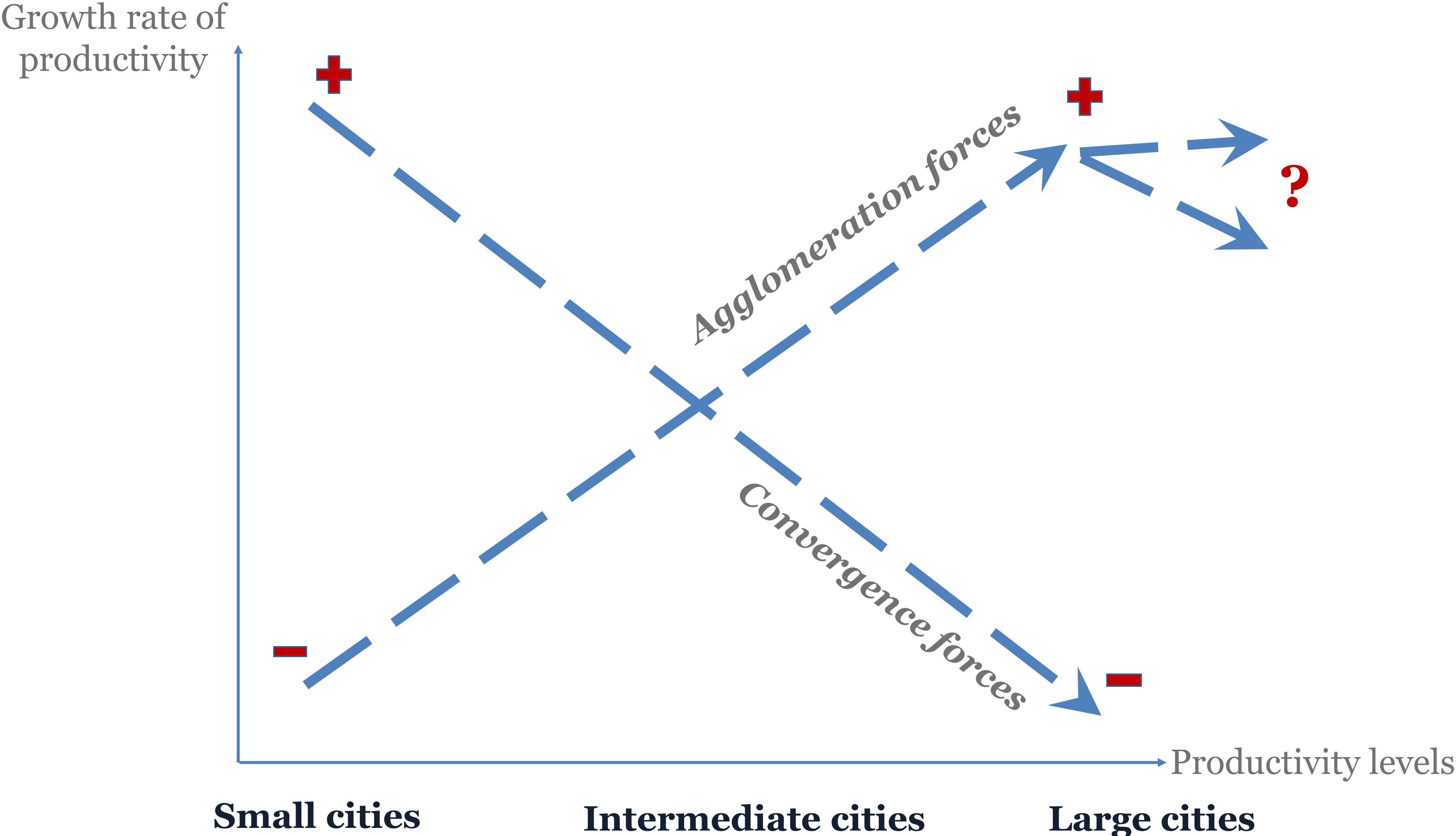
Joaquim Oliveira Martins
(EC and CEPR)



