

# The EU's Regional Policy Entering a New Phase: What Does Smart Specialization Mean?

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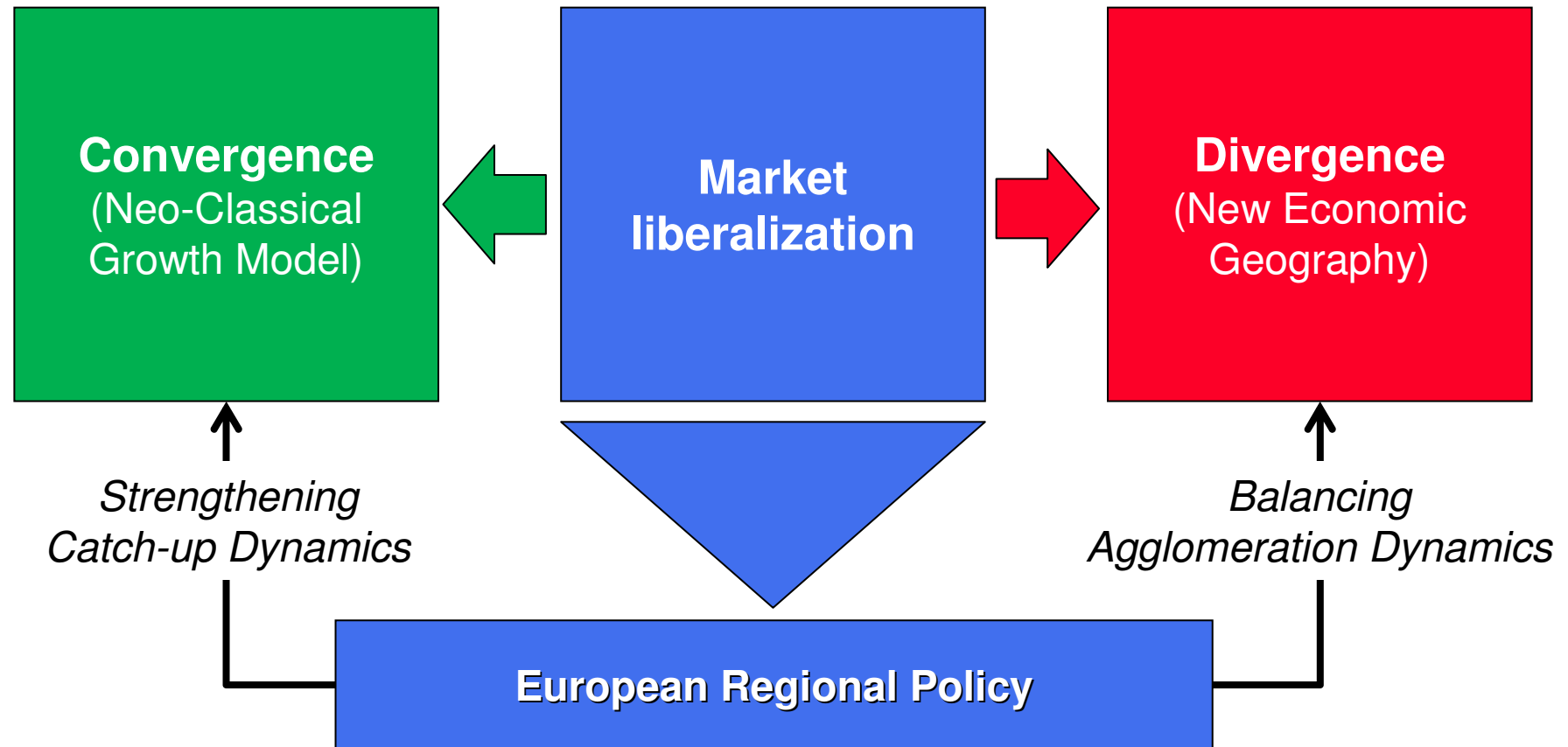
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On the way to bridging the  
innovation gap in Europe  
**2013**  
April 11<sup>th</sup>-12<sup>th</sup>



# Smart Specialization – The Core Idea

- Designing regional economic strategies that are **location-specific** and build on **existing strengths**
  - Quality of the business environment
  - Composition of economic activities (clusters)
- Explicit integration of the **sectorial dimension (clusters)** into regional economic strategies
- Focus on the systematic shift towards **activities with higher rates of innovation/value added**
  - Within existing clusters
  - In clusters adjacent to current areas of strengths
- Mobilization of resources available at different levels (EU, country, region) in the context of a **regional strategy**

# The Evolution of European Regional Policy



## *What happened?*

- Convergence did occur, but the current crisis puts its **sustainability** in question
- The impact of regional policy tools on economic performance patterns across European regions is often seen as relatively **modest**

