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Designing S3 policy: anything goes?

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workshop
Rethinking S3 Policy

Interreg Europe Policy Learning Platform

Brussels

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structure

1. smart specialization (SS) policy in the EU
2. promote related or unrelated diversification?
3. extra-regional linkages?



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1. smart specialization policy in the EU

- **smart specialization** is part of EU regional and innovation policy
- 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:
 - policy targeting potential new activities based on **regional capabilities**, rather than just being 'hot'
 - no 'one-size-fits all' policy: bottom-up strategy
 - no duplication of policy: not 'more of the same'



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2. related or unrelated diversification

- smart specialization policy requires a basic understanding of **how regions diversify**
- new activities do **not start from scratch**
- **local capabilities** (knowledge, skills, networks, institutions) condition which new activities will be feasible to develop in a region
- local capabilities provide **opportunities** but also set **limits** to the diversification process in a region
- region is more likely to diversify into new activities **related to existing activities in region** that provide local capabilities on which new activities can draw



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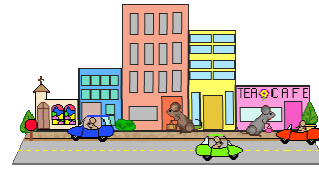
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related diversification

unrelated diversification

region A

region B



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studies: **related diversification is the rule**, unrelated diversification the exception (Hidalgo et al 2018)



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smart specialization policy

- policy implications?: not easy to tell
- **related diversification policy** is more likely to be **effective**: building on existing local capabilities
- policy should take away **bottlenecks** (e.g. entrepreneurship, education, research, institutions) that impede related diversification in a region
- **critique on related diversification policy**:
 - it happens any how, so **why bother?**
 - there is a **risk of lock-in**: related diversification makes regions **more coherent** over time



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smart specialization policy

- **unrelated diversification** requires **new capabilities** (knowledge, skills, institutions): therefore, need for strong policy intervention
- **critique on unrelated diversification policy** (and what Smart Specialization was supposed to avoid):
 - high risk policy failure (also because more experimentation is required)
 - cathedrals in the desert: not sustainable in long run
 - risk of duplication, especially when policy on 'grand challenges' is promoted (all regions go for the same)



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smart specialization policy

- policy focus on related or unrelated diversification depends on **region-specific context**
 - **major urban regions:** related diversification provides many opportunities to move in more complex activities, but they also have favorable conditions for unrelated diversification
 - **specialized old industrial regions:** unrelated diversification is needed to overcome trap of related diversification in low complexity activities (Detroit)
 - **peripheral regions:** related diversification provides many opportunities, but they might become trapped in a low complexity economy after some time



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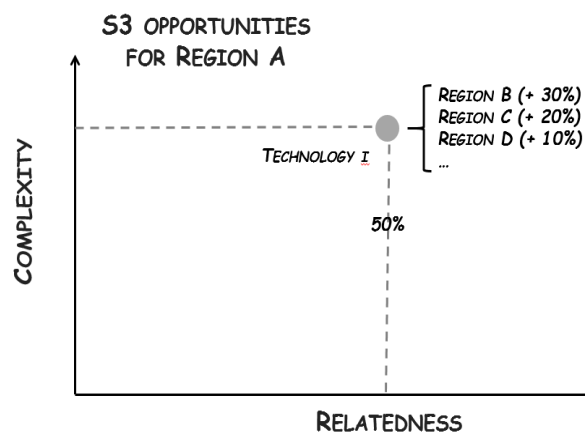


extra-regional linkages

- there is a need to **incorporate the role of extra-regional linkages** that can be used by regions in their S3 strategy to identify regional strategic partnerships, given the capabilities in other regions
- this requires mapping of **technology-specific complementarity** between regions: for each technology, a vector listing all regions ranked by relatedness complementarity can be calculated