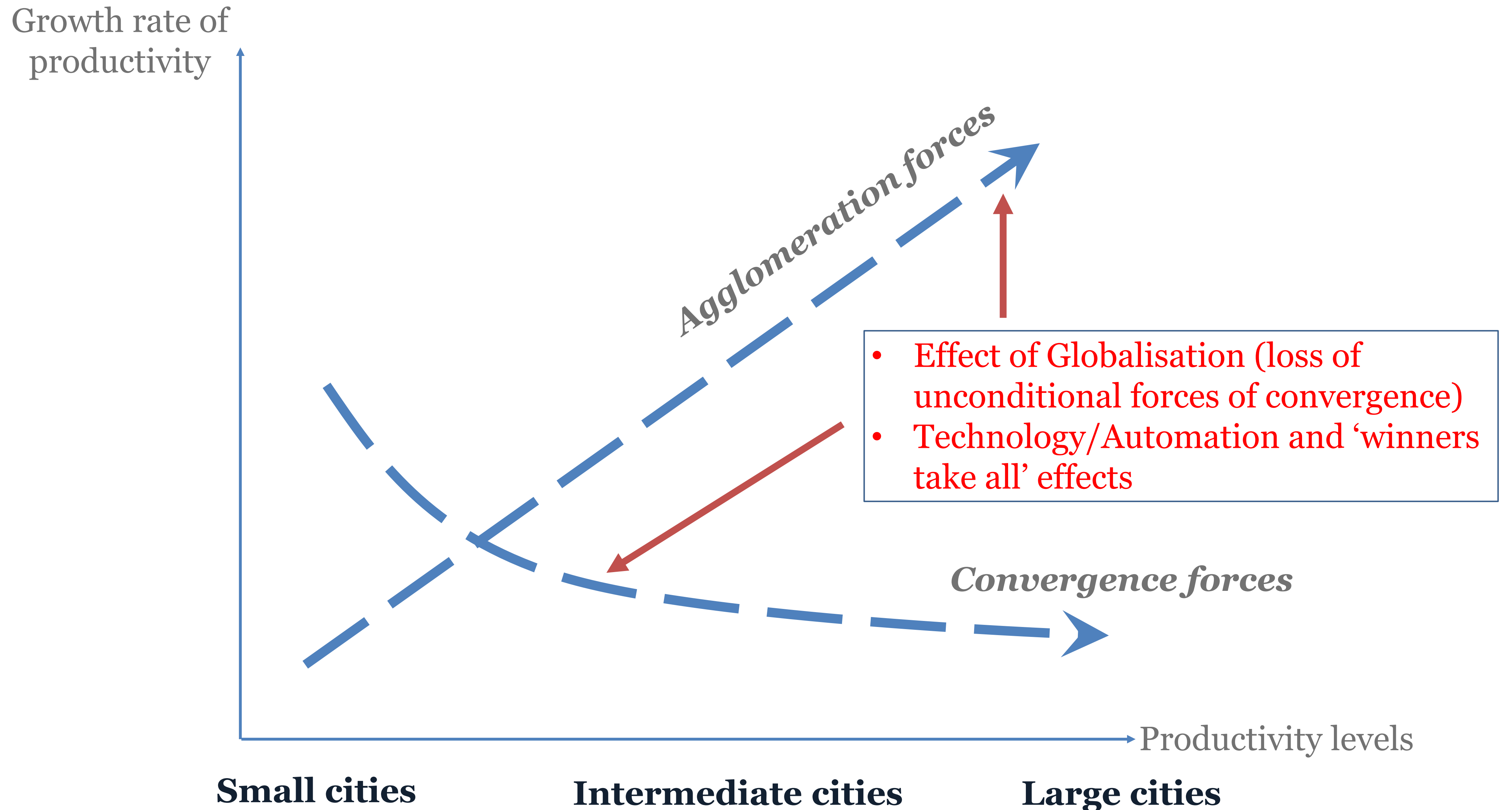
Με τη συγχρηματοδότηση
της Ευρωπαϊκής Ένωσης



Two main forces determining regional productivity growth

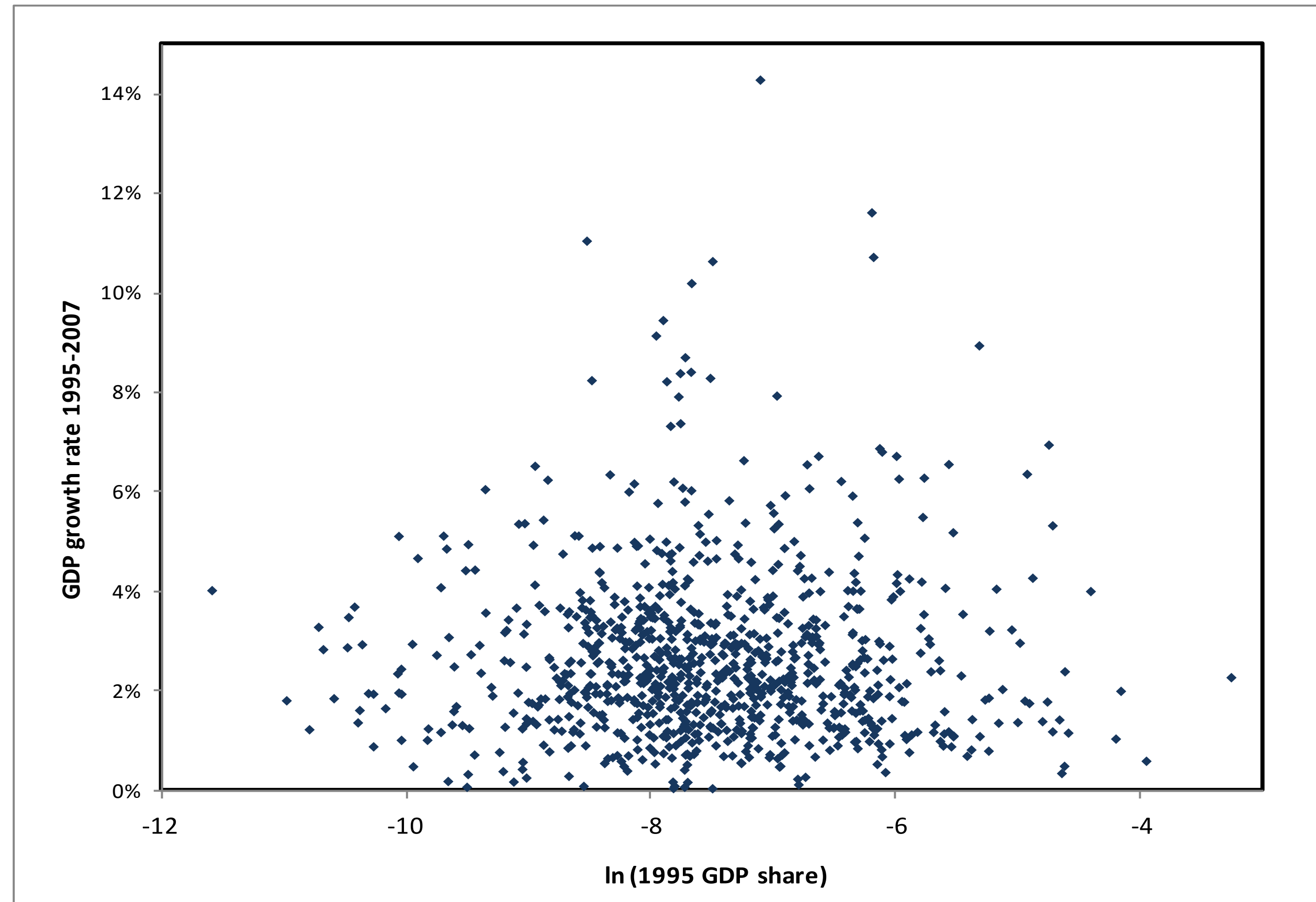


The recent weakening of Convergence forces



GDP growth rates were higher in middle-sized regions

Regional growth rates vs. initial GDP shares by OECD TL3 regions, 1995-2007



This empirical fact is consistent with Cuberes (2010) who finds that the average rank of the fastest-growing cities has been increasing over time.

