



Co-financed by the European Regional Development Fund

Inspire Policy Making with Territorial Evidence

POLICY BRIEF

Interregional relations in Europe

Introduction: The ESPON Applied Research project on Interregional Relations generated region-to-region data for all EU and EFTA regions comprising the trade of goods and services, people (migration, tourism, and labour), capital (FDI, remittances, and loans) and knowledge (Erasmus students, H2020 networks, and patents). The resulting datasets are comparable to what countries such as the USA, China, and Canada have been producing for decades.

The empirical findings suggest that most flows go first to neighbouring regions in the same country, then to other regions in the same country, and then to/from the capital region. Although home bias is a key puzzle, the growing integration of Europe's regional economies is evident. Moreover, flows between Metropolitan European Growth Areas are significant. Small and distant regions — rural, remote, and peripheral areas or islands — display low-intensity flows, and sometimes strong specialization on a small set of flows, depending on distance and market size.

The econometric analyses conducted on barriers and drivers for each flow point to market size acting as a driver and distance as a barrier. This explains a significant part of the flows of goods, services, migration, patents, H2020 participation, and FDIs. Sharing a common currency (the Euro) or language is a driver of flows as well. There are several exceptions to this general framework. Flows of remittances actually go in the opposite direction — from the centre to the periphery — and flows of students and tourism head towards socially constructed hotspots.

To better understand the similarities and differences between regions in terms of flows, regional typologies based solely on the characteristics of the flows have been characterised. Findings highlight potential cooperation platforms for regions with common flow characteristics which go beyond their size, location or socioeconomic profile.

Building upon long-term trends and patterns in interregional relations, this policy brief introduces first reflections on European fragilities to recover from successive shocks. Elaborating on possible cumulative impacts of the COVID pandemic, the war against Ukraine and climate change, it offers insights on how these might affect regional economies in Europe, it aims at feeding the policy debate towards enhanced European strategic autonomy in times of crises.

KEY POLICY MESSAGES

- **Europe has been through the worst shock ever (COVID19),** but the recovery is hampered by the consequences of the war. In search for “bouncing forward”, the overlapping crises might become the norm and require revised priorities for EU policies, and Cohesion Policy in particular.
- **Eastern Europe benefits a lot from the NGEU but suffers the most from the war.** Attention shall be paid to political tensions there, as well as indirect effects elsewhere. Warning also are made about the effects on employment via prices, beyond the exposure in trade and growth.
- **Europe and Russia seem to heading up towards decoupling of their economy.** Regardless how fast and how far, this could happen, the current situation in Europe would already call for new sets of policy answers to avoid further amplification of the shock, starting with fiscal initiatives and with territorially focused policies to support most affected sectors and households.

1 Common patterns in European interregional relations (2010-2018)

1.1 Pan-European analysis

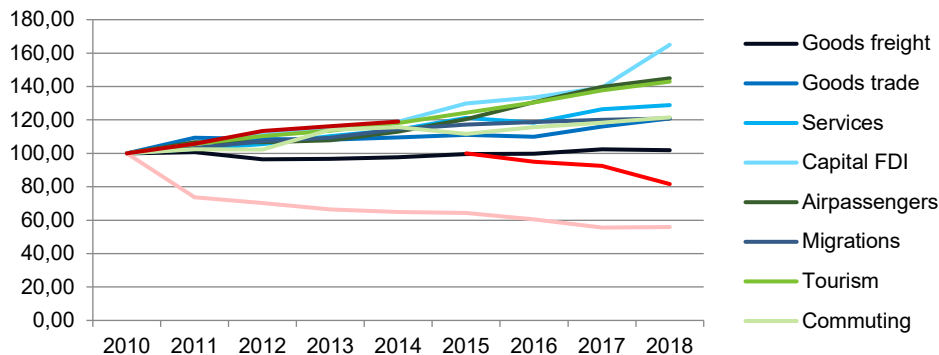
1.1.1 Systemic trends in interregional flows

Interregional flows are growing throughout Europe. The average cumulative increase in 11 flows for 2010-2018 was 22.5%. However, there are noteworthy differences between types of flows. The increase in air-traffic dynamics (passenger traffic) above the level recorded for tourism indicates the growing importance of air transport in intra-European travel (at least until 2018, i.e. before the Covid-19 pandemic). This demonstrates that the challenge for transport policy remains the strengthening of long-distance rail links. Past trends indirectly indicate that there is a concentration of tourist traffic in air transport, which means an increasing role for it in greenhouse gas emissions.

Migration dynamics are stabilising. This may imply a levelling off of differences in living standards and well-being between different parts of Europe as well as an indirect effect of ageing. As living standards in the European Union become more equal, internal flows may decrease (according to classical migration theory) or stabilize. For residents of Central and Eastern Europe, wages in the European core in 2018 were no longer as attractive as they were a dozen years earlier. Moreover, in some peripheral areas resources for migration are running out (as the remaining population is mainly elderly). Because of these processes, internal migration is gradually being replaced by migration inflows from outside the ESPON space.

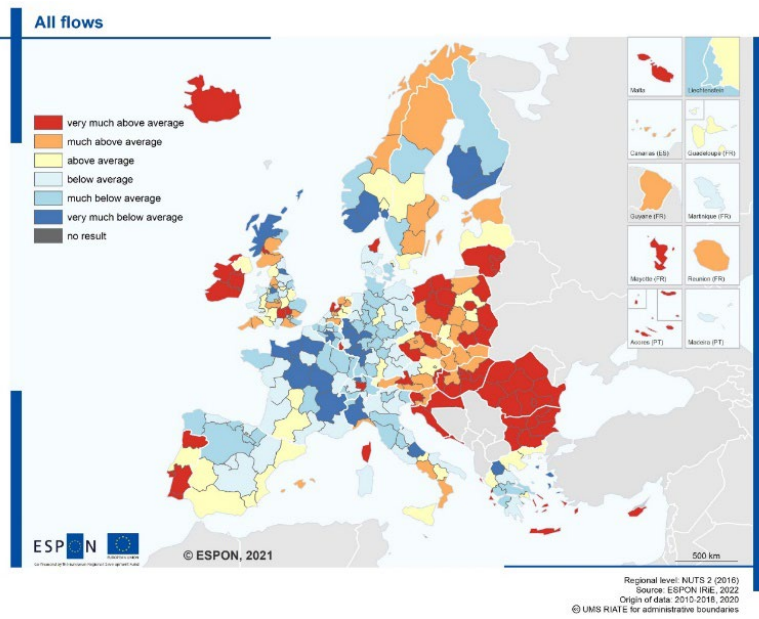
The highest dynamics of capital FDI flows with a simultaneous decline in the intensity of knowledge flows (patents) may indicate that integration in the R&D sector is not keeping pace with economic integration. This indirectly indicates that EU support to date (cohesion policy) has insufficiently promoted the spread of R&D to peripheral areas.