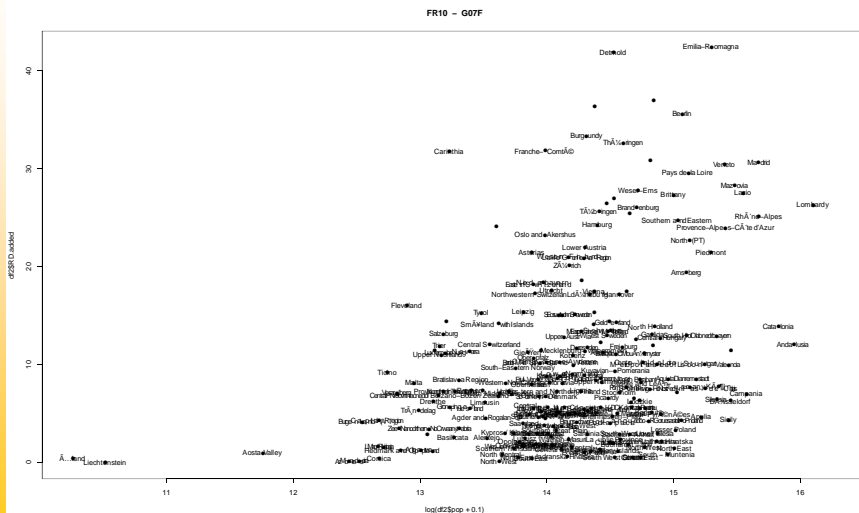


external relatedness and S3 strategies





for technology class G07F: technological complementarity between Ile de France and other EU regions



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:
 - combination of policy on related and unrelated diversification: depending on local context
 - account for types of inter-regional linkages





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thank you for your attention!

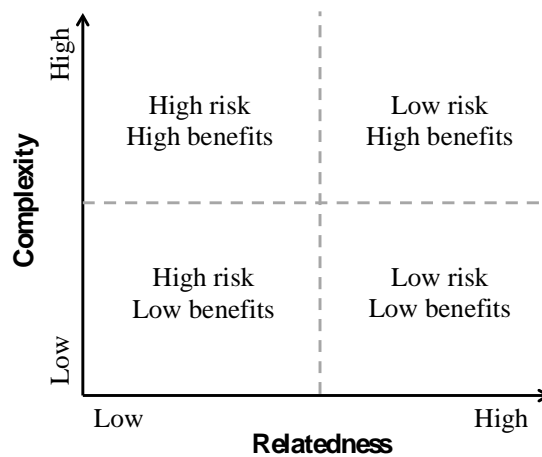


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smart specialization policy



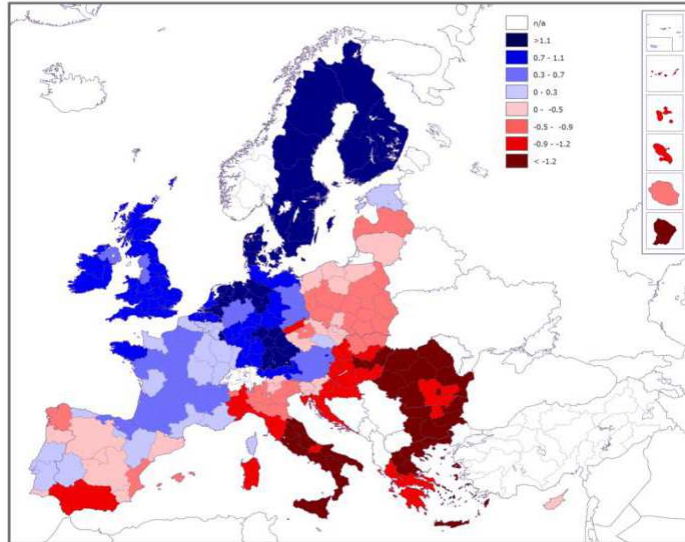
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Source: Balland et al. (2018)



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Quality of government 2017



Source: Charron and Lapuente 2018



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where to intervene in the industrial structure of a region?