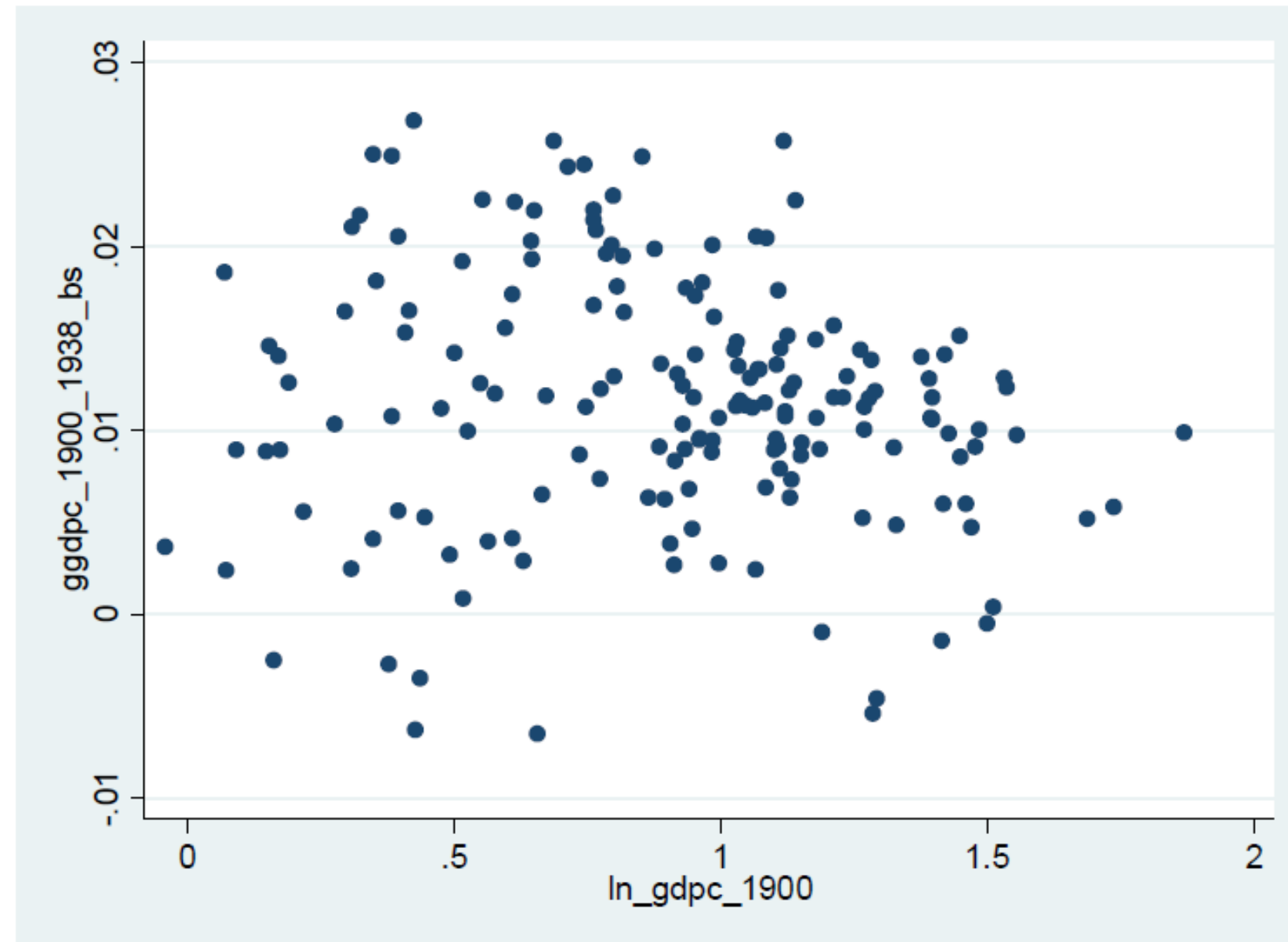
Note: Data are provided at the level of TL3 except for all OECD countries and for TL2 for United States, Canada, Austria and Mexico given data for these latter four countries is missing at TL3. Growth shares are in %.