Figure 1.1: Evolution of R2R flows (index 100 = base year 2010)



However, the dynamics of the flows are not only thematically but also territorially diverse. In synthetic terms, flow convergence is clearly visible; annual increases in flows are very much above average in Europe's less-developed and peripheral regions, especially in countries that have joined the European Union since 2004. These are catching up quickly and are increasingly becoming networked. It is also worth noting that the dynamics of flows change over time. For example, in Poland, Lithuania, and Latvia migration flows are significantly below the average for the analysed period, because migration outflows to western countries peaked there in 2004-2010 (just after their EU accession).

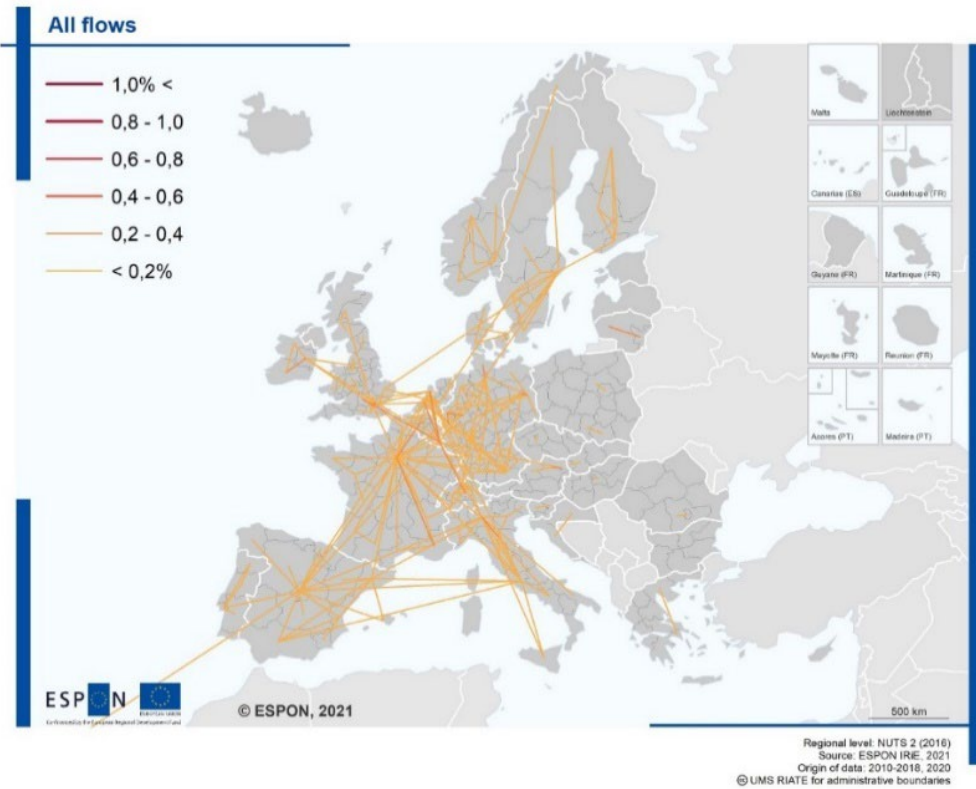
Figure 1.2: Dynamics of regions' exponential trendline of total (outflow and inflow) flow intensity



1.1.2 Pan-European distribution of flows

The analysis shed light on a network of metropolises that concentrate the strongest flows, mainly in Western and northern Europe and mostly near the European core. These metropolises anchor Europe's flows.

Figure 1.3: Flow size by share of total Region-to-Region flows

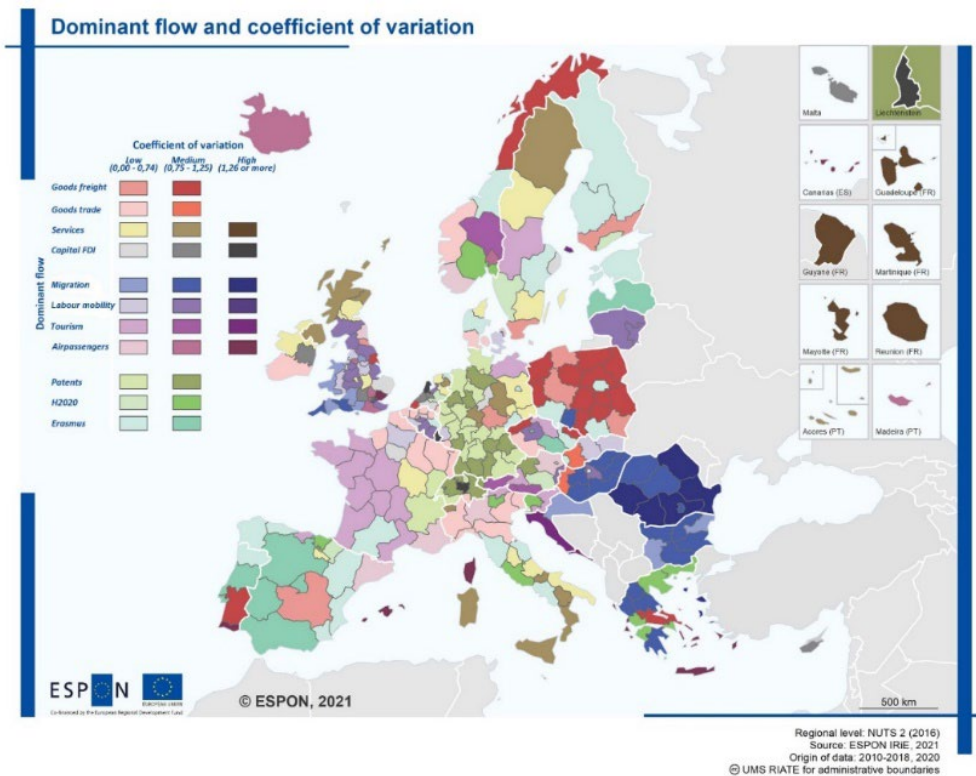


Moreover, in many countries, the most intense flows are between capital cities and regions in their immediate vicinity. This is the result of several elements, such as transport hubs, commuting distance, and suburbanization. Regions with seaports, financial centres, and such are also large hubs for economic flows. Meanwhile, the lowest flows are in the peripheral regions of the ESPON space, affected by their distance from the European core.

Regions in countries that joined the European Union after 2004 (in particular Poland, Slovakia, Hungary, Romania, Bulgaria, and Croatia) usually show a lower value of flows. Interestingly, when we weight by population, other peripheral regions emerge in the “game of flows”, e.g. Navarra and the Basque Country in Spain, Scotland in the UK, and Iceland.

