Globalisation as the Determinant of Regional Development Management in the European Union

Abstract

RESEARCH OBJECTIVE: The aim of this article is to explain why the European Union perceives globalisation as the challenge for its regional development and how this assumption influences on regional development management.

THE RESEARCH PROBLEM AND METHODS: The research problem concerns the issue of globalisation as the process which is estimated by the EU as the opportunity and challenge for its regional development at the same time. As a result the EU develops multi-level political system in which, along sovereign states, there are transnational and subnational political actors which have been engaged in regional development management. The research methods used in the study consist of an institutional and legal analysis of the major policy documents, actors and regional development management instruments that they use.

THE PROCESS OF ARGUMENTATION: The introduction presents the principal methodological assumptions concerning the analysed research area, the applied conceptual approach and the research methods. The main body of the article discusses why the European Union perceives globalisation as the challenge and opportunity for regions’ competitiveness.

RESEARCH RESULTS: The analysis shows that the scope of competences of the EU with regard to regional development management was laid out in the Treaty on the Functioning of the European Union; however, the globalisation affects the formulation of strategic directions of EU actions in this area and
implementation of relevant interventions of the European Regional Development Fund and European Social Fund.

CONCLUSIONS, INNOVATIONS AND RECOMMENDATIONS: In accordance to the European Commission globalisation creates conditions and challenges in the scope of regions’ economic development. In order to prepare the regions for global competitiveness in the EU, authority is spread among different decision making and implementing levels which have the sources and knowledge required in the process of increasing regions’ competitiveness.

KEYWORDS:
competitiveness, European Union, globalisation, multi-level governance, region

INTRODUCTION

Globalisation processes, visible in different aspects of the society and economy, are widely described in scientific literature and affect countries and their national economies, as well as territorial units, e.g. regions. Globalisation simultaneously results in an increase of interdependence between different entities and addressees of the policies and an increase of their susceptibility to external factors, originating at the global level. One result of globalisation processes is the increase in competitive pressure towards territorial units in which economic processes take place, which concurrently leads to the emergence of a new political order. This process is not only apparent in the manner governance and development management is carried out by nation states, but also in relations to institutions at transnational and regional decision-making and implementing levels. In the political and economic reality of the integrating Europe, individual states — construed as sovereign political entities — lose their monopoly for controlling the dynamics of economic processes taking place within their territories. On the other hand, in accordance to Keating (2004, pp. 10-11) we observe the increase of significance the territory and its specific features, connected with institutional and cultural order which influence on the economic processes in regional level.

This article attempts to explain why the European Union perceives globalisation as a challenge for regional development and how this
assumption influences on regional development management in the European Union. The article characterises the scope of official authority of the EU in relation to determining strategic priorities, programming and financing regional development of member states, as well as instruments for support of regions’ competitiveness implemented under the 2014-2020 financial perspective. Furthermore, the qualitative role of regions in the process of improving economic competitiveness is discussed in the context of available instruments within the EU regional policy. Regions’ capacity to govern development is determined by numerous political and economic factors such as the nature of the territorial division of the state, access to resources and endogenous potential; We also have to remember about the institutional density and cultural processes enumerated by Keating, however, the article focuses solely on regions’ opportunities which became available thanks to their membership in the EU.

As demonstrated in the next part of the article, the globalisation is estimated by the EU both as the costs and benefits and reinforces the significance of EU institutions and regions in the process of developing and implementing solutions for increase of regional competitiveness; thereby, the pressure supports the multi-level governance (MLG) system of power, whereby the state loses its monopoly. Within the EU political system, power is dispersed between different decision-making levels which perform different roles within the framework of that system (Czaputowicz, 2018, pp. 174-175). MLG was defined for the first time by Gary Marks in the context of how the EU functioned after the Maastricht Treaty and has since been the subject of many academic analysis of governance processes in a system where power is spread between different decision-making levels and actors (Stephenson, 2013, pp. 818-820). This article presents an analysis of the perspective of deepening of the multi-level aspect of European integration in the context of management of regional development, under conditions of global competitive pressure, which requires a redefinition of the traditional model of governance and a shift towards decision-making and implementing solutions which support regions in the process of global competition.

The subject of analysis are EU documents such as strategies, communications, reports and regulations concerning regional development management instruments.
Globalisation is treated by the EC as the complex phenomenon which impact is not universal and vary according to the varied regions and economic sectors. This process offers incentives for the regions with high level of productivity, employment and educational attainment and some disadvantages especially for those which have a high share of employment in traditional sectors, where competitive advantage is based on low cost factors. EC claims that the ability to compete in products and services with high knowledge content can generate profits from globalisation for the European regions. Most important advantages for competitive regions connected with globalisation are the following: better living standard, lower prices, a wider choice of goods, more attractive wages for skilled labour force. Non competitive regions are affected by negative changes like lowered living standards, reduction of economic activities free to relocate to where conditions are more favourable, job losses, a reduction of real wages for unskilled jobs and overall reduction of social welfare (Commission of the European Communities, 2009, pp. 8-10).