# The New Phase of EU Regional Economic Policy

## Target

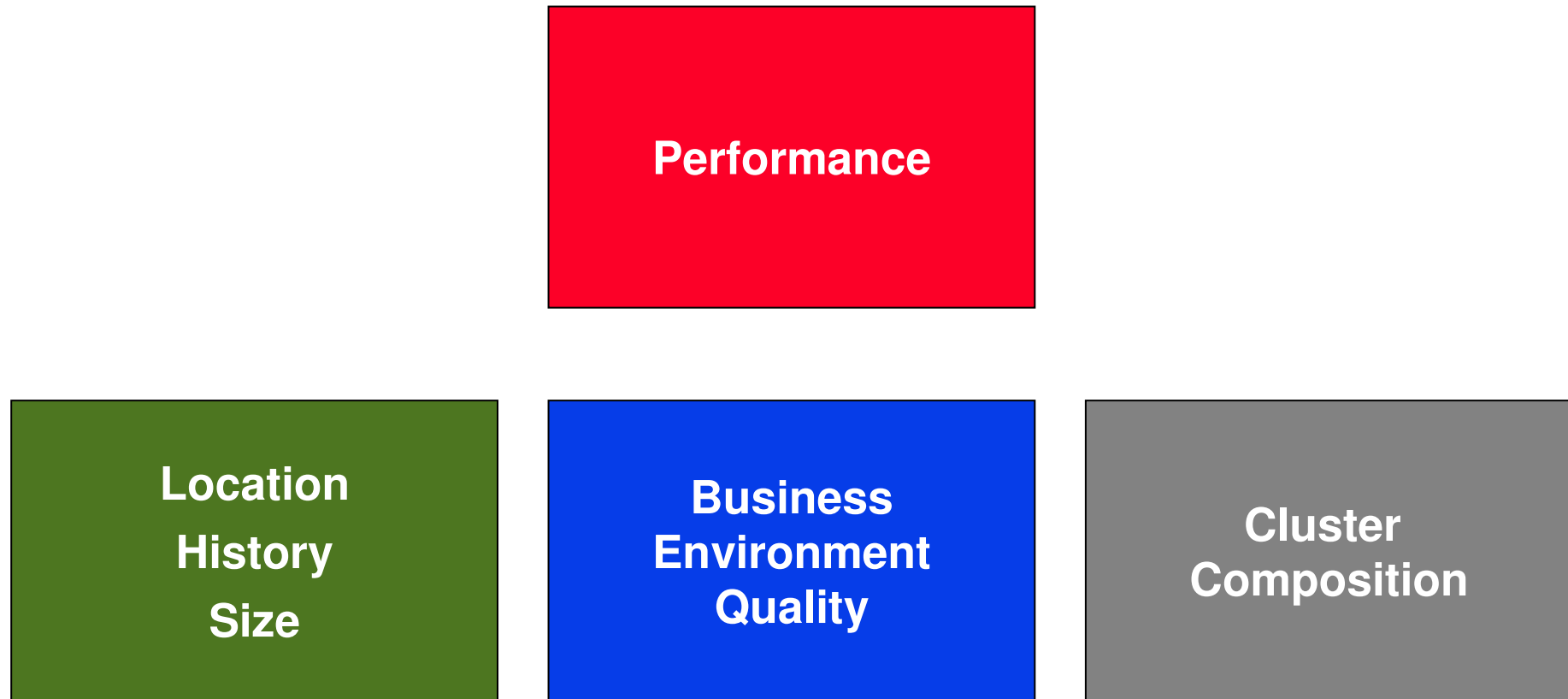
- Helping **all regions** to upgrade, not just compensating laggards
- But still disproportionate allocation of funds to **regions with lower prosperity levels**

## Tools

- Strengthening the focus on **location-specific** action plans vs. generic priorities
- But overall focus on **innovation and competitiveness**, not just infrastructure