1.1.3 Regional exposure and resilience

Figure 1.4: Concentration of dependencies on individual flows

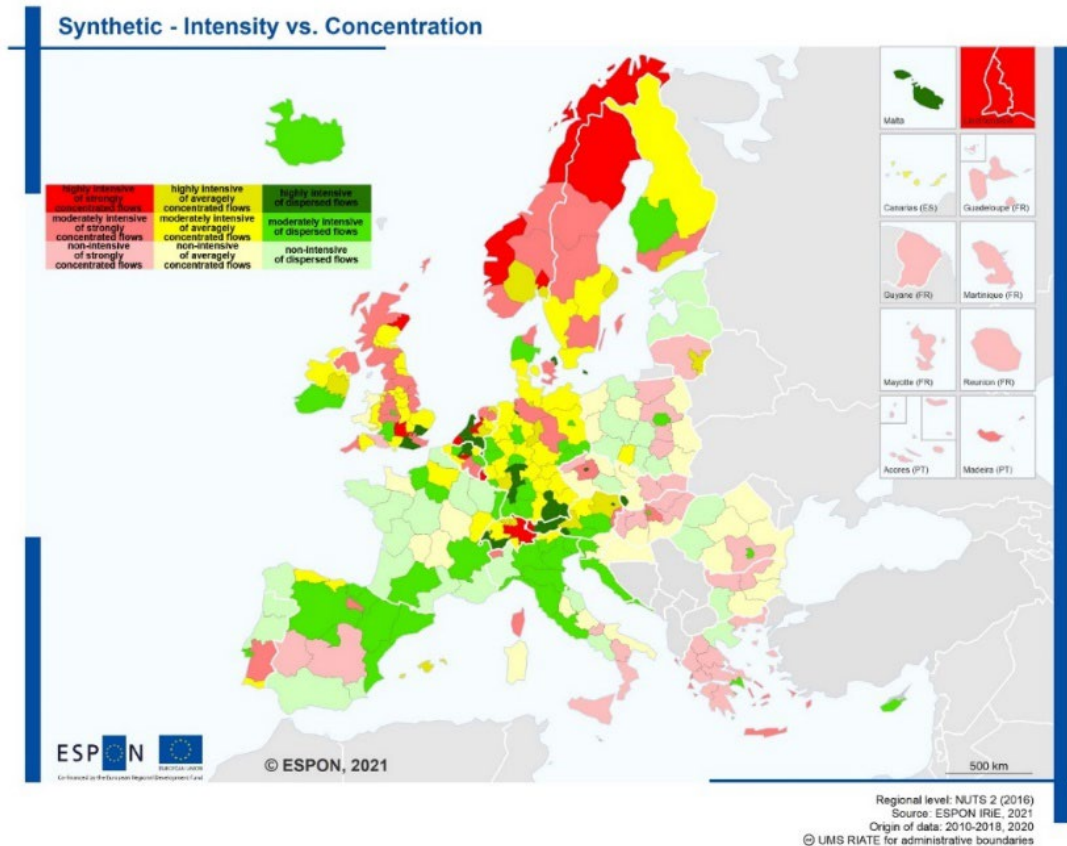


In accordance with the literature, a region’s exposure or resilience to interregional dynamics might depend on its diversity of external relations. In this approach, regions that have a balanced composition of flows, instead of a concentration in one, might be less exposed to external shocks or policy decisions affecting one flow in particular.

The analysis shows that metropolises, including state capitals, generally have a much more dispersed involvement in particular flows, while low-population, peripheral areas are more likely to have a high concentration in one flow (structural concentration). The above map identifies flows that are strongly dominant over all other flows, like migration in Romania and FDI in Luxembourg.

Another view of concentration is the spatial approach. The more partners a region interacts with, the more resilient that region might be.

Figure 1.5: Region types by total size of flows per inhabitant and the spatial concentration of their relations



Regions with highly intensive (high intensity in colour) and dispersed flows (green) are located mainly in the European core (the Benelux countries, the United Kingdom, and northern Italy), but this group also includes capitals outside the European core, such as Copenhagen, Prague, and Bratislava. In turn, regions with a strong spatial concentration (red) are mainly peripheral to the centroid of the ESPON space. An exception to the former are financial centres, for which flows are usually also strongly spatially concentrated. On the other hand, many of the more peripheral regions might be over-exposed to external shocks. This applies to shocks associated with both industry collapse (e.g. European Green Deal's effects on the coal industry) and restrictions on certain destinations (e.g. Brexit).

This approach suggests that regional development strategies could consider promoting investment in efforts to protect and foster key flows, to achieve a balanced pattern of interregional relations, and to minimize strong dependencies. In that sense, public intervention should favour the diversification of regions' external relations. This includes both promoting different types of external flows and increasing the number of geographically defined partners. In this context, a mosaic pattern of high intensity flows with many regional partners is positive.

2 New globalisation trends, the growing appearance of “black swans”

In the current space of flows, a region's position is determined by its relations with the system of economic and social interactions. To properly assess this position, the volume and structure of flows should be known, but also the vulnerability of the system to changes caused by external factors. Combining quantitative (change simulation) and qualitative (stakeholder perceptions), it becomes possible to determine a region's resilience and exposure to unexpected shocks (black swans) or to changes in policy.

Five scenarios have been considered.

One is the **New Globalisation** meta-scenario, starting in 2016 under Donald Trump's US Presidency. Another is the EU's policy response to it, including the **European Green Deal**, approved in 2019 and designed to strengthen the EU's values and its green impact in the world. Finally three subsequent “black swan” events have been selected: **Brexit** (2016-2019); **Covid-19** (2020-2022), with a focus on long-term recovery; and the Aggression against **Ukraine** (2022).

These scenarios give an idea of the **possible magnitude** of overlapping shocks and how they would hit across sectors and territories, thanks to the new EUREGIO-2017 Input-Output Tables and quantitative modelling. While these scenarios are based – by design – on hypotheses, with assumptions that could be fine-tuned for additional events, the **trends they reveal need to be dealt with**. Their ability to uncover **regional vulnerabilities** unapparent at the macro level can be most useful, to better steer policy responses to improve **resilience and cohesion**.

For instance, while the shock of the war against Ukraine is huge and may deliver such a blow as to change the game, leading Europeans to move faster towards a more autonomous economic base, its adverse effects so far have been significantly less, in terms of GDP and employment, than those of Covid-19. Moreover, the effects do not appear in the same places: Covid's most negative impacts have been in the south, those of the Ukraine war in the east.

Results confirm that different factors, different levels of policies, and specific stakeholders determine both exposure to shocks and the means to counteract them. The influence of the European Union is indirect and reflected in, inter alia, cohesion policy, which can increase the resilience of regions. Region size has proven to be important, as has the scope of competences at different levels of territorial governance. The quantitative analysis also confirms that a region's vulnerability to economic shocks is also determined by its sectoral specialisation, its country's inclusion in the group of 'cohesion countries', and the duration of its country's EU membership. Even shocks that are strongly related to individual sectors (New Globalisation, European Green Deal – mining) leave some visible impact on remote regions of the ESPON space. This confirms the existence of a multidimensional pattern of relationships between regions in Europe, where distance is only one of many explanatory factors.

