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Europe's adoption of Smart Specialisation and the implications for Australian regional development policy

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INTRODUCTION

- What are the appropriate regional policy principles of government?
- Is economic development best reflected in industry specialisation or industry diversity?
- How does industry specialisation in a region arise?
- What is Smart Specialisation?
- How has Smart Specialisation been applied in Europe?
- Can Smart Specialisation be successfully applied in Australia?

Policy preferences and principles

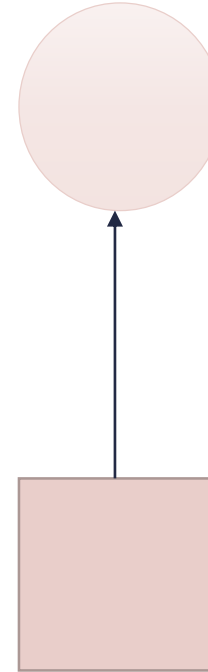
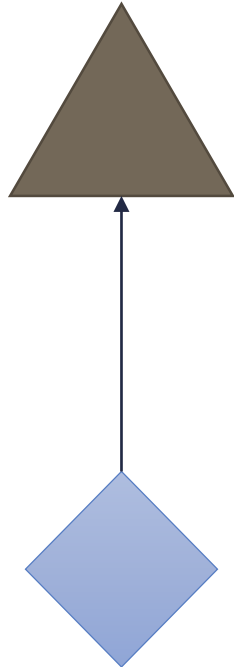
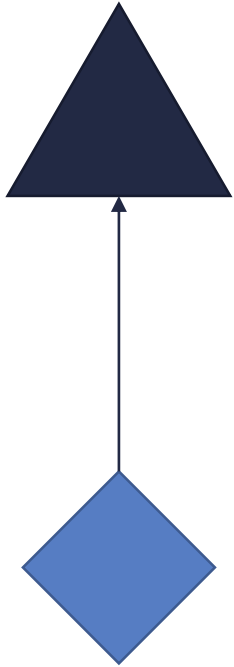
- All levels of government are (or should be) interested in regional development
- Policy should endeavour to achieve the best allocation of resources possible
- Policy should therefore address impediments to a region taking advantage of its comparative advantage as embodied in its natural resource endowment through the application of:
 - Technology
 - Capital mobility
 - Labour mobility
- Policy should not be trying to pick winners
- Policy does not involve applying the same solutions to all regions

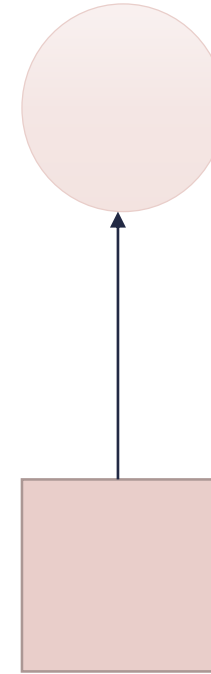
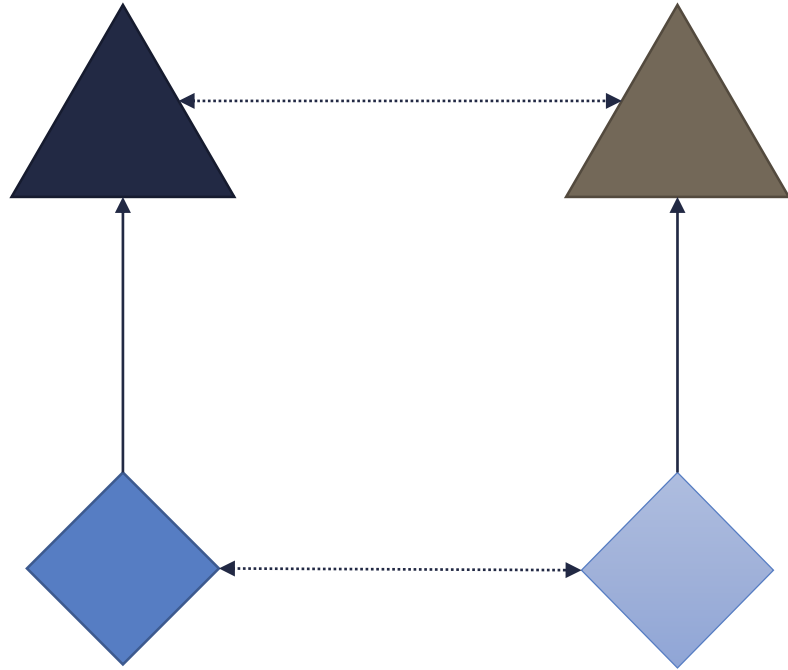
Industry specialisation versus industry diversity

