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Sixth Progress Report on Economic and Social Cohesion

**of the
EUROPEAN COMMISSION**

AEBR-summary concentrated on important aspects for territorial cooperation

**Association of European Border Regions
(AEBR)**

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1. Background

The Fifth Cohesion Report focussed on certain sectors and on the economic restructuring of regional development. The current recession will accelerate the restructuring and hit some sectors hard.

The Sixth Progress Report on Economic and Social Cohesion centres on creativity and innovation, as the main elements to overcome the current economic crisis. The report highlights factors that can boost creativity and innovation in both developed and less developed regions, covering technological and many non technological forms of innovation (such as social artistic (Gestaltung der Gesellschaft???) cultural processes and innovation of services). It also provides a synthesis of the debate on territorial cohesion.

2. Definitions

- Creativity = generation of new and useful ideas.
- Innovation = putting a new and useful idea into practice.
- Regional dimension = an idea has to be new and useful in the region.
- Objective 1 = Convergence
- Objective 2 = regional competitiveness and employment.
- Objective 3 = territorial cooperation.

3. Creativity

New ideas are developed by human interaction especially between different and talented people (patent registers, cultural activities concentrated in cities).

3.1 Developing local talent

- Large differences in educational levels between regions (share of graduates is 9% higher in objective 2- and transition regions than in objective 1 regions).
- Participation and life-long learning far behind in objective 1 regions (half of objective 2).
- Human capital intensity scores very low in Portugal, Italy, Spain (probably less creativity). The gap between objective 1- and objective 2 regions is 9 points.
- Human capital intensity increased significantly for the whole EU from 2009-2007.

3.2 Attracting talent and visitors

- Regions should attract talented people to move there or to visit.
- Only attracting talents from abroad increases the national pool of talent.
- The share of foreign born graduates is only 2% in the EU, compared to 6% in the United States (only 80 Regions meet the US-level).
- The share of working-aged population born in another country follows the same pattern as foreign born graduates (high shares in London, Luxembourg, Brussels and Vienna and very low shares in most of Central and Eastern European countries). In objective 1 regions it is only 3%, in objective 2 regions 12%).
- Most citizens coming from countries or regions with a high outmigration do not cut their links with their countries of birth (substantial influence by strong reflux of capital) substantieller Einfluss durch starken Rückfluss an Kapital).
- Many citizens from Middle and Eastern member states return to their home country (due to improving employment opportunities and wages or increasing unemployment in some of the major destination countries) bringing with them international experience, increasing business acumen (unternehmerische Fähigkeiten) and contacts (Ireland, Spain).
- Business travel boosts interaction and exchange of ideas. It is a significant resource of growth and employment for many cities and regions.
- Leisure travel can contribute to enrich social life in cities thus stimulating creativity.

3.3 Tolerance

- Tolerance helps to retain and attract talent and creates an open environment for creativity and diversity.
- In some countries residents feel not comfortable with a neighbour with a different way of living, background religion, sexual orientation or with a disability (danger of discrimination). In 17 member states at least one type of discrimination can be stated. Increasing unemployment could lead to more discrimination.
- Employment rates among residents from abroad are to double or triple the rate of people born in the country (insufficient knowledge of language, lower education level, but also discrimination).

- Migration from outside the EU is the only way to stop population decline, especially in future.
- The “Core Creative Class” is particularly important for an economy generating new ideas, setting up new firms, creating growth and jobs (in the US this class is attracted to talented, tolerant and high-tech cities). In the EU this “Core Creative Class” (like engineers, architects, scientists, professors, artists and others) is concentrated in and around capital regions as well as in the Benelux states, Nordic countries, Ireland and the UK.
- These regions and metropolitan areas are recognised as powerful engines of innovation, many cities become more creative by attracting highly skilled creative people offering a good environment for innovation and ideas (objective 1 regions have lower share of the core creative class with 5%, compared with 8% in objective 2 regions).
- Broad-band access in objective 1 regions in 2008 was 32% (in 2004 only 8%) compared with 57% in objective 2 regions.

4. Innovation

- The EU lacks behind the United States but it is closing the gap. The EU has a higher growth of graduates, researchers, public R & D, venture capital, broad-band access and knowledge intensive services and employment, etc.
- This interim report focuses on the regional dimension of innovation.
- New and useful ideas can be realised in a social, cultural and economic sphere.
- Regions with the highest productivity growth tend to be in Middle and Eastern European member states.
- Productivity in industry and services has grown by 2% p.a. since 2000 in objective 1 regions (double than objective 2- regions).
- Foreign direct investments (FDI) are crucial for investments in almost all Middle and Eastern European member states (more than 3% of the GDP between 2005 and 2007).
- The high productivity growth in objective 1 regions is the main reason why the gap in GDP per capita has decreased substantially.

4.1 New firms

- New ideas are often put in practice by new firms (start-ups created by local entrepreneurs or foreign direct investments).

- Start-ups are the key to innovation. But it is easier to start business in at least 100 other countries than in Germany, Austria, Greece, Spain and Poland (only in Ireland and the UK at the top).
- New foreign firms are often concentrated in capital regions (Czech Republic, Slovakia, Finland, and Portugal).
- They are also often located in border regions, particularly along the borders close to the rest of the EU (Western Poland, Hungary, North-Western Rumania, and Eastern France).
- Objective 1 regions overtook objective 2 regions between 2005 and 2007 in terms of new foreign firms per inhabitant.
- Research shows that regional policies are better at encouraging transfer of knowledge from foreign firms than national policies.