Source: Authors' calculations using the OECD Regional database

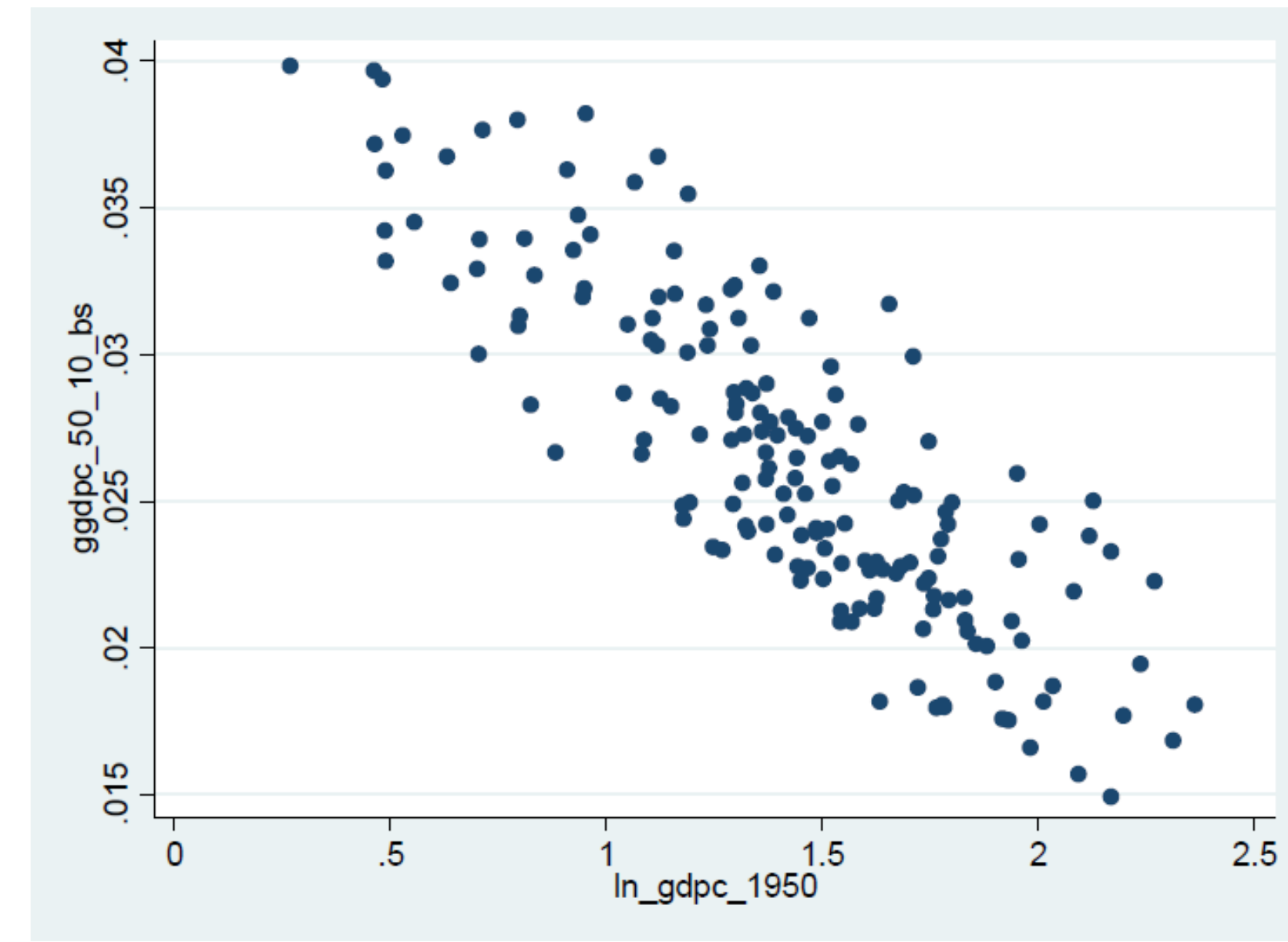
Source: Garcilazo and Oliveira Martins(2015), "The Contribution of Regions to Aggregate Growth in the OECD", *Economic Geography* 91(2), 2015, pp 205–221.

Regional convergence in Europe, 1900-2010

Beta-Convergence 1900-1938



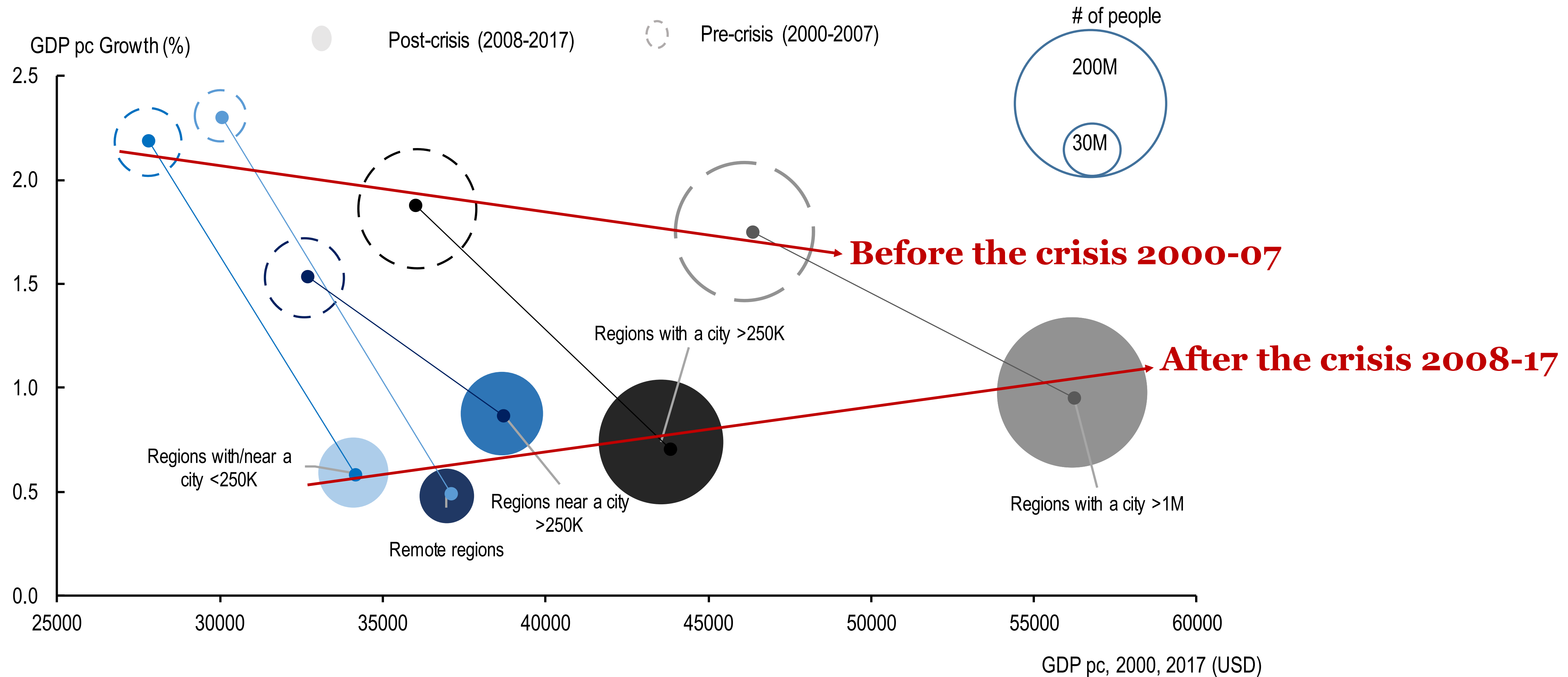
Beta-Convergence 1950-2010



But “... we found a growing disconnection between regions, with the emergence of islands of prosperity out of sync with their hinterland.”