Qualitative workshops with stakeholders in the regions of Navarra (Spain), Silesia (Poland), Zuid-Holland (Netherlands) and the Eastern and Midland Region (Ireland) have confirmed the importance of gauging the vulnerability to external shocks of both individual regions and the entire European system. Moreover, the workshops have highlighted how regional policymakers identify their priorities regarding network roles and flows, use uncertainty to define new policy ambitions, and in what situations the regions can become actors guiding the changes brought by the above scenarios, rather than passive observers. However, the scale of this exercise is insufficient to provide a comprehensive understanding of the vulnerability or guiding role of all regions to various potential external influences. The problem requires further research.

The qualitative study indicated that the impact of some scenarios on the position of regions and the pattern of flows may turn out to be greater than the quantitative studies show. This is particularly true for the impact of the European Green Deal, which touches upon many areas of economic and social life. Stakeholders stressed its importance for virtually all regions surveyed, pointing out its impact on agriculture, transport, and other sectors. They expect a kind of green protectionism to emerge across the European Union.

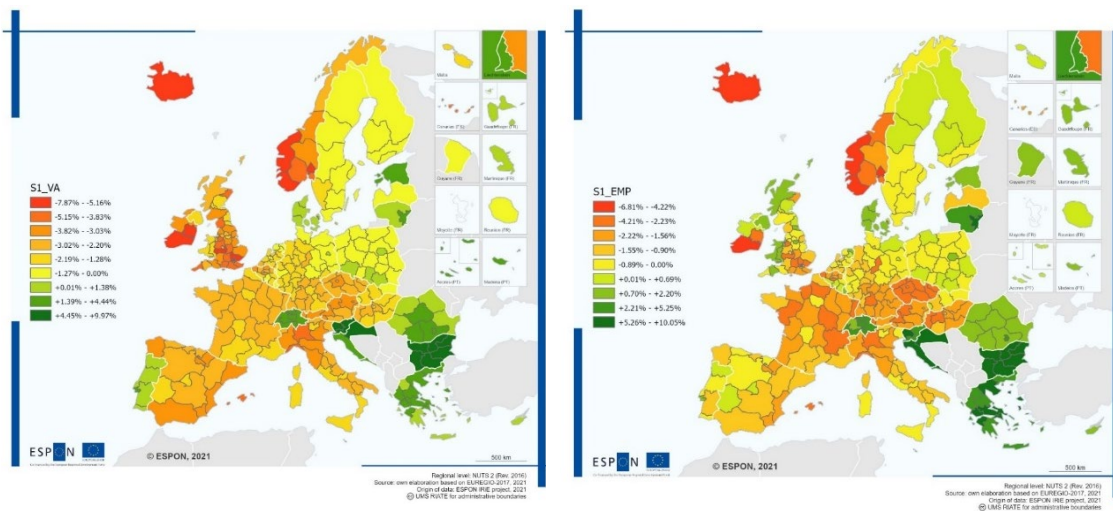
Qualitative studies have shown that the shocks analysed might change the internal structure of regional economies. The governance level of regions also determines their ability to create their own policies on economic and social flows (migration). This is particularly visible in self-governed regions (such as Navarra).

For this reason, among others, the distribution of flows should be considered in the context of territorial inequalities and the cohesion policy aimed at reducing them. It should be stressed that in the stakeholders' view these phenomena are strongly linked. An unregulated and unmonitored system of flows can lead to an increase in inequalities by, among other things, multiplying the number of intermediaries. These intermediaries play a modifying role, causing positive or negative effects of change to become spatially detached from their underlying causes. There is very little monitoring and control of such dependency chains at the EU level.

2.1.1 Covid-19 recovery

The impact of the Covid-19 pandemic cannot yet be assessed in the long term. Quantitatively, it is possible to analyse the distribution of negative effects in terms of added value and employment and positive effects in terms of the NGEU fund instrument used. Tools applied at European Union level do not always have a sufficient territorial dimension. This NGEU fund is no exception. It is distributed to individual Member States, and most of it to countries in the eastern and southern parts of the community. The results of the input-output analysis indicate no strong spill over effect in this case, and thus an equal effect throughout the community. In any case, the negative effects of 2020 are greater than the positive effects produced by the NGEU. In consequence, although it is the largest mobilization of EU funds in history, the NGEU is still unable to compensate for the largest economic shock experienced by the EU since World War II.

Figure 2.1: Estimations of value added (left) and employment change (right) 2020-2026. Europe after the pandemic and NGEU intervention

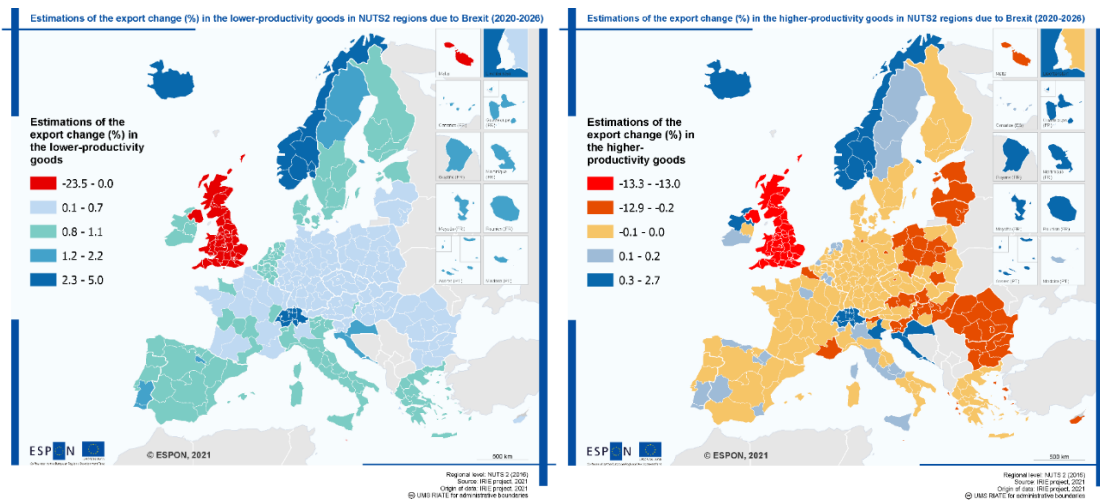


2.1.2 Brexit

Brexit seems to exert a greater negative influence on higher- than on lower-productivity goods. On the other hand, regions in Central-Eastern Europe seem resilient to Brexit, because of the negative change in their exports of goods or the weak increase in their exports of services.