4.2 Existing firms

- Existing firms innovate with the aid of R&D technology and other methods, such as adaption of technology, non-technological innovation and combining existing knowledge in new ways.
- Large firms invest more in R&D and do more in-house innovation (innerbetriebliche Innovation) while SME's have less access to finance, tend to innovate less and outsource the innovation needs. (Auslagerung ihres Investitionsbedarfs)
- High-growth SMEs can have a bigger impact on innovation.
- R&D is highly concentrated in certain sectors (manufacturing counts for 80%) and regionally (30% of business expenditure for R&D is located in just 10 regions).
- Businesses invest more than 2% of the GDP in R&D Only in 29 regions (in most the share is below 1%).
- R&D covers only a small share of innovation related to expenditure.
- In objective 2 regions R&D expenditures (1,3%) are four times higher than in objective 1 regions (e.g. the number of patents per capita is 13 times higher than in objective 1 regions).

5. Conclusions

- In the current crisis the role of creativity and innovation is growing.

- Creativity and innovation has a distinct regional dimension.
- Objective 1 regions can obtain greater benefits from foreign firms by integrating them in their regional economy and improving their absorption capacity.
- Strong links between foreign firms and local suppliers increase efficiency, local employment, knowledge and knowledge transfer.
- Objective 1 regions should improve their educational levels and their intervention in training (new ideas and practices can be better absorbed, high-productivity growth sustained)???
- These regions should increase their appeal to leisure and business travel (stimulating cultural and creative activities in order to boost exchange of ideas and to increase the attractiveness of the region).
- Transition regions are closing the gap with objective 2 regions, but still score lower in many economic indicators (productivity, employment, innovation such as R&D, patents and capital).
- These regions need to improve their business environment and have to invest more in R&D, education, training and the development of core creative skills.
- Objective 2 regions should ensure to obtain the maximum benefit from the high share of residents born in other countries (to integrate them in the labour market and to make it easier to set up an own business).
- These regions need to increase their investments in creativity and innovation and accelerate the transition from a new idea to a new product.
- Creativity needs an environment where new ideas and projects are accepted and encouraged.
- Regions in which people are discriminated will not only be less fair, but even less competitive.

6. Territorial cohesion

The state of the debate:

The Green Paper on Territorial Cohesion launched a public debate (391 responses: from all member states, nearly 100 regional authorities, more than 150 regional / local associations etc.)

6.1 Definitions, scope and scale of the territorial cohesion.

- The three basic elements (concentration, connection and cooperation) are broadly supported (**statement of the AEBR**).
- For most responses, territorial cohesion is a wider horizontal concept affecting all policy areas at all administrative levels (**statement of the AEBR**).
- Many replies stated that a good quality of life, equal opportunities and access to services of general interest in all territories are crucial both for solidarity and competitiveness (**statement of the AEBR**).
- The majority of replies confirm that the socio-economic situation of territories should be the basis for policy intervention and design and should be flexible enough to tackle the different problems in different territories (**statement of the AEBR**).
- Many reactions argued that different issues (e.g. social exclusion, urban sprawl / urbanisation, accessibility to services, risk of flooding) require policy response at different levels (**partly statement of the AEBR**).

6.2 Better coordination and new territorial partnerships

- The majority associates territorial cohesion with an integrated approach, multi-level governance and partnership (**statement of the AEBR**).
- Territorial cohesion should lead to a further improvement of the territorial dimension in designing and implementing Community Policies, and to a better coordination between the different EU-instruments and funds (**statement of the AEBR**).
- Public policies at different levels should take into account the territorial impact to avoid contradictory effects (EU-policies such as cohesion, transport, energy, agriculture, environment, employment, competitiveness and research policy (**statement of the AEBR**)).
- The EU has to play a key role in order to strengthen the territorial dimension of existing impact assessments (**statement of the AEBR**).
- Coordination has to be improved through multi-level governance (**statement of the AEBR**).
- There should be a stronger role for local actors, including the private sector and civil society (**statement of the AEBR**).
- The EU should facilitate territorial governance across the borders to reach the critical mass (**statement of the AEBR**).

6.3 Better cooperation

- The three strands of territorial cooperation are recognised as a key for territorial cohesion and clear examples of the added value of the EU **(statement of the AEBR)**.
- Territorial cooperation should be more strategic and at the same time more flexible and simple **(statement of the AEBR)**.
- The EGTC is welcomed **(statement of the AEBR)**.
- Cross-border regions are the laboratories for European integration **(statement of the AEBR)**.
- Coordination of national / regional strategies, regulation and funding is necessary in favour of the sustainable development of the whole transnational area, e.g. Baltic Sea strategy **(partly statement of the AEBR)**.
- Exchange of experiences should be facilitated **(statement of the AEBR)**.
- Better coordination of cohesion in external policies, strengthening the European Neighbourhood Policy and use of the EGTC at the external borders **(statement of the AEBR)**.

6.4 Improving understanding of territorial cohesion

- Better tools for territorial analysis and indicators are needed to understand territorial trends **(statement of the AEBR)**.
- The NUTS-III level should be maintained as reference **area (statement of the AEBR)**.
- In addition to the GDP per capita other indicators of quality of life, e.g. human development, sustainability, vulnerability, accessibility of services, etc. are needed **(partly statement of the AEBR)**.