Source: Roses, Joan R. and Wolf, Nikolaus (2021) *Regional growth and inequality in the long-run: Europe, 1900-2015*. *Oxford Review of Economic Policy*, 37 (1). 17 - 48. ISSN 1460-2121

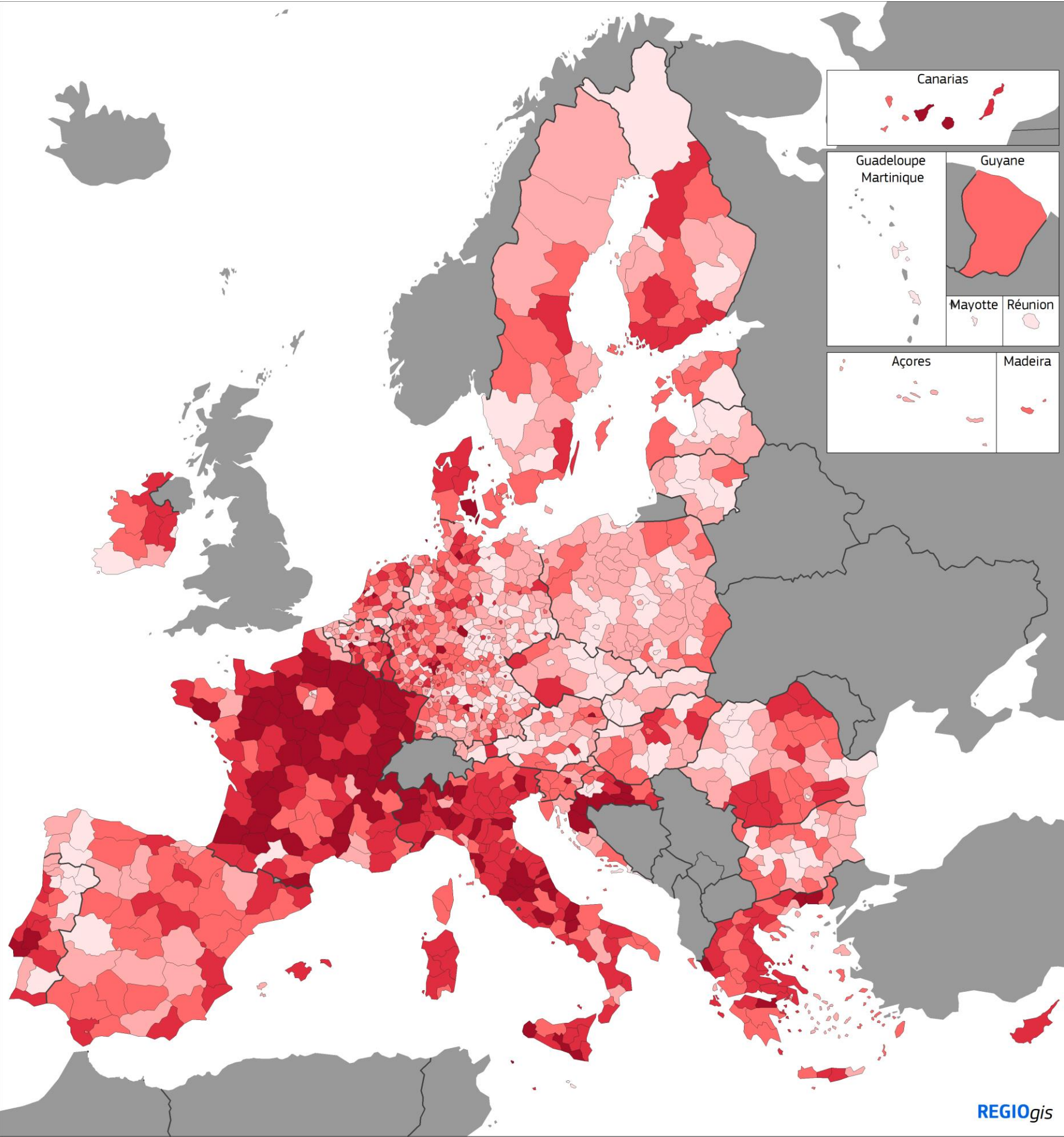
The 2008 Global Financial Crisis stopped convergence trends across OECD regions



Note: Based on available data for 1 530 TL3 regions in 28 countries. GDP is in USD PPP with base year 2015.

Source: Garcilazo and Oliveira Martins (2021), New Trends in Regional Policy: Place-Based Component and Structural Policies, M. M. Fischer, P. Nijkamp (eds.), Handbook of Regional Science, Springer-Verlag.

The risk of falling into a development trap in EU regions



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 9 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

Source: Ianmarino (2023), Cohesion Policy and its contribution to addressing different development needs of regions, EC HLG.

