

Professor Danuta Hübner

European Commissioner for Regional Policy

**Innovating Regional Economies – European Response
to Globalisation**

Konrad Adenauer Seminar

Recife, 30 November

Ladies and Gentlemen,

I have come here to share with you some thoughts on how European Union responds to the key challenges posed by the global economy, with a particular focus on the role of European regional policy.

As it is clear today that economic competitiveness should be analyzed in terms of knowledge and creativity, I have divided my presentation into three parts which have innovation as a leading theme. I would like to start by reflecting on the general relevance of the regional level for the innovation. Next, I shall look into the place and the evolution in the role that innovation occupies within the regional policy. Finally, I would end up by giving you some of examples showcasing, in concrete terms, how European regional policy promotes innovation.

Let me begin by turning to the title of our seminar. Clearly, innovation is important, but why speaking about "innovative regional economies"? And what is the place of globalisation in this picture? The answer is that looking at regional economies brings us much closer to the understanding of the nature of economic development in a global world.

There are two ways of explaining this. Firstly, any successful development strategy needs to take into account the unprecedented speed of change in the global economy. Some years ago, a national government could have designed country development strategy with a time horizon of 15-20 years and implemented it undisturbed throughout this period. Today a change may happen overnight. It will be increasingly difficult to anticipate and benefit from those changes with the help of strategies designed far away in the capitals. This can be done only at the regional and local levels.

Secondly, globalisation is giving more importance to localized productivity advantages. One can say this is nothing new. But this localization is driven by new factors. Proximity to markets or low labour costs are losing importance. Economic development is driven by the availability research institutions, innovative businesses, talents and skills – and the new way they interact one with another. In such a context public investment policy is most effective when implemented by local and regional authorities, which best know their territories.

This growing interdependence link between economic development and involvement of local and regional actors has been reflected in the evolution of economic governance. It has become clear in recent years that development is best driven through multi-level governance, through the co-ordinated actions of the Union, Member States and local and regional authorities. National governments themselves have recognised this by transferring an increasing amount of responsibility for public investment to the regional and local level over the past decade.

As a result of these two processes – globalisation stressing "new" local growth factors and evolution towards multi-level governance – regional and local economies moved into the core of economic development. Nowadays the competition for assets such as creative people, innovative companies or young researchers is taking place at the regional and even local levels. Throughout the Union we see a variety of development patterns, depending on how able and how successful local and regional authorities are in this competition.

We can also see how this varying development patterns impact on national performance. States which are leading in terms of economic competitiveness and innovation are those which are home to the most competitive regions in the world – such as Nordic countries, Germany, the Netherlands and UK. Importantly, this performance is not limited to one or two regions only but involves most regional economies in those countries. This demonstrates that innovation is not a zero sum game and does not rely on shifting finite resource from one place to another.

The lesson we can take from this is that, in the context of globalisation, innovation is a must for all regions. And the more underdeveloped and poorer they are, the more innovative they have to be. Clearly, there are differences; for example, while investment in R&D is crucial in urban areas, rural regions should focus more on investments in education and training. They should also develop the alternative use of mature technologies rather than try to compete in emerging technologies. But ultimately it is the capacity of regions to support learning and innovation processes which is a key source of competitive advantages.

There is no better example to illustrate this than rural regions, which, to those who see rural exodus, lack of services and aging population as irreversible trends, are synonymous with decline. By no means. At the beginning of the 21st Century, in more than one out of three OECD countries, the region with the highest rate of employment creation was a rural region. And behind this change was innovation.

Let me move now to the second part of my presentation and look into the place of innovation in European regional policy

Innovation has been always an important element of European regional policy but its role has evolved over time. In the 1970s the major focus was on investment in Research and Development. In the 1980s, following greater emphasis on commercial application of knowledge, the attention shifted to the transfer of knowledge and technological competence. In the 1990s regional policy started

increasingly addressing the managerial gap and the creation of the systems to facilitate change.

This evolution can be best described as moving away from the vision of the innovation as a linear process – meaning that research products are channelled first into development and from there to commercial exploitation - to the recognition that innovation is the product of a complex structure in which the local ecosystem have a crucial role.

