

Executive Summary

Among OECD member countries, per capita income gaps have declined over the past 20 years, however, gaps between the wealthiest and poorest regions (TL3) within many countries have grown. In 2022, 70% of the OECD population lived in countries where regional income inequality was growing. This is of particular relevance for residents of regions in industrial transition, which tend to have lower GDP per capita than national averages, experience low GDP growth and have lower productivity levels.

Industrial transition has directly affected regional labour market opportunities and productivity for decades. For example, in North East England the number of manufacturing sector jobs fell by 51% between 1996 and 2022. In the United States, 75% of the workers in the Rust Belt were employed in the steel, automotive and rubber industries in 1950 but only 55% in 2000, and in Germany's Ruhr area, the substantial decline in the manufacturing industry from 1964 to 2014 was only partially offset by an increase in service sector jobs. Indeed, in 2020 the Ruhr area still suffered from significantly above-average unemployment levels – 10.1% versus 6.0% in the country – and a weak knowledge-intensive economy. While inequalities in regional GDP per capita in part reflect differences in industrial structures, as noted in the OECD *Regional Outlook 2023*, in 2019, around 25% of productivity differences across regions within OECD countries were due to differences in productivity within the same sectors, highlighting untapped potential to boost productivity, and in turn, income.

It is well-established that industrial transition processes can be supported through innovation. Labour-augmenting innovation can boost productivity levels in industrial regions, creating new job opportunities and wages, and preventing such opportunities from being concentrated in certain, often metropolitan, regions. This may explain why innovation-based activities have been the focal point of most industrial transition initiatives in recent years. Yet, such initiatives have tended to place a heavy emphasis on research and development (R&D) and technology-based innovation, which may provide an imperfect solution for regions in industrial transition, which typically have specific development characteristics. For instance, such regions frequently have an industrial heritage and a solid economic base that can be built upon, but must also contend with a business environment that is dominated by micro, small and medium enterprises. They also grapple with socio-economic and well-being outcomes that tend to be below national averages. Poor economic performance over time can also be a contributing factor to declining trust in government, which can affect democratic outcomes.

The persistence of challenges faced by regions in industrial transition suggests that policy makers may need to reconsider the pre-conditions required to support effective industrial transformations, and to what extent new governance arrangements could help ensure their successful execution. This report highlights the value of applying an experimental approach to governance arrangements and policy design when addressing industrial transition. It shows that experimentation in policy and programme design can help policy makers help generate new ideas, and test innovative approaches to the industrial transition, as well as learn from and build on successes and failures. Furthermore, it underscores the importance of foundational governance arrangements – including framework conditions, strategic programming, and stakeholder engagement – being in place in order to accomplish transition objectives.

Key messages

It is essential to recognise the broader societal impacts of regional industrial transitions

- **There is no single definition of a region in industrial transition.** However, they are often former industrial or manufacturing powerhouses, tend to perform below the national average across a variety of socio-economic and well-being indicators, including GDP growth and GDP per capita as well as unemployment, tertiary education attainment, and life expectancy.
- **Long-term economic decline, poor short term labour market outcomes, and unequal access to quality public services** – all characteristics of regions in industrial transition – **are contributing factors to territorial differences in trust in government.** The low level of institutional trust that these factors can generate, in turn, is often revealed in voting patterns that may affect democratic outcomes. This makes it imperative that regions in industrial transition not only carry out a successful industrial transformation, but do so in a way that imposes minimal costs to communities.

Industrial transition is not linear and requires a systemic or integrated approach to be successful.