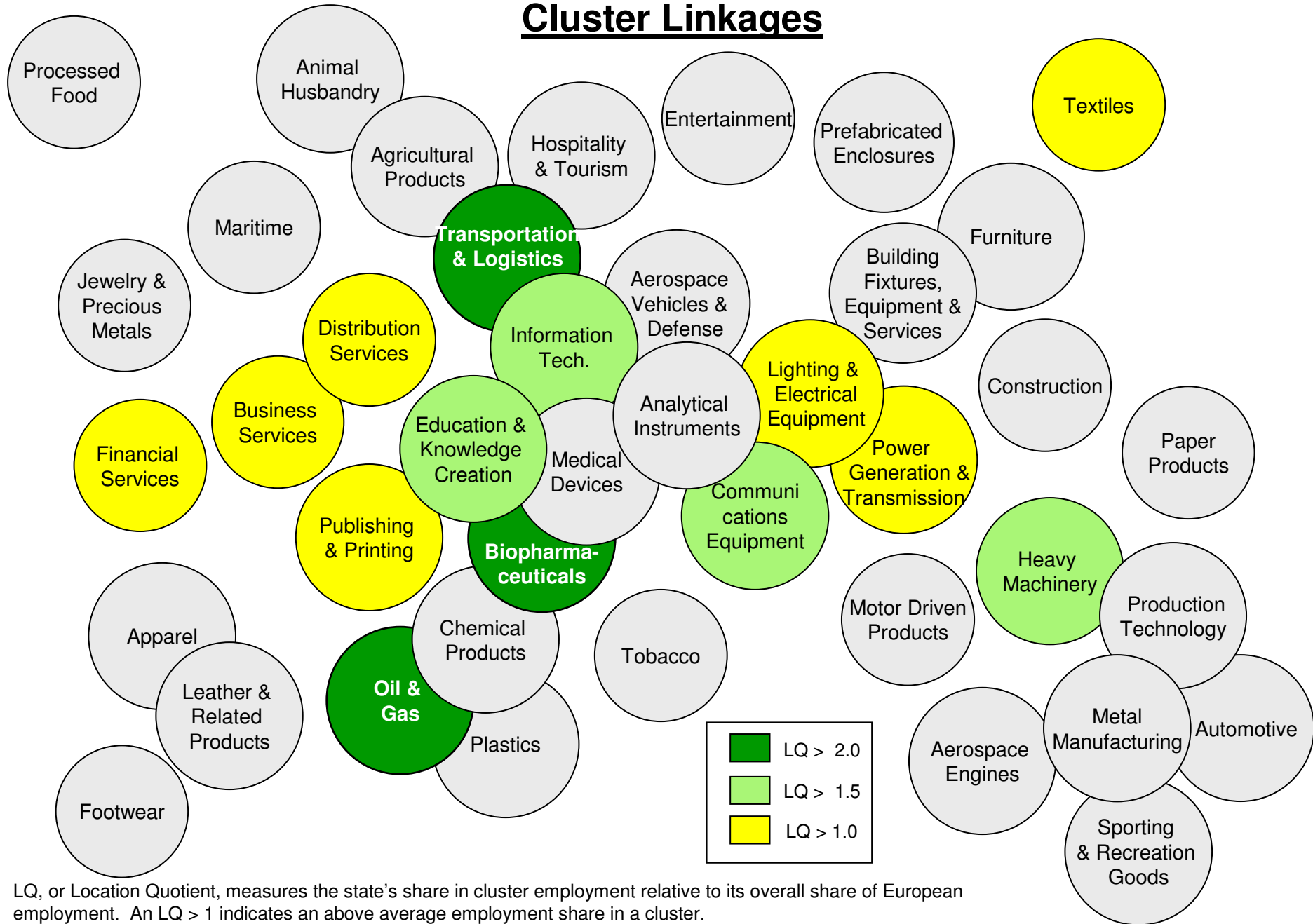
# The Role of Regions

## Dimensions of Regional Heterogeneity



# Traded Clusters in Central Hungary, 2011

## Cluster Linkages



LQ, or Location Quotient, measures the state's share in cluster employment relative to its overall share of European employment. An LQ > 1 indicates an above average employment share in a cluster.

# Traded Clusters in Eastern Hungary, 2011

## Cluster Linkages



LQ, or Location Quotient, measures the state's share in cluster employment relative to its overall share of European employment. An LQ > 1 indicates an above average employment share in a cluster.

# Clusters and Economic Outcomes: Prosperity

## The Evidence

### Determinants of Regional Job Growth, Wages, and Patenting

- Specialization in **strong clusters**
- Breadth** of position within each cluster
- Positions in **related clusters**
- Presence of a region's clusters in **neighboring regions**

*And...*

- Cluster mix significantly **less important** than cluster strength

### Quantifying the effects

- Regional cluster portfolio strength explains close to 40% of variation in regional wages/GDP per capita (Porter, 2003; EU, 2008)
- Doubling regional cluster strength increases the regional average wage by 40% (Porter, 2003)
- One SD higher cluster strength raises the annual employment growth rate at the industry level by 3% (Delgado/Porter/ Stern, 2011)
- Entry of large plants into a cluster raises TFP in other companies by 20% over five years (Greenstone, 2008)

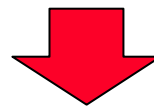


# The Role of Cluster-Based Policy

- Agglomeration largely driven by business environment conditions and ‘automatic’ cluster effects **in a market process**

**BUT**

- Exploitation of localized spill-overs **not automatic**
- Exploration of opportunities for joint action **not automatic**



- Cluster efforts **enhance the benefits of existing strengths**
- Cluster efforts are about **upgrading competitiveness**
- They are **not about creating clusters**

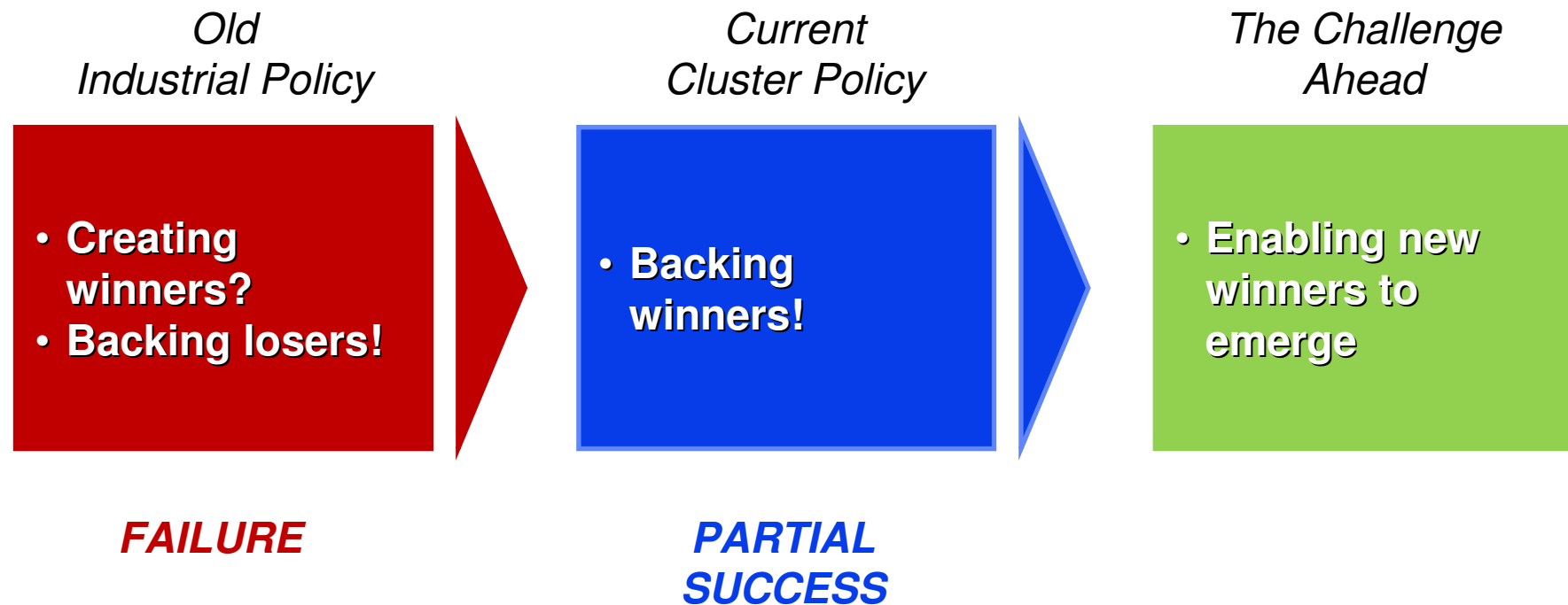
# Cluster Policy: The Track Record So Far