A comparison of the results of the scenario analysis with those of the Pan-European analysis indicates that factors determining the exposure of regions to external shocks may also include geographic and sectoral concentration and, in some circumstances, geographic distance from the shock's source. However, the effect of both factors is not unambiguous. The Brexit shock shows that entities located in the vicinity of the UK (Ireland, but also the Netherlands) are at once more at risk (the UK is their key partner, generating a large proportion of flows) and better able to prepare for the expected changes in the pattern of linkages. As a result, the shock may paradoxically turn out to be positive or at least neutral for them.

Figure 2.2: Estimations of the export change (%) in lower-productivity (left) and higher-productivity (right) goods.



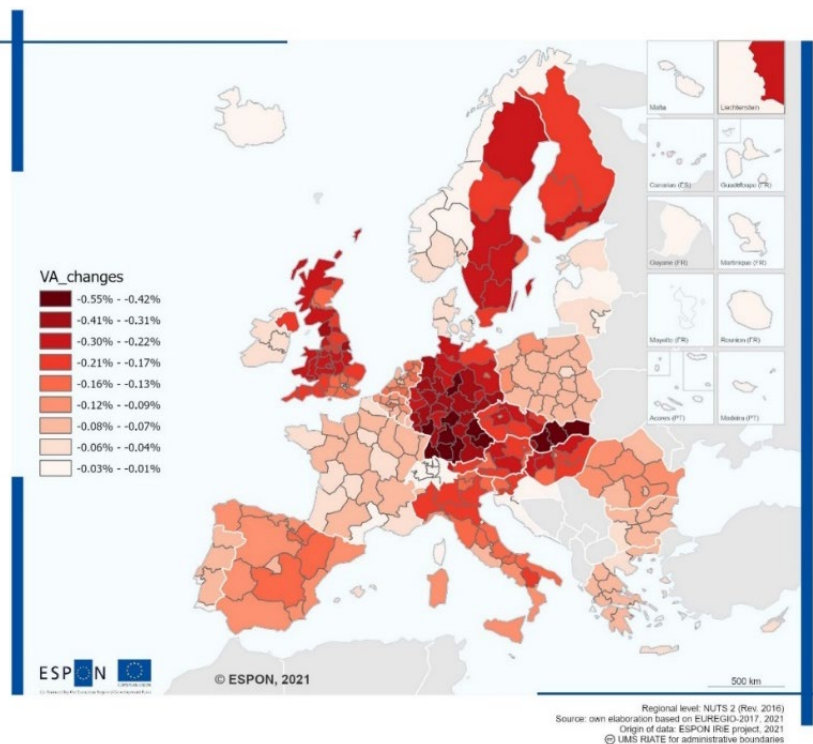
2.1.3 New globalization trends

The impact of new tariffs on the metals sector (iron, steel, and aluminium), of tariffs on products affected by the Boeing-Airbus trade dispute within the WTO, and on the 25% tariffs on the automotive sector have been estimated. Their aggregate effect is unremarkable, at least by comparison with the other scenarios.

Figure 2.3: Estimations of value added change (%). All sectors affected by all tariffs.

On the other hand, it is important to remember that the effect they do have results from the unilateral decision of a country, the US, that is not the main trading partner of any of the EU countries considered in isolation.

Under other circumstances a new tariff in a big market can have big effects on regions highly dependent on the sector, and these negative effects can in turn spill over into the rest of the EU's economy. It is also noteworthy that



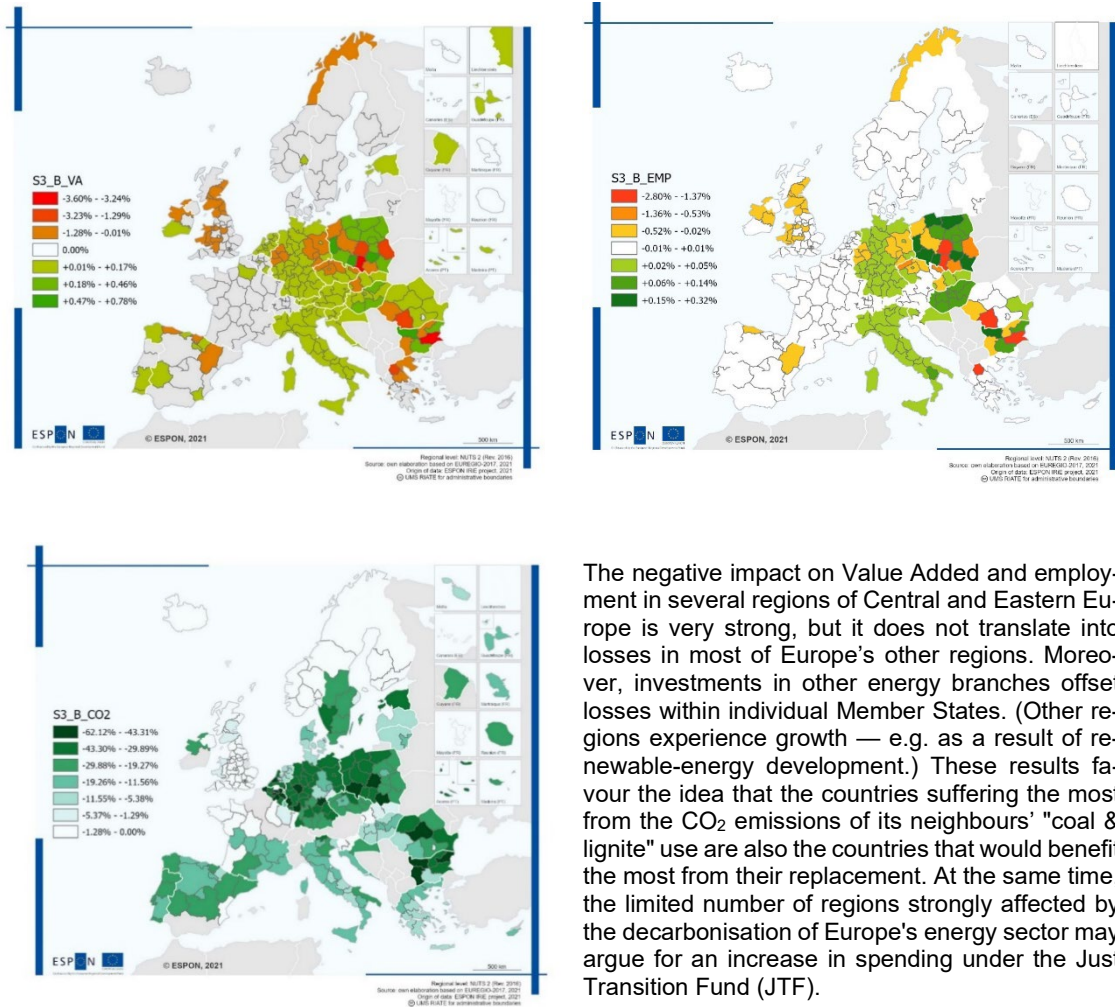
such shocks never come alone and overlap with other, present difficulties in some of these sectors, which are by definition exposed to great international competition, with tight mark-ups and difficult supply chains.