There are two features of these ecosystems which stand out from the point of view of policy making. They are complex and rely on co-operation. Economists refer here to the changes in the global economy which are giving rise to new models of production based on collaboration and self-organization rather than on hierarchy and control. The new competitive principles in economic and business circles are "openness, peering, sharing and acting globally" - to use the expression put forward by "wikinomics" – the concept showing how masses of people can participate in economy like never before.

And this is where European regional policy turns out to be a most suitable tool fostering economic development. Multi-level governance, involvement of socio-economic partners in the policy design and implementation, public – private partnerships, networks pooling and sharing best practices and knowledge – all those elements are the basis of regional policy already since the beginning of the 90s.

Already today there are many examples of innovative projects underpinning the creation of such ecosystems and boosting region's capacity to grow. Such as the one in Extremadura, the poorest region in Spain, which connected its 383 municipalities to broad band, linking all public institutions to Internet and introducing a wide range of educational programmes and foster technological literacy.

Other valuable examples could be the creation of the Charleroi Biopole in Hainaut (Belgium), a region formerly known for its heavy industry. Biopole focused on the creation of commercially applicable knowledge in the area of biotechnology, similarly to EMBRAPA, the research centre I visited this morning. Or the development of the Aviation Valley, based on the expanding aerospace cluster, in the Southeast of Poland, one of the poorest regions of Europe.

For the period of 2007-2013 however, we want innovation to be in the core of the regional policy, to turn these "success stories" into a systematic approach to regional development. We have defined innovation as one of 3 overarching policy priorities, along with the investment in infrastructure and human capital. We have also introduced "earmarking" approach, which requires from Member States and regions – both better off and lagging ones – to concentrate the predominant part of their allocation under regional policy on the key drivers of renewed Lisbon strategy, with the innovation on the top of this list. And we have demanded from all lagging regions that they have in place regional innovation strategy which is guiding their approach to the implementation of European regional policy.

As a result, in terms of amount of investment innovation expenditure under the new regional policy will triple compared to the 2000-2006 period, up to 83 billion euro (25% of total regional policy resources).

Let me finish by one more example, which in a nutshell shows how innovative thinking can impact regional development - Basque Country and Guggenheim Museum.

When regional government decided to host Guggenheim collection, Basque country was in the middle of the economic crisis, triggered by the decline of traditional steel manufacturing industry. Unemployment was exceeding 20%. The decision of regional authorities to spend 130 million euro on the construction of the Museum was seen by most of the population as an expensive extravagancy.

What happened next? Already in the first year the Museum's activities increased the regional GDP by 140 million euro, more than the overall cost of the investment. Today, businesses linked to the Museum employ four thousand people. The city which is now recognizable in the whole world hosts annually more than 800 congresses – almost 20 times more than in the beginning of the 90s. As a result, Basque Country is today among the richest Spanish regions with the unemployment below 5%.

I am telling you this story because it has all the elements necessary for the successful regional development. First it was based on the partnership, built around the common vision of the region's future and involving all the partners in the region. Moreover, this vision was innovative and required creativity and imagination – although it is difficult to believe the project of the Museum, which created one of the best known "regional brands", was turned down by a number of European regions.

Second, economic development was anchored in local resources – the building of the Museum was constructed in the unique technology developed by the Polytechnic of Bilbao and implemented by local firms. Also by the firms from the steel manufacturing sector which on this occasion acquired new technology and skills, allowing them to retain significant market niches in high technology manufacturing.

Finally, it represents the integrated approach to development. The construction of the Museum and the opening of new perspectives for tourism, was followed by other important projects financed by the Union's regional policy and coherent with this vision – the port was moved out of the town and the river was cleaned.

Ladies and gentlemen,

It is difficult to speak about innovation without mentioning networking and exchange of experience. This way of thinking has been present

since long in the European regional policy under the form of regional networks and territorial co-operation. Through cooperation we have been pooling our knowledge, talents and resources together, in order to ensure a more efficient, and joint, management of economic, environmental or social challenges.

Our meeting is the proof that the networking and co-operation should transcend national borders. This is good news because we can see that competitiveness is not a zero sum game which can be reduced to shifting jobs and growth from one place to another. And because we can involve into co-operation and economic development the whole new range of local and regional actors – giving our citizens more security and confidence about their lives.

I am convinced that with our Regional Policy dialogue with Brazil we make a right move in this direction, through the recognition, in concrete terms, that we share similar interests, ideals and aspirations. And that global economy is not only about competing but also about co-operating.

Thank you very much for your attention.