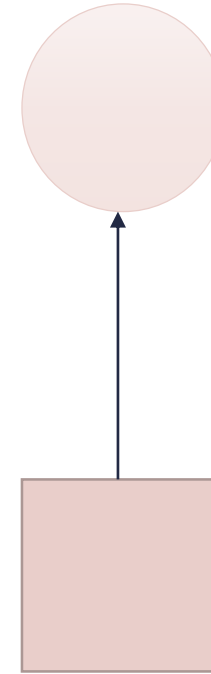
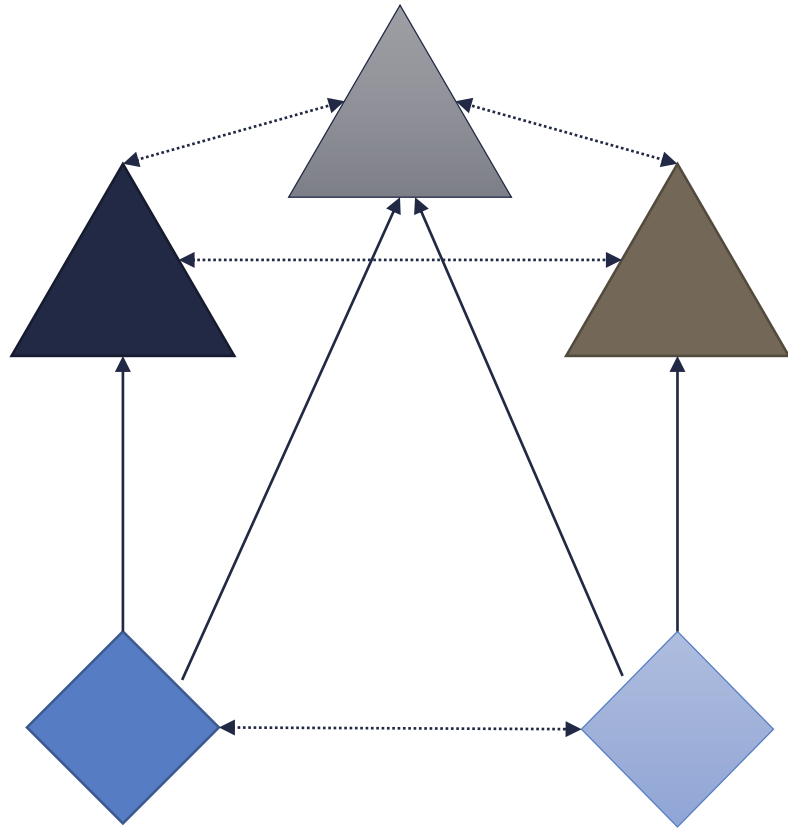
- Research has found that:
 - stronger regional economies are associated with regions that have specialised their industry base
 - the industries in which the region has specialised are strong exporters of goods and/or services from the region
 - the industries in which the region has specialised have strong backward linkages to a wide range of other businesses in the region

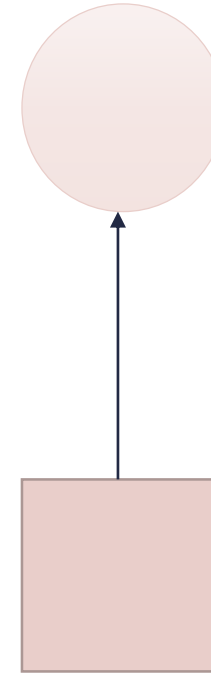
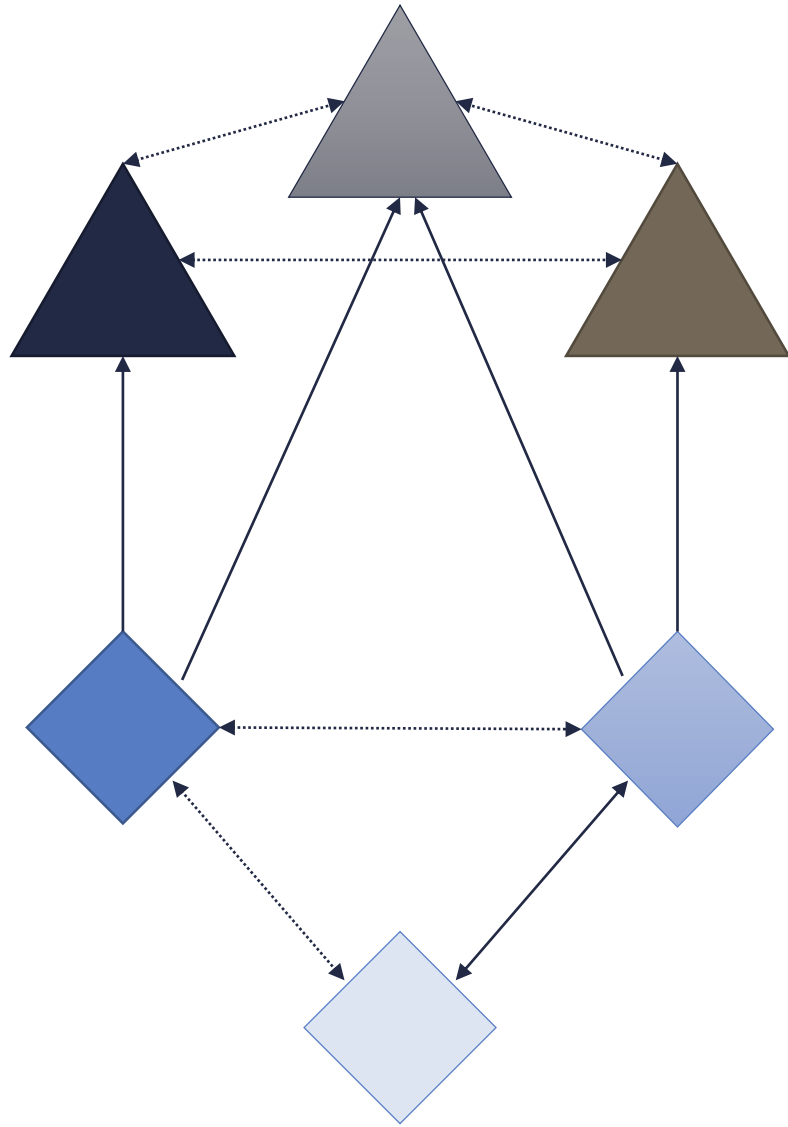
The development of a region's industry specialisation