Future trade wars and geopolitical tensions between China, Russia, and the US, as well as all things related to technology and R&D, can also have strong impacts on the current trade structures of services and the interregional connections described here.

2.1.4 European Green Deal

This scenario assumes that the replacement of “coal & lignite” affects both the intermediate input for producing electric power and the removal of heating based on such energy.

Figure 2.4: Estimations of value added (left), employment (right) and CO₂ emissions (bottom) changes in 2020-2026. Decarbonization of energy production and end of coal heating



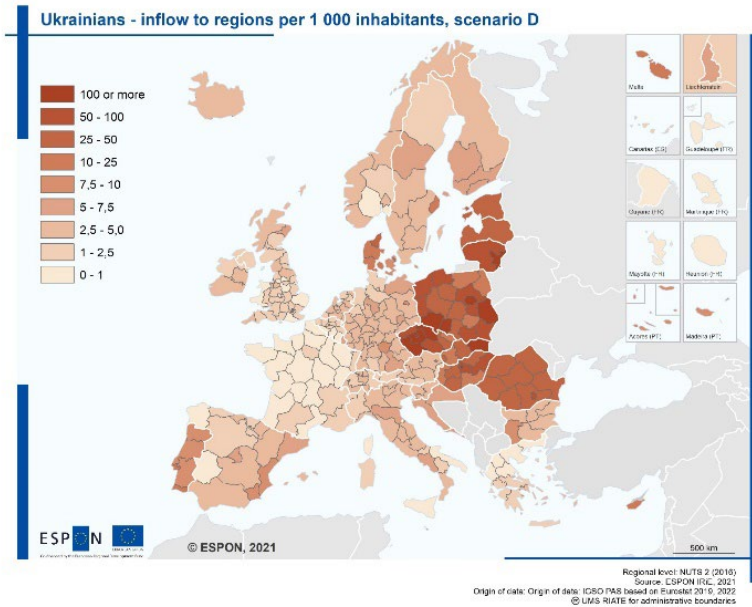
The negative impact on Value Added and employment in several regions of Central and Eastern Europe is very strong, but it does not translate into losses in most of Europe's other regions. Moreover, investments in other energy branches offset losses within individual Member States. (Other regions experience growth — e.g. as a result of renewable-energy development.) These results favour the idea that the countries suffering the most from the CO₂ emissions of its neighbours' "coal & lignite" use are also the countries that would benefit the most from their replacement. At the same time, the limited number of regions strongly affected by the decarbonisation of Europe's energy sector may argue for an increase in spending under the Just Transition Fund (JTF).

2.1.5 Aggression against Ukraine: welcoming Ukrainian refugees

As of June 2022, it is impossible to tell how the conflict will develop or how long it will last but few signals indicate that it could come quickly to an end. On the global and European scale, the war against Ukraine has had significant consequences in terms of restructuring trade ties and energy strategies. This includes the sanctions imposed on Russia, programmes to support the growing number of refugees, and pledges to support economic and infrastructural recovery in Ukraine.

In the worst of the proposed scenarios, the conflict lasts a long time. High-intensity war causes certain towns and regions to collapse and pushes the rest of the country toward economic failure. First-line countries become unable to accommodate succeeding waves of refugees as their numbers increase. As a result, more Ukrainians venture farther than the country of first contact. For this scenario, we can assume that approximately 30% of the population in regions previously not significantly affected and about 50% of internally displaced people become refugees. Total refugees exceed 10 million. Practically all of Romania, Hungary, Slovakia, Czechia, Poland, Lithuania, Latvia, and Estonia records population growth of almost 10 percent as a result of the refugee inflow. In Western Europe the figures are lower, but in some regions they exceed 1% of the previous population. This is observed in Portugal, Denmark, and Stockholm. Internal differentiation is seen in Germany and Spain (concentration on the east coast).

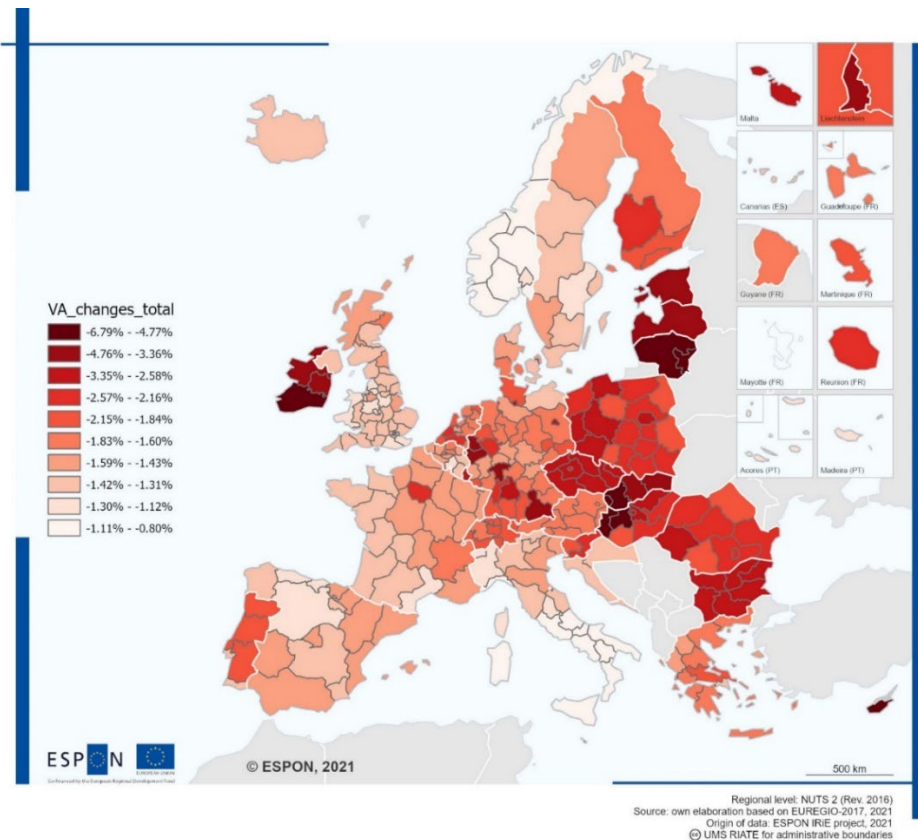
Figure 2.5: Ukrainians – inflow to regions per 1,000 inhabitants, the most pessimistic scenario



2.1.6 Forecasting the decoupling of EU and Russian economies

How to anticipate the possible territorial impacts of decoupling EU-RU economies as a consequence of the war? The effects of a total ban on trade with Russia can be simulated to analyse the possible maximum shock on European regional economies in terms of growth, inflation and employment.