Two polar models to deal with regional divergence

I. **Compensating** the lagging regions and promote labour mobility & migration

→ *This do not seem to work over the long-run and may promote the “geography of discontent” (McCann) or “the revenge of places that don’t matter” (Rodrigues-Pose)*

II. Adopt a **place-based** (or territorial) approach for regional development

→ *But this strategy requires:*

- a. Tailored/differentiated development strategies*
- b. Strong investment in Multi-level governance*

Develop a Productivity strategy based on geography

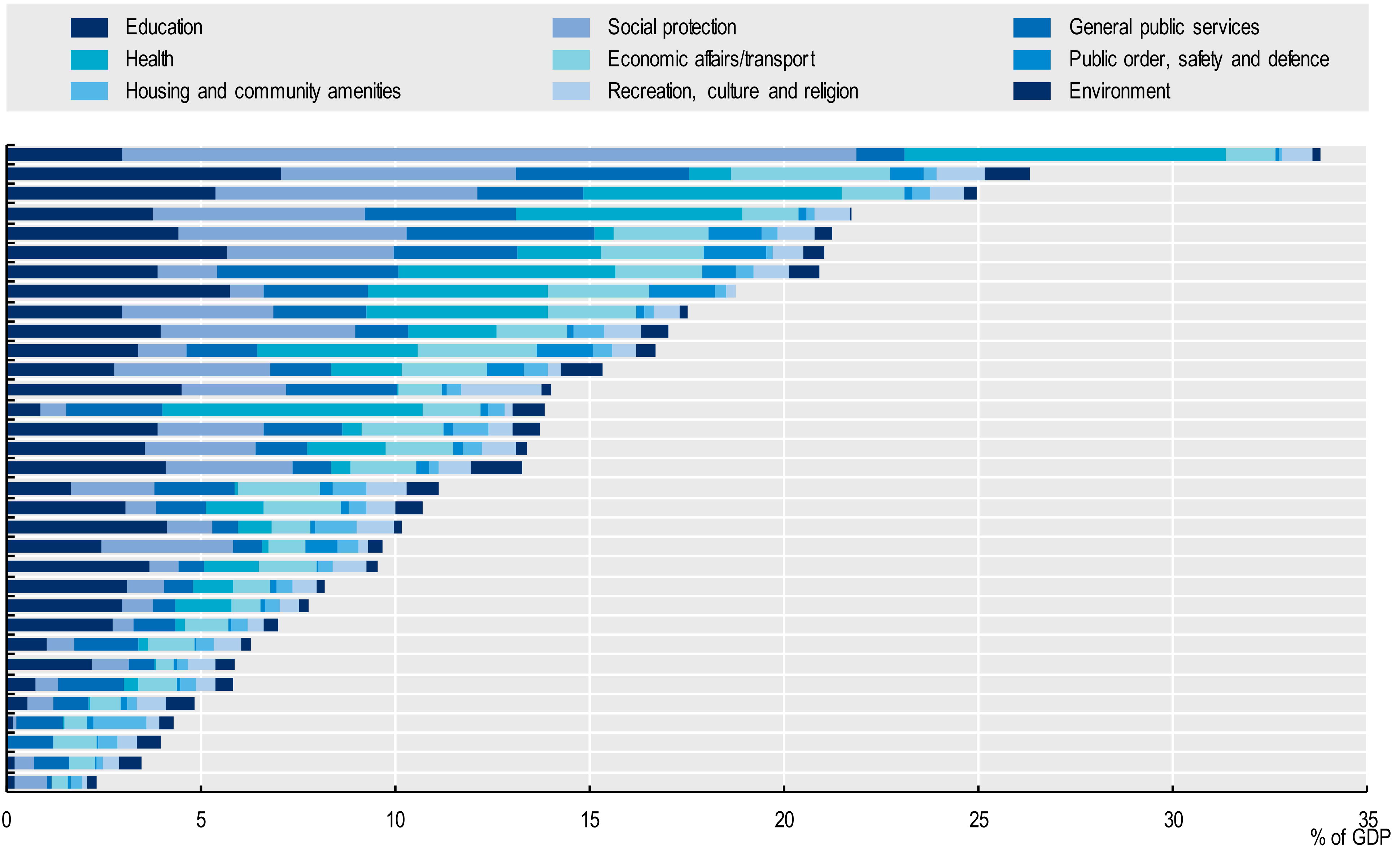
- 1) Promote agglomeration economies in large and **dense urban areas** (urban growth is not a *zero-sum* game). E.g. Transport, Housing & Spatial planning need to be designed at the metropolitan functional scale.
- 2) Promote regional productivity catching-up in the **Intermediate regions & Rural close to cities** (i.e. borrowing agglomeration).
- 3) Address the specific problems of **Remote rural areas**. Very differentiated situations requiring Place-based policies, in particular identifying specific assets/territorial capital. Challenge of developing tradable sectors, so the need for Smart Specialisation Strategies.

Decentralisation & PBPs allow to develop a Productivity strategy based on geography rather than sectors

- Designing place-based policies (PBPs) is a too complex task to be centralised, as a central government cannot have as many policies as different types of cities and regions.
- The central government can become more strategic and should focus on setting the conditions for proper policy coordination & alignment
- From a direct role in service delivery to one of enabling and guiding subnational governments in their new missions
- Monitoring the performance of regions and cities
- Ensuring balanced development of all parts of the national territory