The diversity in regions’ capacity and ability to adapt to the requirements of global competition also results in them having a heterogeneous level of development. Inequalities in development between regions is evidence of diversification of their competitive position. This phenomenon is also apparent at NUTS-2 level EU regions, whose level of competitiveness has been measured since 2012 and summarised in the European Regional Competitiveness Index, which is published on a triennial basis. The most recent, 2019 results measure 70 indicators which affect the competitiveness of a region, including economic indicators (concerning the level of GDP or labour market participation) and indicators related to innovativeness, quality of human capital, education, health services or quality of management in EU regions. The results clearly demonstrate that there is significant disproportion in terms of regions’ competitiveness, including within a single member state (Annoni, Dijkstra, 2019).

In Reflection Paper on Harnessing Globalisation, globalisation processes and their impact on the development of the EU are characterised by the EC as a challenge which simultaneously creates
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a number of risks and opportunities. In order to meet the demands of global competition, the EU invests in innovations and development of human capital which opens opportunities for European companies to compete on world markets. This analysis also applies to regional economies which, according to the EC, on the one hand, are the largest beneficiaries and, on the other hand, are potentially most punished by global competitiveness. Regions that are capable of withstanding competitive pressure gain a comparative advantage in the world economy, while other regions are at risk of economic decline and job losses. The above diagnosis was the groundwork for formulating recommendations in the scope of change governance in response to globalisation. Therefore, the system for governance of adjusting to the challenges of globalisation should, in the EC’s view, be multi-level, divided between EU, state, regional and local institutions (European Commission, 2017, pp. 16-20).

THE EUROPEAN UNION AS AN ENTITY RESPONSIBLE FOR REGIONAL DEVELOPMENT MANAGEMENT IN THE CONTEXT OF GLOBAL COMPETITION

Legal and financial solutions for a regional development policy at a transnational level have been implemented in the Single European Act (SEA) in 1987, in which economic and social cohesion were stated as one of the objectives of the Community. According to SEA’s assumptions, the objective was to be attained through intervention by the structural funds (Michalewska-Pawlak, 2016, p.139). According to the Treaty on the Functioning of the European Union, competences connected with management of regional development, formally referred to as action on economic, social and territorial cohesion, are divided between the EU and its member states. At a transnational level, the European Commission is the key institution which sets the objectives, priorities and directions of regional development management (Mendez, Bachtler, 2015, p. 34).

In the first years the regional development governance operated at a transnational level, objectives connected with achieving cohesion
through reduction of disparities in the level of development between regions were in the majority. Since 2000, alongside adoption of the Lisbon Strategy, there has been a gradual reorientation of regional policy objectives towards creating conditions for improvement of regional competitiveness. The main objective of the Lisbon Strategy was to make the EU the most competitive economy in the world; it is noteworthy, that EU regions were supposed to contribute to this objective (European Council, 2000). Despite that the goal was not achieved, and researchers and experts found a number of issues connected with, among other things, formulation of divergent objectives and implementation of the strategy (por. Grosse, 2010; Meyer et al., 2007), since 2000 the EU regional policy is predominantly oriented towards building an economy based on knowledge and innovation as a source of competitive advantage of the entire Union, as well as individual regions in the world economy. In case of the Lisbon Strategy, the barrier to implementation of successful actions which were to improve the economy of the EU and its regions was the fact that the EC failed to develop successful solutions for implementing strategic objectives.

The correlation between innovativeness and increase of economic competitiveness is emphasised by the next EU development strategy. Europe 2020, which was developed by the EC in 2010, sets smart and sustainable development, utilising knowledge and innovations based on efficient use of resources and support of social inclusion, which takes into account high employment, as its development priority (European Commission, 2010, p. 10). On the one hand, the strategy aims to support the entrepreneurial sector by internationalising and expanding it into global markets; on the other hand, new green technologies were to be developed and utilised by companies in the EU, making them leaders of eco-innovation (Grosse, 2010, p. 15). Therefore, environment protection, efficient resource management and combating climate change are not only important for the EU from an ecological standpoint, but are also its idea on how to improve the competitive position of its economic operators who implement such solutions.