- Increasingly clear evidence on the economic benefits of **cluster presence**
- Evaluations of cluster programs generally **positive**
- A new role for **regions**

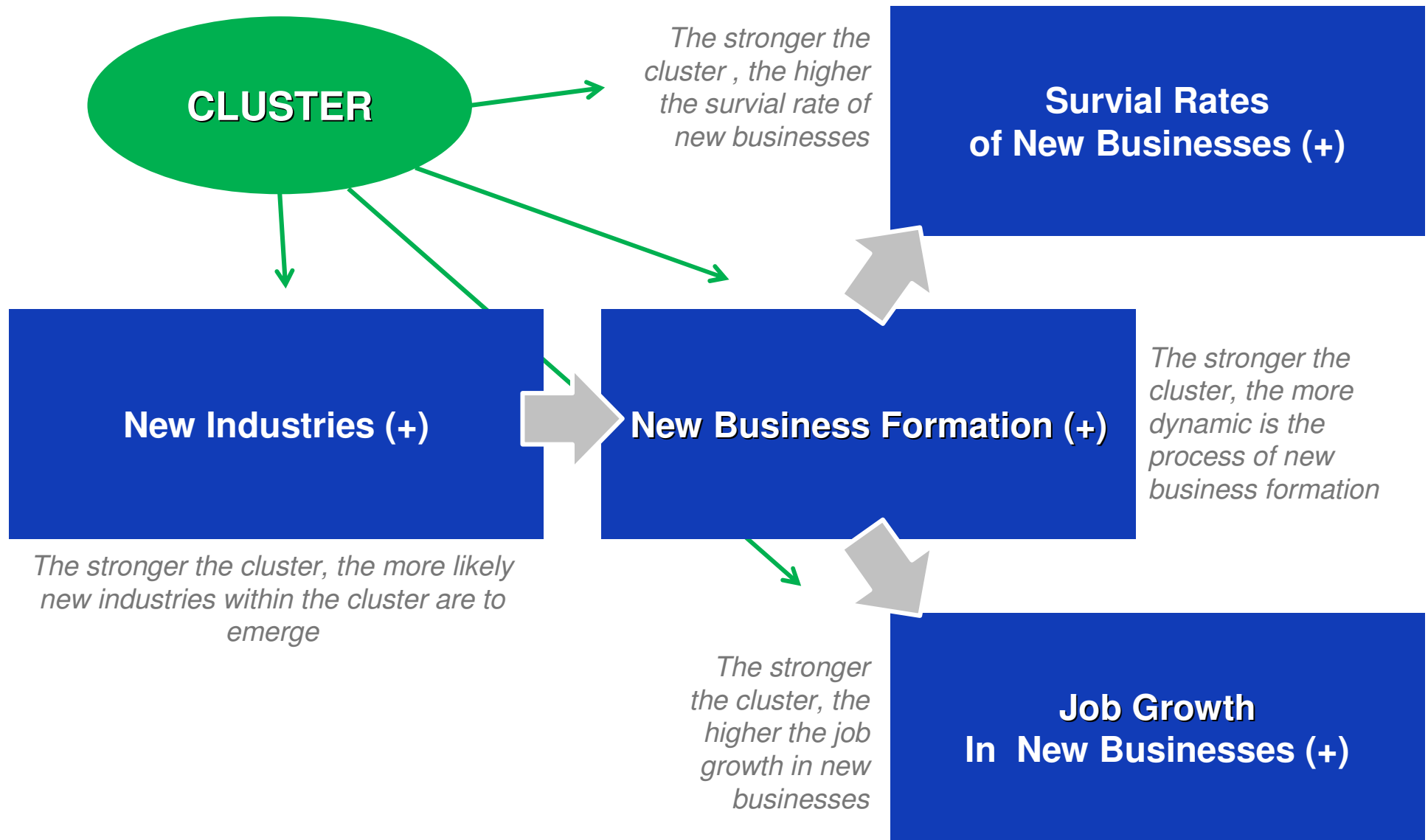
## HOWEVER

- Quality of cluster initiatives is **heterogeneous**
  - Economic benefits of cluster programs so far **limited to active participants**
- Tendency to strengthen **existing structures**, much less driving structural change
  - Tendency to benefit **stronger regions**, much less helping lagging regions to catch up