Source: OECD (2019) Making Decentralisation Work: a Handbook for Policy-Makers

Levels of fiscal decentralization in OECD countries



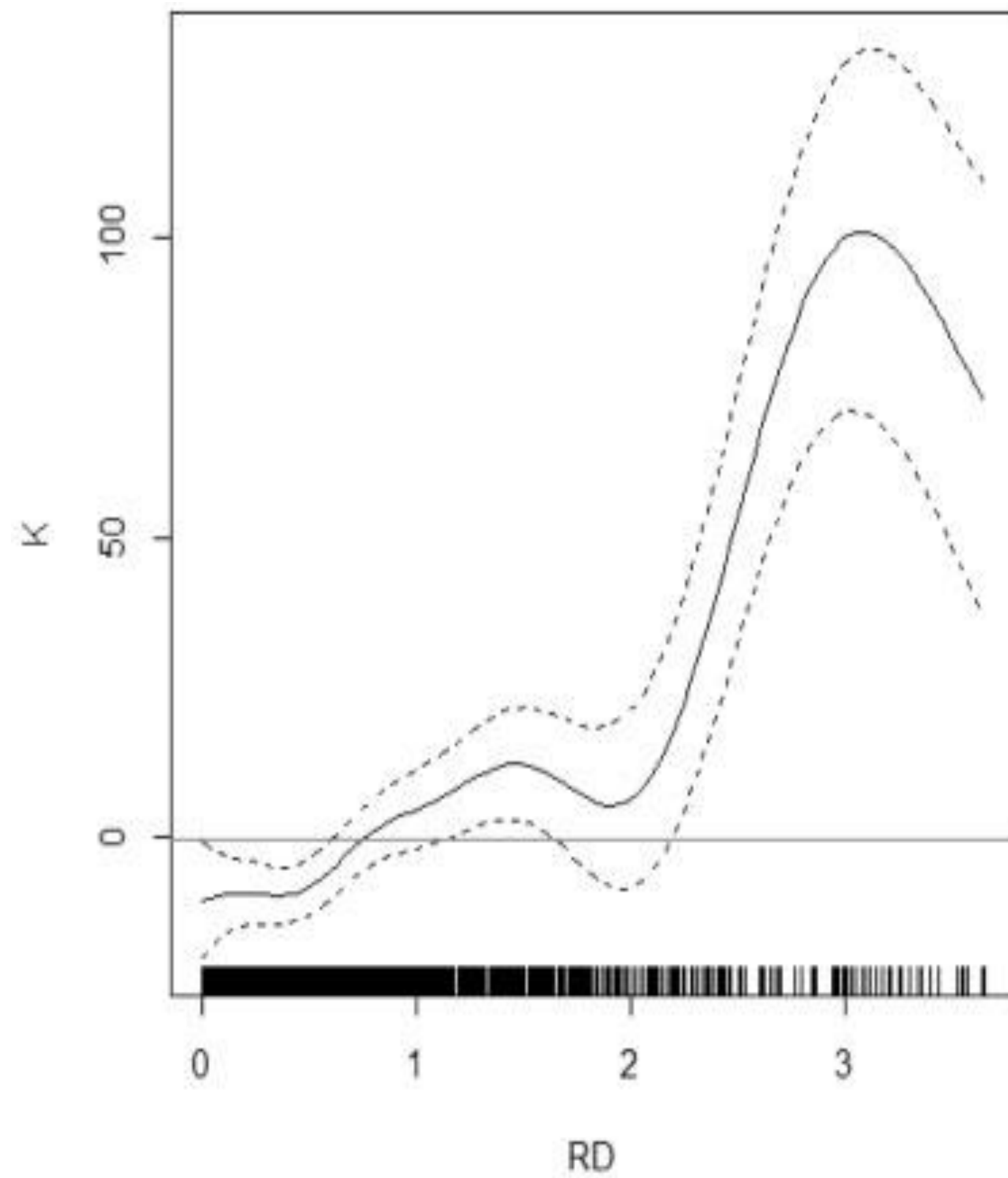
Source: OECD, Regional Outlook, 2021.