Figure 2.6: Overall effect on regional GDP (quantity + price shock-income approach)



This scenario becomes more realistic as the war is lasting and political decisions are taken by the different actors involved, such as economic sanctions and counter sanctions and anticipations of economic actors resulting in fast inflation and growing substitution of goods and services.

The worst scenario suggests a -1,8 % moderation of the current Europe's GDP growth, causing 3.7 million jobs losses, and a 3% additional inflation raise over prewar levels. In the moderate scenario, where a milder effect and a transitory shock on prices is expected, ESPON countries might suffer a -0.59% decrease in GDP, with 799,480 job losses. Inflation could rise 1.3% over pre-war rates. In the severe scenario, where we expect an intense effect and a steady shock on prices, ESPON countries might suffer a -0.94% decrease in GDP, with heavy job losses (2,010,040) and 1.5% in additional inflation over pre-war rates. **In all scenarios**, regions directly trading with Russia are not necessarily those who would be the more affected).

The results obtained are worrisome, but the consequences of the war remain proportionally far below the shock generated by the COVID-19 pandemic. EU countries are already facing and alleviating the consequences of the war (*policy instruments to limit inflation and to support affected sectors and households, reduction of energy dependency from Russia by substitution and diversification, etc.*). Even in a worst case - yet still possible – scenario of a 1-year stop of Russian imports, the economic consequences appear to be manageable. **However, aggregate effects would be unequally distributed across regions, sectors and individuals.** As regional exposures are already now asymmetric, they would be even more in case of a paralysis of economic transactions with Russia.

3 How to use new interregional evidence to deal with increasing uncertainties?

3.1 Regional development strategies

The analysed flows are set by policy and legal frameworks at the EU and/or national levels and are dependent on market forces to different degrees. For instance, **labour flows in the form of commuting patterns can be directly influenced at regional or local levels**. The market nature of the analysed flows, their size and direction, and the policy focus on cities, urban areas, and MEGAs seek efficiency rather than equity or a levelling of unequal capabilities. This 'efficiency' has thus caused 'places that don't matter' to emerge outside the big cities, urban agglomerations, and MEGAs.

The analysed flows are determined by market factors such as supply and demand. Policies and legislation at the EU and/or national level create a framework for the market to operate in, but the framework does not in itself determine the size and direction of the analysed flows. **Enabling big cities, urban agglomerations, and MEGAs to increase their competitiveness at the global level has led the market to adjust to the new conditions**. How efficient the Green Deal, the Just Transition Fund, the Resilience and Recovery Fund, and the New Cohesion Policy will be in addressing territorial cohesion depends largely on how well Member States implement the policies and, importantly, how eligible Member States and their regions are for the support schemes. This is a part of the abovementioned legal framework.

3.1.1 Green deal and RRF

The European Green Deal provides an action plan to boost the efficient use of resources by moving to a clean, circular economy, to restore biodiversity and cut pollution. The Commission has proposed a 25% target for climate mainstreaming in the budgets of all EU programmes and will work with Member States and regions to help them implement territorial transition plans (CEC, 2019). All programmes directly relevant to the transition, as well as other funds (e.g., the European Regional Development Fund (ERDF) and the European Social Fund Plus (ESF+)), will contribute to the Green Deal transition (CEC, 2021a). In other words, eligibility for existing funds is a prerequisite for aid from the Green Deal and Just Transition Funds. With regard to the Recovery Fund, Member States must write a National Recovery Plan. Plans sufficiently aligned with the EU policy agenda will be granted funding (Article 17 in EU REGULATION 2021/241). **Funding eligibility is key**.

The Green Deal and RRF have the potential to direct regional development strategies towards green investments. This requires a long-term strategy, one that integrates regional policies on spatial planning, transport policy, energy policy, regional promotion, etc. Furthermore, **policy conflicts between regional economic development and the green transition must be overcome**. Indeed, at the local level there is a need to direct companies towards sustainable production and the circular economy and to make better choices between the economy and spatial planning. Also, **regions are not only passive receivers of the Green Deal's effects but can be active agents in shaping it**. Regions with strong industry leadership can lead the change towards a Green Transition.

Once NGEU funding is distributed to Member States, Denmark, Germany, Ireland, Spain, France, Italy, Luxembourg, the Netherlands, Austria, Finland, and Sweden will no longer be eligible for Cohesion Fund support. The allocated resources from ESF+ and ERDF vary a lot, but leave countries like Denmark, Ireland, the Netherlands, Austria, Finland, and Sweden with marginal support. The conclusion is that the Green Deal, the Just Transition Fund, the Resilience and Recovery Fund, and the New Cohesion Policy will have a significantly smaller impact in some countries simply because the resources allocated to them are marginal, while their impact on other countries can be assumed to be significant through greater resource allocation. At the regional level, there is a risk of uneven distribution to regions that are already strong, especially in centralized countries with weaker regional administration (e.g. Ireland and Sweden). Such countries do not necessarily have the administrative resources to use the funds. Decentralized countries are in a better position. In a similar manner, there is a risk that the funds would go toward the biggest companies, as SMEs lack the resources to apply for the funds. In this regard, **clear communication between the national, regional, and local levels conditions the just distribution of RRF funds and Green Deal and territorial cohesion**.

The Green Deal also relies heavily on imported raw materials, which are not available in all areas of EU. This makes an EU-level strategy for raw materials necessary. Furthermore, **regional development strategies should contain well-considered ideas on how to use EU funding for regional economic development**. Unfortunately, it is not uncommon that EU support is mentioned as an ornament in regional development strategies.

Finally, we must consider that the Green Deal is not equally compatible for all regions. For example, sparsely populated areas, where long distances make it difficult to reduce transport emissions. In such cases, **it is important to support the development of sustainable transport solutions**. The key here is to restructure or modernize railway networks that are part of TEN-T comprehensive network, or shift to clean vehicles. Also, in certain regions of Europe the Green Deal transition will pose a threat to local values, symbols, and identity. It is important to acknowledge and address such threats to mitigate resistance to change. If implemented wisely, these programmes will stimulate new growth patterns, new business networks, and new economic structures.

3.1.2 Policy implications for regional development plans

As most of the analysed flows in this project go to neighbouring regions and then to regions in the same country, regional development strategies would benefit if initiatives could stimulate both the size and the direction of flows. **Cooperation with neighbouring regions should be stimulated**. By neighbouring regions we mean nearby regions and, more importantly, regions intertwined by flows of sufficient intensity as identified in our research, regardless of distance. If a neighbouring region is located in another ESPON country, the regional development strategy should encourage **cross-border cooperation**. In this regard, further integration with EUROREGION could be a way to integrate the European network and shorten value chains, especially for peripheral and cross-border regions.

