

EU Cohesion policy reforms: *towards knowledge based cohesion*

EU Cohesion policy creates a unique opportunity to mobilise the development processes in poorly-developed agrarian regions, removed from the European economic centres. The main question is not just whether new members from Central and Eastern Europe (CEE) can effectively absorb the EU funds, but also whether they will be able to channel these funds to initiatives that will help develop a modern and innovative economy in the regions. In the opinion of specialists¹ current cohesion policy realized in the CEE countries could not have been used as an instrument to generate new endogenous potential, i.e. a modern and innovative economy in peripheral regions. This is related to the domination of infrastructure investments and to the marginal importance of investments for R&D, as well as for introducing new technologies to companies. It is also related to the mechanism of supplanting investment for R&D and for developing a modern economy with infrastructure investments, which consume most of the investment provisions available in the public finance systems of these countries. The EU Cohesion policy before 2010 was directed too much at improving the life condition of inhabitants and supporting their revenues. It did not sufficiently create long-term impulses for economic growth. This is related to the risk that Cohesion policy will lead to preserving the dependency of peripheral regions in the CEE States on the redistribution of public funding of social character. In the edge cases, it may be related to creating political clientelism and corruption in a way similar to South Italy. This would be related to the process of political parties taking control over EU money transfers for the sake of their own party's objectives.

International experience indicates that the most efficient method of catching up to the most developed countries and regions is to initiate development based on innovation and modern technologies. Initiation of such a development strategy is, however, a serious challenge in the case of peripheral regions. It is related to two issues. Firstly, to the construction of an appropriate absorption potential for external aid, in particular the possibilities of efficient adoption of organisational innovations and new technologies in the regional economy. Secondly, the principal problem consists in obtaining a proper "critical mass" of factors allowing the initiation of automatic generation of innovations and dissemination thereof

¹ See discussion: T. G. Grosse (2010): *EU Cohesion policy and the peripheries of the new Member States*, in: G. Gorzelak, J. Bachtler, M. Smętkowski (eds.): *Regions of Central and Eastern Europe: Development Processes and Policy Challenges*, Routledge, Abingdon, Oxford.

within a dense regional cooperation network. The effectiveness of an innovative strategy consists thus not only in constructing absorption abilities for the reception of external models, but also in creating conditions for the generation of own innovations. It is particularly important for the reduction of development differences between peripheral and central regions. I have proposed² two methods of introducing innovative solutions concerning economic policies in peripheral regions. Firstly, by introducing new technologies into previous (traditional) development measures (e.g. information technologies for touristic branch). It is a change that can be referred to as **a modernisation of endogenous regional resources**. Secondly, by diversifying the previous measures and gradual alteration of the regional economy profile. This strategy type can be defined as **the construction of a new endogenous resource**.

In the long run, the economy of European peripheries is not able to compete by means of cheap work places in labour-intensive industries, which are usually weakly related, with modern technologies. It should also not base regional development only on conventional development instruments of rural areas (tourism, local enterprises, usually related to the agricultural and breeding sector) or on agricultural subsidies and protection of agricultural market. The niche production specialisation oriented at luxury or regional products also seems to be only a partial solution. An example is clothing and shoe production in the regions of *Third Italy*. Research indicates that Italian industrial districts are under a growing pressure from the cheaper workforce in Asian countries³. A partial method of limiting this pressure consists in delegating some production operations abroad to countries with cheaper labour costs. However, it is a solution that brings only immediate effects while the growing specialisation and high quality of foreign producers increase the competitive pressure.

Therefore public strategy must not limit itself only to *the modernisation of previous endogenous potential*. It should rather strive for diversification of regional specialisation, including the one oriented towards consistent *construction of new endogenous potential* in relation to innovative and technological economy. The example of Finland indicates that it is a long-term process – the transformation of the Finnish economy began in the 1960s/1970s. At the same time, the example of this country proves that a radical change of economic profile of peripheral areas can be successful⁴. What is needed, however, is a long-term and properly profiled policy of public authorities, of the national government to a great extent.

² T. G. Grosse (2007): *Innowacyjna gospodarka na peryferiach? Wybrane koncepcje teoretyczne oraz doświadczenia rozwoju regionów peryferyjnych*, Warszawa: Instytut Spraw Publicznych.

³ Amighini A., Rabellotti R. (2006): *How Do Italian Footwear Industrial Districts Face Globalization?* European Planning Studies, vol. 14, No. 4, 485-502.

⁴ Castells M., Himanen P. (2002): *The Information Society and the Welfare State, The Finish Model*, Oxford – New York: Oxford University Press; T. G. Grosse (2007).