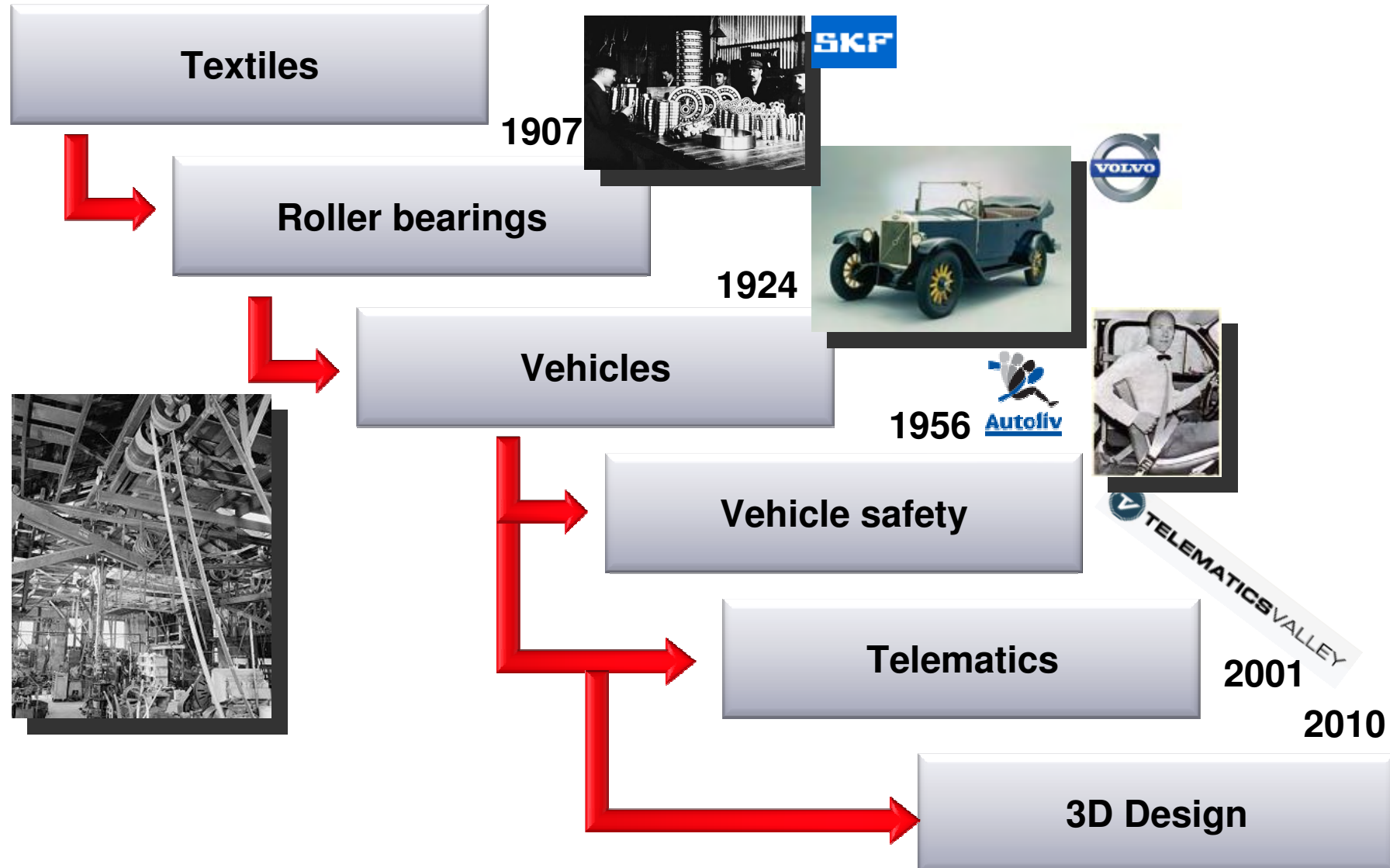
# Enabling Structural Change



# Clusters and Structural Change: Entrepreneurship

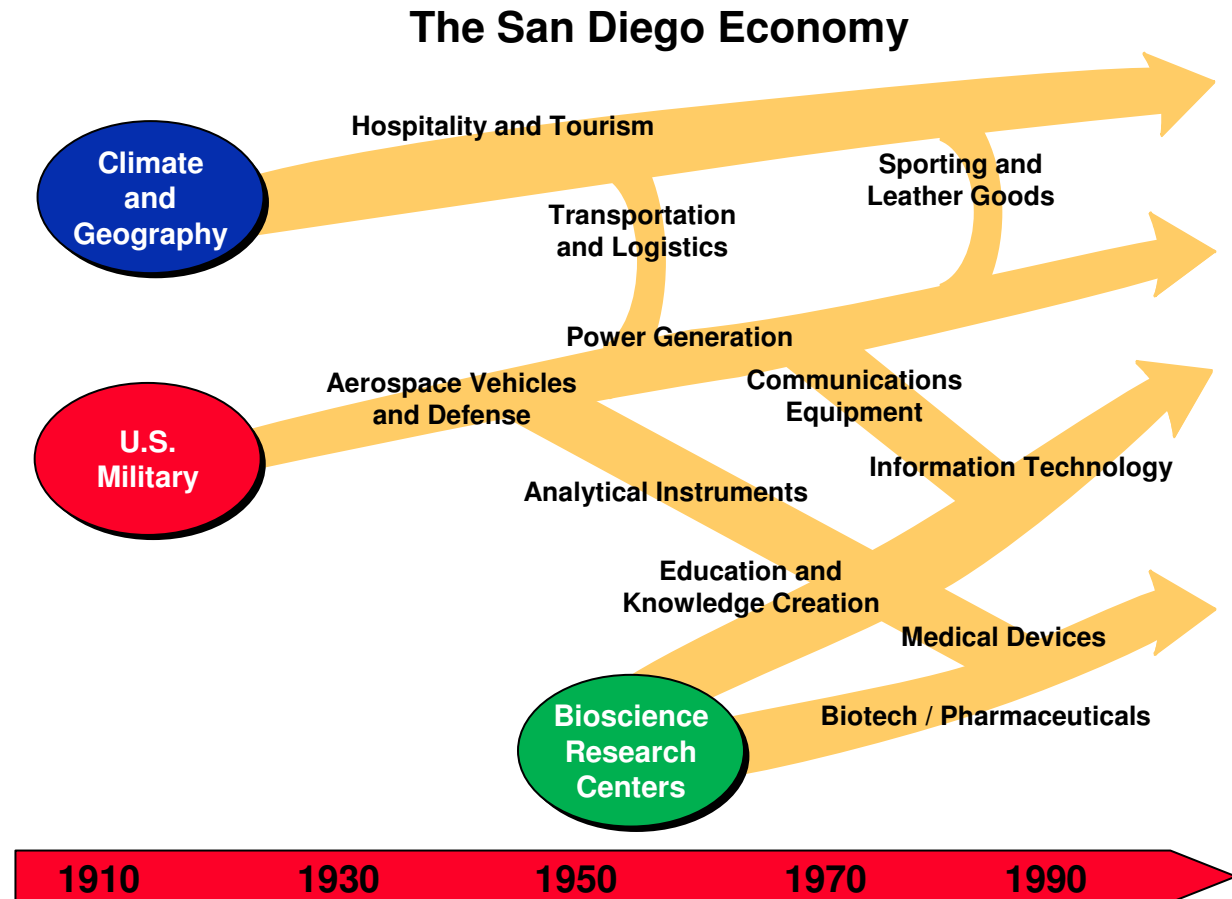


# Clusters and Structural Change: Transformation of Existing Clusters



# Clusters and Structural Change: Emergence of New Clusters

- Existing cluster portfolios have a significant impact on the **evolutionary path of regional economies** (Neffke et al, 2009; Boschma et al. 2011)
- Clusters provide a powerful analytical tool to understand **diversification** and the **emergence of new economic activities**



Source: Porter, Monitor Company, Council on Competitiveness (2003)

