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Reconsidering smart specialization policy

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structure

1. smart specialization policy in the EU
2. 5 key ingredients:
 - related or unrelated diversification
 - institutional context
 - networks
 - agents of change
 - inclusive growth



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1. smart specialization policy in the EU

- objective of **smart specialization** is to develop **new activities** in regions, rather than to strengthen existing specializations in regions
- **some features** of smart specialization policy:
 - no 'one-size-fits all' policy: bottom-up strategy
 - no duplication of policy: not 'more of the same'
 - policy targeting potential new activities based on regional capabilities, rather than just being 'hot'



2. related or unrelated diversification

- smart specialization policy requires a basic understanding of **how regions diversify**, and **why their capacity** to diversify **differs** between regions?
- **local capabilities** condition which new activities will be feasible to develop: they provide **opportunities** but also set **limits** to the diversification process in regions
- studies: **related diversification is rule**, unrelated diversification is exception (Hidalgo et al 2018)





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2. related or unrelated diversification

region A



region B



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2. related or unrelated diversification?

- not easy to derive policy implications: **2 camps**
- **first camp:** focus on related diversification
- **relatedness** point of departure: Smart Specialization policy based on local related capabilities
- potential of regions to diversify is not evenly distributed (Balland et al 2018): **average relatedness**
- **policy** intervention more likely to be **effective**
- **critique:**
 - related diversification will happen anyhow
 - there is still a potential risk of lock-in

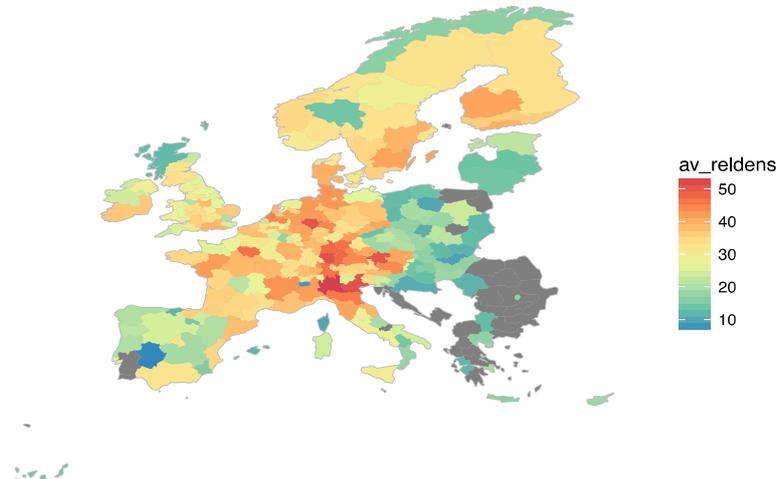


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average relatedness of European regions



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Source: Balland et al. (2018)



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2. related or unrelated diversification?

- **second camp:** focus on unrelated diversification
- **unrelatedness** point of departure:
 - (1) local unrelated capabilities (SmartSpec policy)
 - (2) not based on local capabilities (not SmartSpec policy)
- **critique:**
 - high risk policy failure
 - risk of duplication



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2. related or unrelated diversification?

- unrelated diversification might give a **‘small’ economic bonus** at intermediate stage of development (Pinheiro et al 2018): but more research is needed
- **conditions** that favor **unrelated diversification**:
 - unrelated variety (Castaldi et al. 2015)
 - research/innovation infrastructure (Xiao et al. 2018)
 - strong state intervention (Lee 2018)
 - non-local agents (like MNE’s) (Neffke et al. 2018)



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3. role of institutions?