Tradable sectors & New Industrial Policies

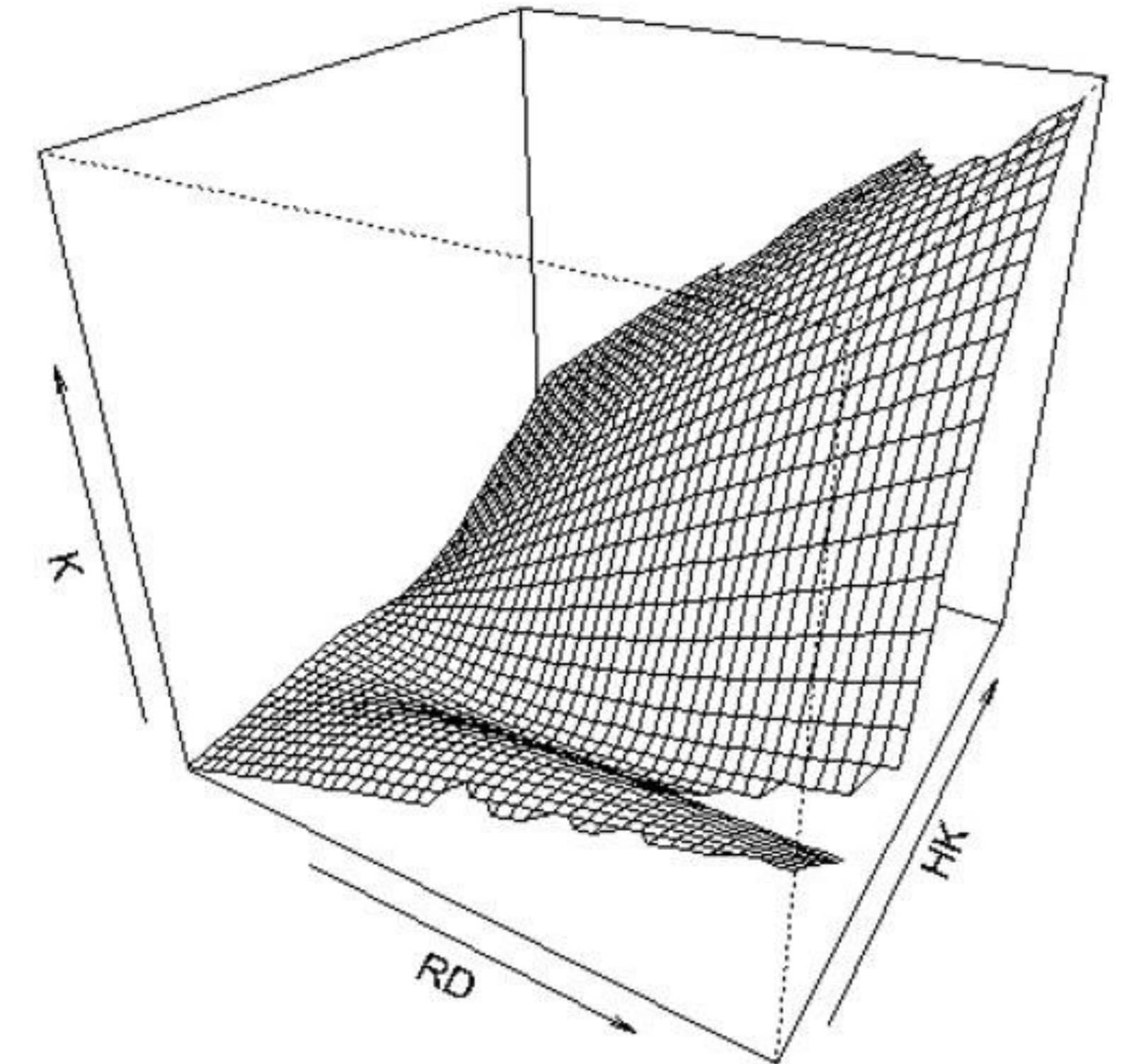
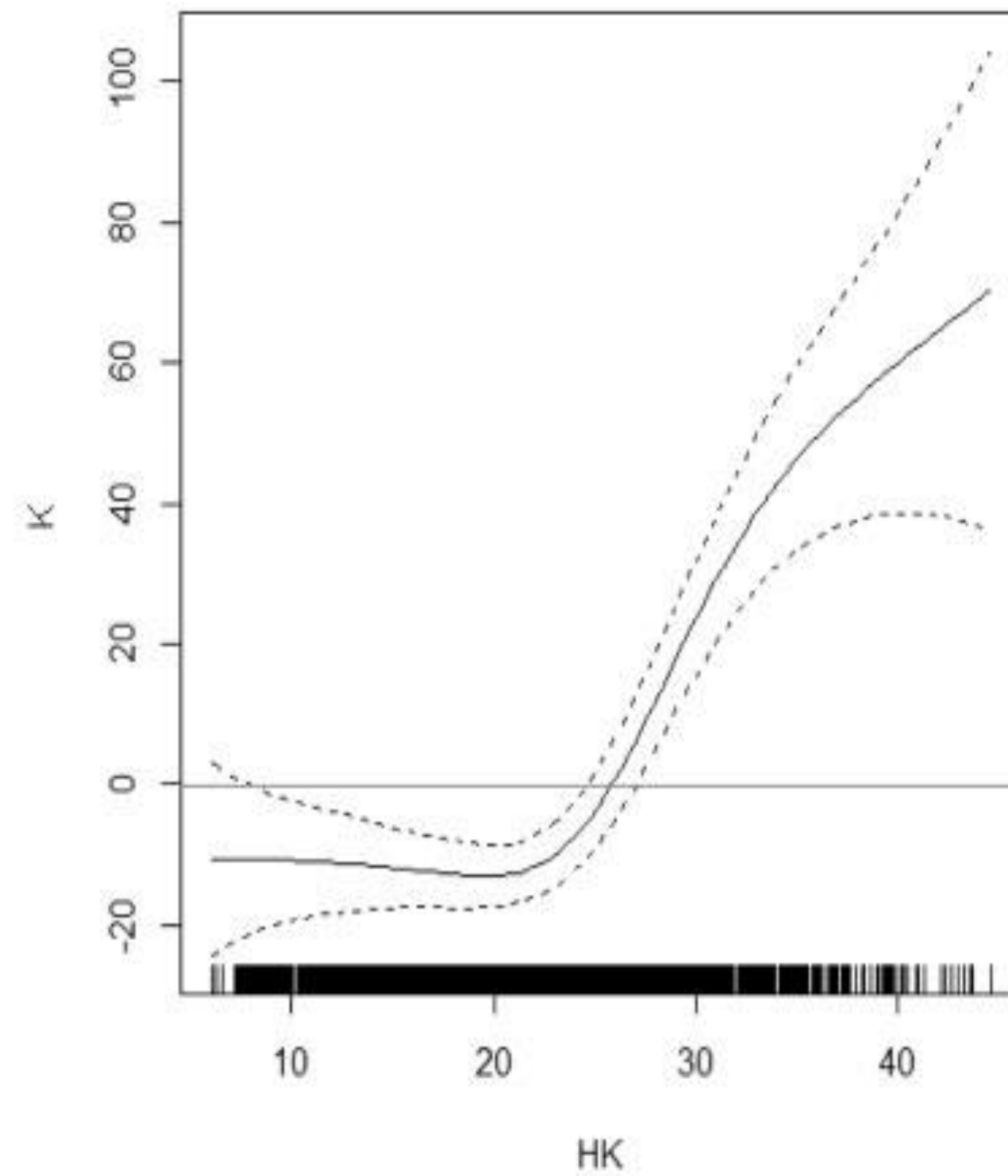
- Tradable sectors are very important for regional productivity catching-up.
- But very difficult to enter in the more sophisticated tradable sectors (high entry or sunk costs), so need to connect with an international production networks.
- Internationalization can bring scale and technology diffusion, but benefits are not automatic.
- Need to have a strategy to enter in GVCs and deal with MNEs. Regional Development Agencies can be a good instrument (Cf. Crescenzi and Harman, 2022, *Harnessing GVCs for regional development*, RSA).
- Local spill-overs depend in capacity to absorb technology and location in the production chain. Often, there is a reduction of domestic content.

The impact of regional innovation are highly non-linear

Link between R&D, Human K intensity and production of Knowledge (Patents)



Interaction between R&D and Human K



Source: Charlot, Crescenzi and Musolesi (2015), Econometric modelling of the regional knowledge production function in Europe, Journal of Economic Geography 15 pp. 1227–1259

Complementarities between Structural and Place-Based Policies

	Structural Policies	Place-Based Policies
Structural Policies (Space-blind)	Macro-Structural Flexibility	Lagging regions are more affected by structural rigidities
Place-Based Policies	Generate complementarities across structural policies (Subnational Gov reform)	Regional & Local Development strategies



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Thank you!

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