# Cluster-Driven Economic Policy

## Regional Policy based on “Smart Specialization”

### The Challenge:

- How to support structural change towards higher value-added activities?



### The Old Answer:

- Identify **growing markets** and try to enter them (bio, nano, eco, ...)



- Failure to succeed in intensely competitive markets without unique assets

### The New (Smart Specialization) Answer:

- Identify your assets, including your existing **cluster base**
- Actively pursue opportunities in areas **adjacent to current strengths** and leading towards higher value added



- Longer-term development of sustainable competitive advantages

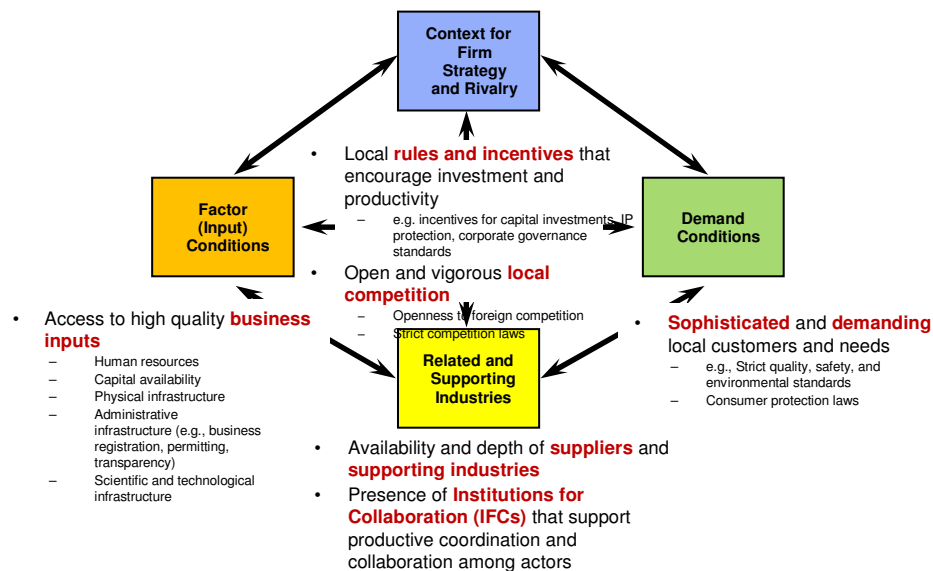
# Clusters and Smart Specialization Strategies (S3)