The component of the strategy related to social issues is primarily connected with the paradigm of investing in human capital. In light of its assumptions, the strategy to combat poverty and social
exclusion is based on integration of groups at risk of social exclusion with the labour market. Factors which are the foundation of the economic competitiveness of the EU and its regions is not limited to innovations and technologies; equally important are human capital resources, which are indispensable in the process of generating economic growth (Klimowicz et al., 2018, pp. 68-69). Social innovations have been engaged in the process of competitive knowledge based economy creation at regional level (Wiktorska-Święcka, 2015, p. 78).

In order to measure and monitor the implementation of the Europe 2020 strategy, the EC introduced a system of indicators applicable to the postulated targets: participation of people aged 2064 in the labour market at the level of 75%, expenditure on R&D at the level of 3% of the EU’s GDP, reduction of CO₂ emissions by 20%, increase in use of renewable energy by 20%, increase in energy efficiency by 20%, reduction of the number early school leavers to 10%, increase in the number of degree-holders to 40% and reduction of the number of people at risk of poverty in the EU by 20 million (European Commission, 2010, pp. 10-11). It is worth noting that these indicators were assigned to the entire EU. Individual member states have different obligations concerning the extent to which the indicators are implemented and, within the open coordination framework, they take independent decisions on how the strategy’s objectives are achieved. The fact that there are no implementing powers in the scope of enforcing the objectives of the strategy at a transnational level reinforces the multi-level nature of the decision-making and implementing powers in development management.

OVERVIEW OF INSTRUMENTS FOR SUPPORT OF REGIONAL COMPETITIVENESS IN THE EU

Linking financial instruments for management of regional development with objectives connected with increase of competitiveness of the EU economy through investments in innovation was introduced as part of implementation of the revised Lisbon Strategy in the 2007-2013 financial perspective in order to increase efficiency of meeting pro-competition aims of the EU. Member states and regions were required to allocate at least 60% of EU funding in regions eligible
under the Convergence objective and 75% in regions eligible under the Regional competitiveness and employment objective to the so-called ‘pro-Lisbon’ expenditures, i.e. projects which contribute to the increase of competitiveness of EU regions (Murzyn, 2016, p. 171).

Structural funds, which are key to implementing objectives defined in the Europe 2020 strategy, still remain the most important instrument for support of competitiveness of EU regions. In the context of contributing to the increase of competitiveness of regional economies, the European Regional Development Fund (ERDF) is the most significant instrument. In the 2014-2020 perspective, the ERDF supported, among other things, research and innovations, development of information and communication technologies, increase of competitiveness of SMEs; hence, building economies based on knowledge in EU regions was the primary focus. Funds were given to areas which varied significantly in terms of social and economic circumstances, not only to the poorest regions. Therefore, the fact that competitiveness is not a state, but a dynamic process was accepted; accordingly, the most developed territorial units are under constant competitive pressure and must keep developing their economic potential in order to meet these demands. Innovativeness, entrepreneurship and new technologies are doubtlessly of primary significance; concentration of ERDF funding on these activities testifies to that. The less developed regions, regions in transition and more developed regions are required to allocate 50%, 60% and 80% of ERDF resources respectively to implementing two out of four major priorities which serve to develop an economy based on knowledge and efficient use of resources (Regulation EU No 1301/2013).

The second fund which supports increase of regional competitiveness is the European Social Fund (ESF). Although it has operated since the 1960s, its priorities have changed over time. The ESF was created with the purpose of supporting geographical and labour mobility of employees in the European Economic Community and in its initial period it was oriented towards combatting unemployment and developing national labour markets (Zarębski, 2010, pp. 112-113).

Between 2014 and 2020, at the Union, national and regional levels, the ESF focused on priorities which aimed to adapt human resources and enterprises to face challenges posed by globalisation and ensuing economic and social change. The ESF’s priorities that
may contribute to improving regions’ competitiveness include the following: employment activation of the labour force, modernisation of education and training systems to adjust them to the requirements of the labour market and needs of the regional economy and support of labour mobility. In the context of improving the quality of human capital, there are investments in education, trainings and lifelong learning (Regulation EU No 1303/2013). Knowledge, skills and social competencies of a region’s inhabitants directly translate into the level of innovativeness of a local economy because individuals convey knowledge in regional economies. The quality of human capital in an economy founded on knowledge is one of the decisive factors in measuring a region’s investment attractiveness; hence, EU regions access the ESF in order to develop the labour force, while having the needs of regional economies in mind.

THE ROLE OF REGIONS IN THE PROCESS OF PROGRAMMING AND IMPLEMENTING SMART SPECIALISATION STRATEGIES

An intrinsic characteristic of management of regional development processes in the EU is the place-based nature of actions and commitment to the utilisation of diverse and endogenous potential of individual regions. The first consequence applies to a situation which, in light of unequal development potential of individual territorial units, e.g. hub or peripheral regions, entails an irreconcilable discrepancy in the level of their competitiveness. The second consequence is connected with the process of empowerment of regions as units of territorial administration which, due to direct access to knowledge and information about specific needs and developmental conditions in their region, share responsibility for regional development management processes.