Regional development strategies should also try to market or brand their region. Few flows will be directed to/from a region nobody has heard of. Properly done, **place branding and place marketing** can attract tourists, exchange students, and companies, which will lead in turn to investments. And investments will lead to more people, goods, and services. All such flows are analysed in this project.

3.2 EU Territorial Cohesion Policy: increasing flows in peripheral regions

3.2.1 New interregional possibilities

Business investments are allocated to places where the prospects for profit are highest. That is where the market is concentrated. They are allocated, in other words, to areas close to the market, with good access to labour of the correct type and good opportunities for quick returns on investment — that is, cities and urban agglomerations. For this type of territory, the private sector and market mechanisms can achieve a lot for regional development. **The key challenge is to use the market dynamics generated in big cities, urban agglomerations, and MEGAs and enable hinterlands and other regions to borrow size from these growth poles, but then help them develop their specific strengths and attractiveness, rather than staying on the receiving end of redistribution via large agglomerations**.

Traditionally, 'borrow size' has meant investments in infrastructure to improve commuting patterns, i.e. regional enlargement. However, it is possible for a region to move closer to a growth pole topologically, and benefit from it, despite topographical distance. Flows of goods, services, capital, and knowledge can play an important role here. An example to illustrate this: if the labour market favours greater use of ICT in work, much staff can work remotely. As staff set to work in regions distant from the growth pole, money will flow to the distant region and be consumed there, increasing aggregated demand for goods and services. Human capital will also increase in that region, and stimulate economic growth. This development will in turn stimulate interregional flows towards regions without big cities, urban agglomerations, or MEGAs. The economic structure in these regions will change over time and become more diversified, which would lead to greater resilience. **Although still located on the same topographical place on the map, the region will have moved closer to a growth pole topologically and borrowed size from the growth pole it is linked to.**

However appealing this example is, its implementation will be challenging. Where will these remote workers pay their taxes? Where the office is located, or where they live and work? Issues of taxation and revenue fall under the competence of Member States. Moreover, our example may work for some professions and economic sectors but not others. Traditional manufacturing requires production in a factory and cannot be moved away from the big cities; some sectors are simply dependent on closeness to the market and a supply of adequate labour. Tax exemptions may be an incentive to relocate, but the issue falls under the competence of single Member States; relocation subsidies violate the EU Directive on Competition.

Another interregional possibility has emerged from the supply shock of Covid-19 to global value chains, as local production is becoming more attractive to businesses. This sets new demands on spatial policy, as there is an increasing need to **identify the key competencies and production capabilities of individual regions and their potential interregional linkages**. This relates such to questions as which areas and infrastructure to reserve for functions that will be important tomorrow. To these ends, new evidence from the ESPON IRiE project can help regional policymakers determine the current state of interregional linkages on flows of trade, people, capital, and knowledge between the EU's NUTS 2 regions. This is a prerequisite for understanding dependencies and development potential. Our project provides useful online tools with which to analyse these linkages and provides easy access to the information through "regional profiles".

3.2.2 How to address 'places that don't matter'?

Major investments target geographical areas where the market is concentrated, with good supplies of adequate labour and quick returns on investment. This is a clear barrier to regional development outside of big cities, urban agglomerations and MEGAs. If this development is not curbed, territorial cohesion will develop in a negative direction, and this is not desirable from a political perspective.

All so-called 'places that don't matter' struggle with missing markets as well as with market failures. It seems wishful thinking to expect the market to fix these regions' problems. The market is indifferent to them. In most cases, regions and cities with diversified economic structures, containing many of the analysed flows, are more resilient than regions and cities that depend on few sectors and few of the analysed flows. To increase the number of flows to/from 'places that don't matter' would probably require a **long-term commitment**, one that should probably be designed as a **public-private partnership**. Otherwise, the obstacles to increasing flows to these regions will not disappear.

However, **the recent EU action plan for rural development** (CEC, 2021), still in its very early stages, is **an interesting initiative** to deal with regions that are not in the vicinity of big cities, urban agglomerations, or MEGAs. It remains to be seen what it will achieve.

Another potential policy incentive to address the challenges that 'places that don't matter' experience is offered by **Territorial Cohesion Cities (TCCs)**. Instead of favouring lagging territories in equal measure, the rationale here targets selected cities (TCCs) in regions with huge problems in regional development and concentrates available regional-development funds on them as a more effective way of achieving Territorial Cohesion at the national level (Medeiros & Rauhut, 2020). TCCs are to serve as a sort of development hub and narrow the distance between big cities with functioning markets and remote and lagging regions, the 'places that don't matter'. Even more important is that TCCs work for all the analysed flows in this project. **By acting as a node or hub, TCCs can tilt flows to/from weak regions in a more favourable direction, strengthening the most promising flows and minimising dependencies (few sectors, regions, or flows a specific region links with), by means of dialogue with key stakeholders (businesses, policy-makers, etc.).** Such a tool can be used in regional development strategies if a region feels that it wants to challenge the dominance of the gravity model when it comes to flows. An increase of flows means a diversification of the region's economic structure, which would strengthen its resilience.

3.2.3 From cohesion to competition and back again

Regional development strategies and territorial cohesion are highly sensitive to political objectives set primarily at the national and EU levels. Formulated policy objectives can both raise and lower barriers to the flows analysed in this project. In other words, how the regional development strategies and territorial cohesion affect and are affected by the analysed flows depends on policy objectives. The decision within post-financial crisis Cohesion Policy to stimulate cities and global competitiveness has led to many positive effects for cities, urban agglomerations, and MEGAs. But other types of regions have fallen behind, and some have even become 'places that don't matter'.

When analysing the flows, empirical evidence leave room for improvement when it comes to regions that have small economies and lie far from the economic centres of their Member States. **To rely on market forces alone to break the vicious circle for 'places that don't matter' is a dire strategy.** It will not stimulate cohesion. However, determining the extent to which it has led to increased territorial cohesion lies beyond the scope of this project.

If the ambition is to increase the number of flows analysed to/from rural, peripheral, and remote regions to increase their competitiveness and economic resilience, **the framework conditions under which the market operates must be changed.** A well-functioning market will adjust to new conditions and provide goods and services unrelated to any type of territory. The current framework conditions, however, favour cities, urban agglomerations, and MEGAs, and this favouritism must be considered in discussions on future territorial and sectoral policies at the EU, national, and regional levels. **Unlike big cities, most 'places that don't matter' suffer from missing markets and market failures. If this problem persists, the number of flows to/from these regions is unlikely to increase or generate the desired economic resilience.** By favouring big cities, the framework conditions, including the new territorial agenda and cohesion policy, prevent place-based regional development strategies from reaching their full potential. If they are to increase their economic resilience and competitiveness, 'places that don't matter' need investments. As these regions suffer from missing markets and market failures, regional development strategies must contain elements of cohesion objectives somewhere.



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