- Clusters provide a **conceptual framework** that is fully compatible with the underpinnings of the S3 approach
- Clusters and cluster initiatives are important **tools** in the S3 process of regional diagnosis and stakeholder engagement
- Cluster policies allow the effective organization of **sector-specific priority setting** and **integration of policies**
- Appropriate cluster policies differ by the **stage of cluster development**
- Appropriate cluster policies differ by the overall **level of regional competitiveness**

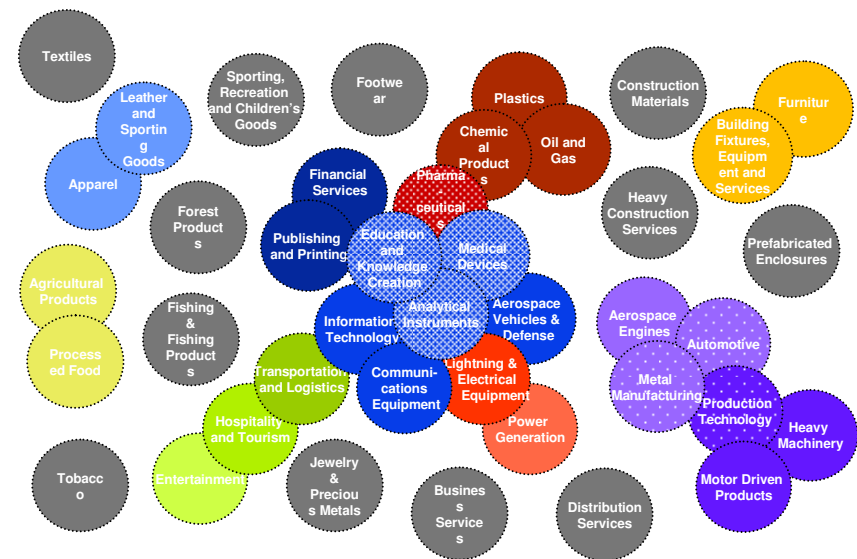


# Supporting Emerging Clusters: Identification

## Business Environment Strengths



## Existing Cluster Portfolio

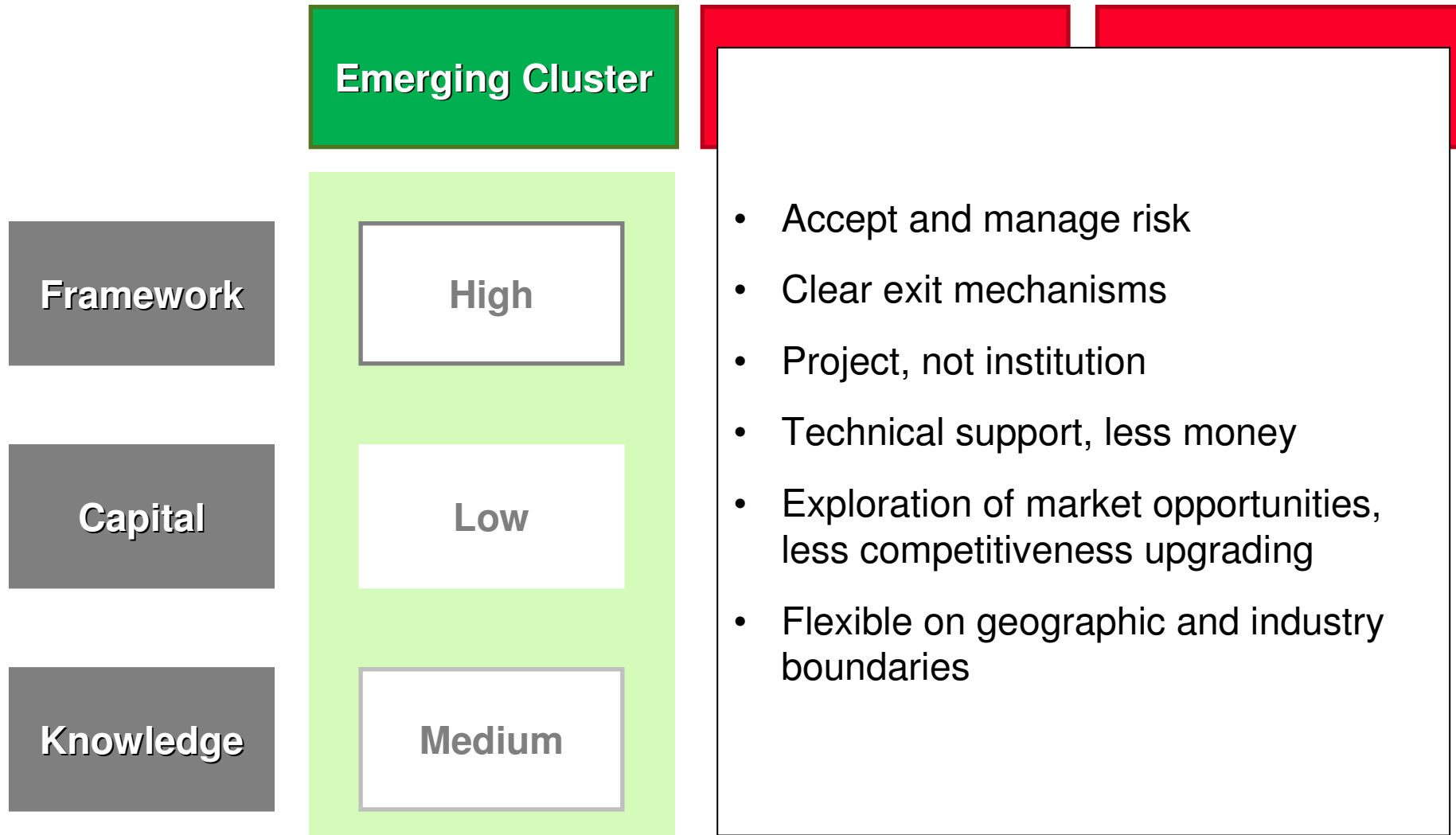


- External intelligence (technology, market needs) is critical
- Choice under uncertainty