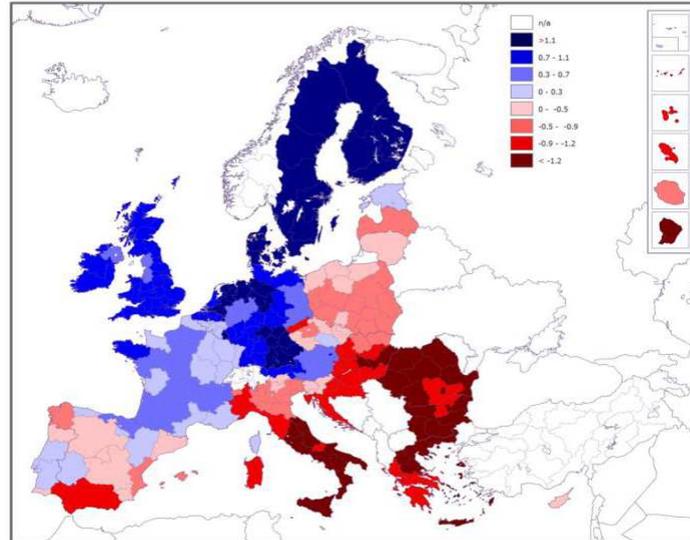
- Smart Spec policy puts **high demands on policy makers**
- potential **effectiveness of policy** is depending not only on regional capabilities, but also on **institutional context**
- but **institutional context** differs **across European regions**
 - national institutions (Boschma and Capone 2015)
 - degree of political autonomy (Pike and Rodriguez Pose 2011)
 - entrepreneurial culture (Andersson and Koster 2011)
 - quality of government (Charron et al. 2014)
 - informal institutions like social capital (Cortinovis et al. 2017)
- **weak institutional capacity** of **peripheral regions** in South and Eastern Europe: effective Smart Specialization policy?



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Quality of government 2017



Source: Charron and Lapuente 2018



4. role of networks?

- Smart Specialization: regional capabilities (**place-based**) but also relations (**network-based**)
- emphasis is on making **crossovers between activities**
 - to exploit potential of local (related) activities
 - lock-in risk of too much reliance on regional capabilities
- **network position of regions** differs widely in Europe:
 - **intra-regional networks** (openness, centrality, bridging): effect on regional diversification (Balland, Crespo, Vicente)
 - **inter-regional networks**: effect on diversification is higher when **related** to regional knowledge (absorptive capacity) (Grillitsch and Nilsson 2015; Miguelez and Moreno 2017)





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5. agents of change?

- **key agents** crucial for **diversification** process: they make crossovers between activities, and induce cross-fertilization
- **entrepreneurs**: new successful firms set up by entrepreneurs who come from related activities (Klepper 2007)
- **migrants**: labour mobility across regions (Hartog 2018) and role of return migrants (Saxenian 2006)
- inflow of **non-local firms** enhances unrelated diversification (Neffke et al 2018; Elekes et al. 2018)
- **network brokers**: MNE's, universities, policy makers, political leadership, etc.



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6. inclusive growth?

- Smart Spec policy not necessarily in line with objectives of **Cohesion policy**, despite a call from policy makers in the EU to **combine smart growth** and **inclusive growth**
- Smart Spec policy may **not be sufficient** to develop new activities in **peripheral regions** (McCann and Ortega-Argiles 2015; Morgan 2015) as main focus is on identifying and exploiting opportunities, but it does not tackle **structural weaknesses** in peripheral regions (Rodriguez Pose 2014):
 - low absorptive capacity of small firms
 - traditional approach to governance (no experimentation)
 - low quality of government
 - lack of culture of collaboration
 - dominance of local vested players



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6. inclusive growth?

- **social inequality within regions** is also high on the political agenda (Piketty et al.)
- should **social inequality within regions** be made part of Smart Specialization policy, and if so, how?
- so far, we have little understanding of the **link between diversification and social inequality within regions**
- under what circumstances will diversification lead to inclusive growth in regions, and what is role of policy?



7. concluding remarks

- objective of Smart Spec policy is to identify and build on **diversification potentials in regions**
- in order to be effective, policy should incorporate:
 - regional capabilities (related and unrelated)
 - institutional context
 - network position of region
 - agents of change
 - inclusiveness
- these issues need to be tackled in order to design a Smart Spec policy that is smart, inclusive and **evidence-based**





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thank you for your attention!



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