The multi-level political system of the EU creates direct possibilities for the Union regions’ involvement in the process of improving their competitiveness. One of the instruments for building and bolstering competitiveness of regional economies is smart specialisation strategies (RIS3). In the 2014-2020 financial perspective, all EU
regions, regardless of their level of development and competitive position, which are interested in receiving financial aid from the ERDF must programme such strategies (ibidem, p. 338). Implementation of a strategic approach aims to assist regions in diagnosing the innovative potential of their economies, analysing their available resources and advantages and formulating a limited list of priorities for economic growth of the region. Furthermore, the strategic approach is an aspect of implementing a reformed regional policy model which is based on a place-based policy (Pavone et al., pp. 3-4).

McCann and Ortega-Argilés (2016, pp. 281-282) argue that “the smart specialisation approach offers a policy-prioritisation framework for thinking about resource allocation issues logic and a way forward for regions making policy choices in difficult and challenging budgetary environments”. The intention of RIS3 is to allow for more efficient allocation of financial resources in sectors of local economies which are able to successfully utilise knowledge and innovations in order to improve competitiveness of products and services. Implementation of the strategy means access to ERDF resources for projects carried out by regional economic operators who, thanks to the allocated funding, are able to improve their competitive position in the economy.

Actions in the scope of regional development management taken by EU regions are rooted in the knowledge of the specificity of the potential and development barriers of a region. Furthermore, these actions also create institutional conditions for development of knowledge and innovation and their transfer from the R&D sector to regional companies. Thus, they are bottom-up initiatives, which account for the specificity of each region. Through RIS3, it is possible to support modernisation of traditional branches of regional economies by improving their innovativeness; create new areas of economic activity for local businesses; as well as be oriented towards finding solutions to a series of problems or challenges regional economic growth faces, which are connected with social, environmental or technological changes (Uyarra et al., 2018). The process of programming regional strategic development priorities is itself different than the traditional process of programming a public policy in which administration plays a key role. As primary stakeholders of RIS3, regional entrepreneurs are directly involved in the selection of smart specialisations,
in tight cooperation with research centres and universities, which should be able to respond to enterprises’ developmental needs and possibilities. What follows is that the range of entities participating in regional development management includes the private sector, whose resources of knowledge are utilised in defining actions for increasing the economic competitiveness of the region. The process is referred to as the entrepreneurial process of discovery, which is characterised by mobilisation of stakeholders and use of research-based methodologies and approaches (Eklinder-Frick et al., 2020).

The final and complete evaluation of the results of RIS3 implementation in the context of increase of regions’ competitiveness will be possible after 2022; however, the EC declares that it intends to continue to implement this instrument in the upcoming 2021-2027 financial perspective (Michalewska-Pawlak, 2019, p. 72). After 2020 new challenges for regional development in the EU appear. The European Green Deal as the new growth strategy with its priorities focus on resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use (European Commission, 2019) will probably determine the RIS3 programming and implementation processes.

CONCLUSIONS AND RECOMMENDATIONS

The analysis put forward in the article indicates that the increasing pressure of global competition empowers non-state actors in the regional development management process. EU institutions have regulatory and financial resources which both define their competences in the scope of managing regional development and formulating strategic objectives for increase of competitiveness of the EU economy. At the regional level of governance, a formula for allocating structural funds based on mandatory smart specialisation strategies incentivises regions to perform in-depth analyses of their development potential and develop original ideas for growing their economies. Despite that, as statistics prove, competitive potential of the EU’s regions is diversified, and the characteristics and location of a territory are very often decisive factors about their position in
the global economy, rational governance based on investing public resources in actions that increase regional competitiveness, which are implemented by public authorities at different levels, may improve the equality of opportunities in less developed regions.

Additionally, it seems justified to recommend further research on how pandemic situation affects the EU regions competitiveness and the policy responses for COVID-19 crisis (Kudelko, Rynio, 2020). The regional impact of COVID-19 is varied in the EU and probably it can generate the changes in the EU system of regional management in the nearest future.

Finally, it is worth to signal an issue which, even though it is beyond the scope of this article, is relevant to the subject of this paper. The sole fact that regions were given extensive competences in the scope of allocation of funds for implementing regional development strategies is not, however, a decisive factor which proves that regions, as administrative units, are capable of efficient governance of development processes. In order for a multi-level governance system at a regional level to function, it is vital that not only decision-making and implementing powers be decentralised and adequate funding be provided, but also that the endogenous institutional governance conditions for development management be considered at the level of the region.

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