## Assessment criteria

- Existing bridgeheads, market opportunity, leadership

# Supporting Emerging Clusters: Tools for Enabling Entrepreneurial Discovery



# Supporting Lagging Regions: Strategies that Acknowledge Existing Context

## **CHALLENGES**

### **Competitiveness**

- Weaker **business environment conditions**
- Weaker **cluster portfolio**

### **Capacity**

- **Administration** less able to design and implement policies
- Government more vulnerable to the pressure of **interest groups**
- Lower willingness and capability for **collective action**

## **IMPLICATIONS**

### **Policy objectives**

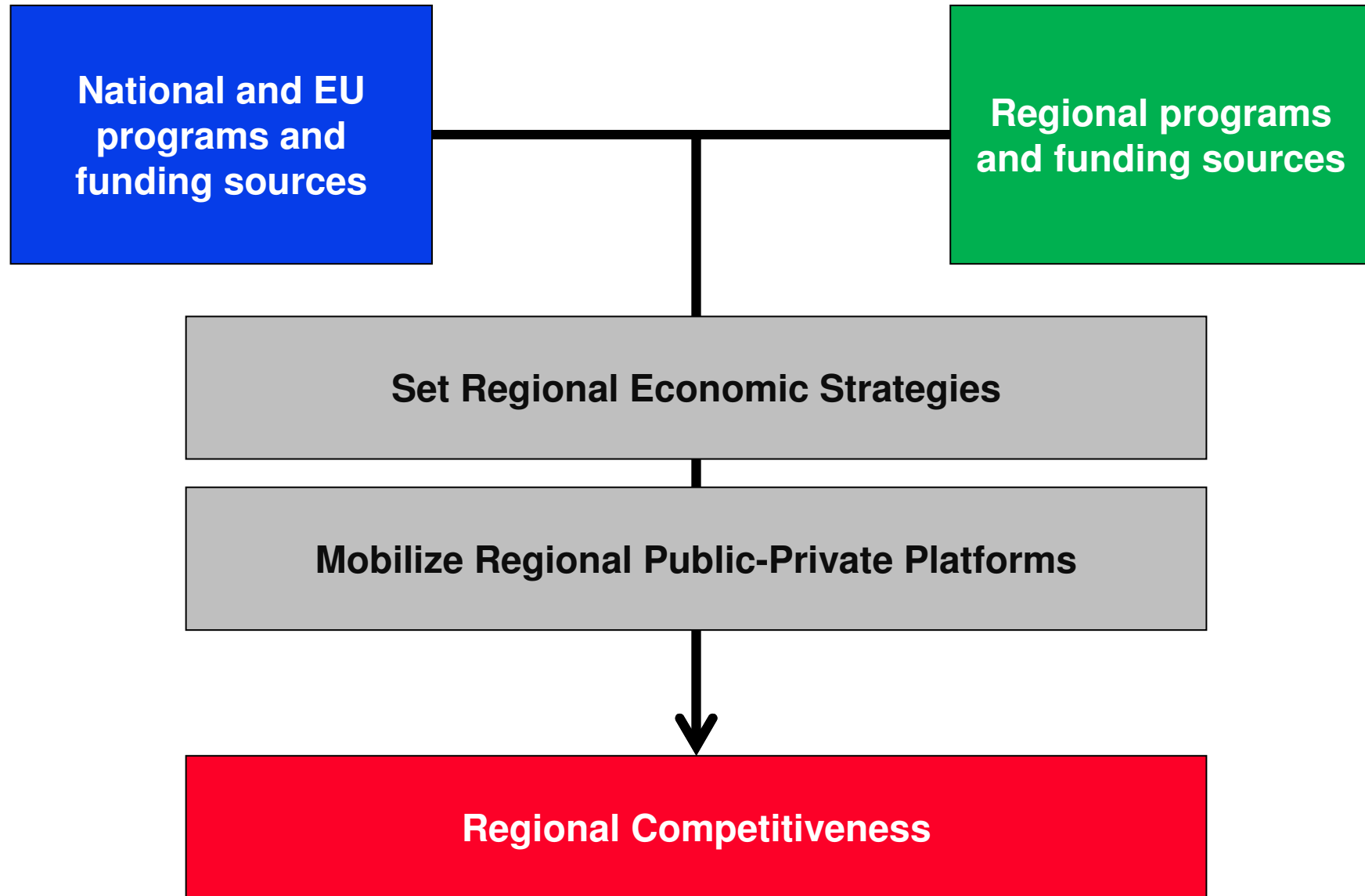
- Strengthen **social capital** and **institutional capacity**
- Upgrade overall **business environment quality**
- Improve context for **cluster emergence**

### **Policy characteristics**

- Focus of cluster efforts on **technical support**
- **Integration** of cluster and cross-cutting efforts

# The Role of Regions in Policy

## Different, not Just Smaller



# From Individual Policies to Strategy