A condition for orienting development processes towards *the construction of new endogenous resource* for a modern economy is the creation of a strong, national innovation system. It is also important for the State to carry out policies that are properly profiled against particular regions and coordinated. The core of these activities should be a long-term regional policy of the government. EU policies are not able to substitute the national system of supporting innovative development of the economy. They can only supplement it, which would also require the ability of appropriate adjustment to these policies for the needs of particular peripheral regions. The construction of strong national instruments for the development of innovative economy is particularly important in CEE States, which have not reconstructed their own innovation systems during the transformation of political system and economy⁵.

Experts also indicate the need of creating regional innovation systems. They are networks of legal and public institutions whose operation and cooperation allows for the creation, adjustment and dissemination of knowledge, innovations and new technologies in the region⁶. Development institutions and policies created under regional innovation systems should be properly included and correlated with the national innovation system⁷. This is why State's regional policy should have components concerning the development of research and application of new technologies in the economy. It should also strengthen the functioning of regional innovation systems. On the other hand, other policies of the government, in particular the innovative policy, should, where possible, be partially decentralised, i.e. assigned for implementation by the bodies of regional government. To sum it up, it can be said that strong regional innovation systems cannot be built within peripheral regions without the creation of a strong national innovation system.

There is a heated debate in Europe on the future of cohesion policy in the next period of EU budget (i.e. after 2013). It is a good chance to present recommendations in this respect. Cohesion policy is the best and recognized mechanism of implementing structural changes aimed at achieving economic and social integrity and since the Lisbon Treaty came into force also territorial unity of the whole Union. This policy stresses particular problems of less developed countries and regions which are related to economic structure, natural resources (also energetic ones), demographic, etc. Thus, it is the most optimal instrument of solving structural difficulties which concern the most important challenges of the EU 2020 Strategy, including those connected with a need for developing knowledge-based economy in all

⁵ Tunzelmann N., Nassehi S. (2004): *Technology policy, European Union Enlargement, and economic, social and political sustainability*, Science and Public Policy, vol. 31, No. 6, 475-483.

⁶ Markowski T., Kot J., Stawasz E. (1996): *Regionalne systemy innowacji jako podstawa budowania konkurencyjności polskich regionów*, Samorząd Terytorialny, No. 6., p. 58.

⁷ Okoń-Horodyńska E. (2000): *Jak budować regionalne systemy innowacji?*, Gdańsk: Instytut Badań nad Gospodarką Rynkową.

countries and regions of the European Union, promotion of the intellectual capital, climatic and energetic challenges, solving demographic problems, etc.

I proposed to re-orient the EU cohesion policy to a greater extent towards objectives of achieving greater cohesion on the European scale as regards the development of innovative economy. Such an approach extends and re-interprets the Treaty meaning of this policy in relation to economic, social and territorial cohesion. It places emphasis on innovations, as regards both the construction of innovative economy, innovative society and integrated approach to territorial development aimed at the introduction of an innovation in a broad sense. It should be strived for the strengthening of proposals put forwards by the Commission or EU experts that put emphasis on the construction of a new potential for the development of innovative economy in underdeveloped regions, in the strategic perspective allowing the development of research and new technologies, as well as gradual inclusion in the European framework programmes⁸. Such regions should include *inter alia* stronger support in these regions for the development of research and science infrastructure, as well as linking it with the infrastructure of European importance or participating in financial research financed by the EU budget (e.g. by the European centres of excellence)⁹. A similar recommendation is the development of cooperative relations that will connect technology platforms that are being established at the regional level with the most competitive and modern European platforms¹⁰. The proposal of strengthening the regional innovation clusters should also be supported, in the case of weaker regions for instance in the pilot formula¹¹. Efforts should be made in order to diversify strategic resources in the regions (in particular the ones with problems or underdeveloped ones) and thus to support the construction of a new development potential in these regions.

The division into regions developing on the basis of the paradigm of knowledge-based economy and peripheral regions based on agriculture, raw material economy or cheap labour force seems to be not beneficial for Europe in the longer perspective. Such cohesion policy conditions perpetuate the mechanisms of dual development in EU. Therefore European measures should be oriented towards the objectives of *constructing a new endogenous potential* in the peripheral regions to a greater extent.

⁸ *Communication from the Commission — Competitive European regions through research and innovation — A contribution to more growth and more and better jobs*. Commission of the European Communities, COM(2007) 474 final, SEC(2007) 1045, Brussels 16-8-2007, 3-6.

⁹ *Guidelines on Coordinating the Research Framework Programme and the Structural Funds to support research and development*, Scientific and Technical Research Committee, CREST 1203/07, Brussels 1 June 2007, 20-21.

¹⁰ *Synergies between the EU 7th Research Framework Programme, the Competitiveness and Innovation Framework Programme and the Structural Funds*, European Parliament, PE 385.645, Luxembourg May 2007, 42-43.

¹¹ *Strategic Evaluation on Innovation and the knowledge based economy in relation to the Structural and Cohesion Funds, for the programming period 2007-2013, Country report: Poland*, Technopolis, ISMERI Europa, Merit, Logoteci, Lacave, Allemand & Associates Consultants, July 2006, 41-43.