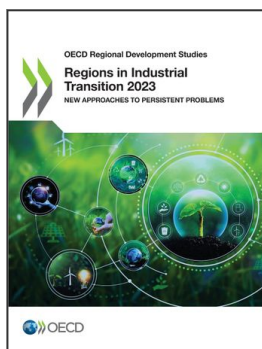
- **Creating space for regions in industrial transition to apply a broad definition of innovation to their programming and funding opportunities is key to success.** Frequently, the industrial and administrative profile of these regions does not lend itself to a heavy emphasis on R&D or technology-driven innovation. They could gain more by advancing a combination of technological, business model, societal and/or social, and public sector innovation. Using an experimental approach to governance and programming can offer scope to test new funding models or support changes in business or production models that contribute to economic and sustainability goals in tandem. This was the case in East and North Finland, for example, where the region's experimentation with a new funding mechanism helped to expand the scope of innovation among enterprises in the regional forestry value chain. Ideally, such policy experiments should be given sufficient time to bear fruit, so that policy makers and other stakeholders can properly evaluate the potential merits of scaling the initiative up or out.
- **While innovation and innovation diffusion are key drivers of industrial transition, policy makers are more likely to succeed with interventions that not only advance innovation, but also support at least one or two other basic transition dimensions:** such as jobs and skills, SMEs and entrepreneurship, a just transition to carbon neutrality, inclusive growth or smart specialisation.
- **Successful transition requires bringing a variety of public and non-governmental stakeholders on board and then aligning the various objectives, priorities and initiatives among these groups,** and particularly among policy sectors, with overarching industrial transition aims. It also requires synchronising the objectives and priorities of different levels of government. Bringing a wide variety of stakeholders into the process of designing and implementing industrial transition initiatives can help to build ownership across sectors and among levels of government, while also generating goodwill and strengthening political support for experimentation. In the Greater Manchester region (U.K.), for example, the Good Employment Charter initiative included an extensive co-design and co-implementation process with local employers to help define a collective vision of good employment. The process encouraged a wide range of local businesses to adhere to the Charter's criteria and improve their own employment practices, thereby supporting economic inclusion across the region. However, in order for stakeholders to collaborate effectively on such initiatives, cross-sectoral and inter-governmental co-ordination mechanisms need to be in place.
- **Smart specialisation supports industrial transition by helping policy makers focus on the natural (economic) endowments of their regions,** building on these, and using them to focus their development and investment activities. Experimental approaches and smart specialisation

can dovetail clearly in policies targeting support for industrial SMEs, and advancing sustainability and inclusivity aims. For example, in the Grand Est (France), the experimentation and lessons learned from the region's Industrial Parks of the Future project not only fed and improved the region's S3 but also strengthened the tools and systems used for the sustainable and smart management of natural resources and energy systems.

- **Industrial transition initiatives can support higher level strategies and policies, for example national and regional development strategies, innovation policies and smart specialisation strategies, as well as supra-national frameworks** (e.g. the European Commission's Cohesion Policy programming). To do so, however, industrial transition policy makers must ensure that the links among these higher-level frameworks and the objectives of industrial transition are strong and that the actions are coherent and mutually reinforcing.

Governance matters in industrial transition, as does embracing governance and policy experiments.

- **Effective framework conditions, good strategic programming planning practices, well-designed monitoring and evaluation frameworks are foundational dimensions of the governance of industrial transition.** With regards to experimental approaches to industrial transformation, however, a critical pre-condition appears to be effective stakeholder engagement. As a multi-dimensional and collaborative process, industrial transition depends greatly on flourishing networks and the social capital of its various actors – from public and private sector representatives to academia and civil society organisations. Bringing stakeholders on board at the beginning of the programme design process, creating incentives for active participation throughout the process, and obtaining their feedback at the end not only contributes to success but builds ownership and mitigates the possibility of failure. In the North Middle Sweden region, for example, the Challenge Lab initiative, which aimed to explore the role of hydrogen in advancing the circular and low-carbon industrial transformation, succeeded in part thanks to its proactive outreach to relevant stakeholders at the project's outset. Strong financial and non-financial incentives for stakeholders to participate in each of the initiative's components also contributed to its success.
- **When policy makers have room to adjust governance arrangements (e.g. funding mechanisms) or project implementation ideas (e.g. shifting targeted beneficiaries) the results may be stronger, or more readily apparent.** Such is the value of experimentation – it can create a delineated policy space that is also timebound, and geographically contained, so that policy makers can test their activities and adjust them in a process of learning by doing, in order to more effectively meet their aims.



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