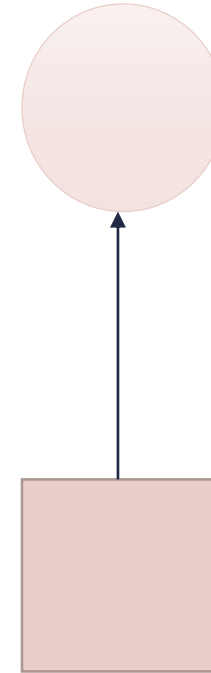
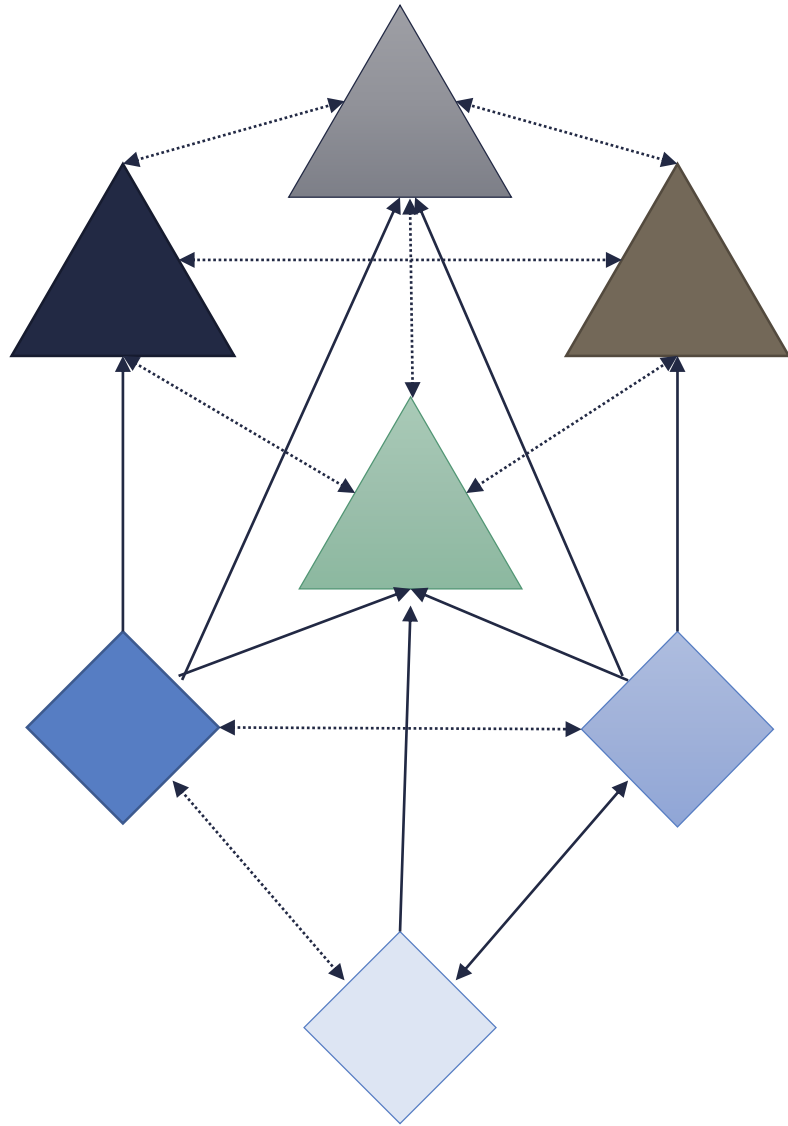
- There are a range of factors that will result in the industry specialisation of a region:
 - the resource base with which the region is blessed
 - the market opportunities available to the region
 - the education and skills of the labour force
 - the entrepreneurial talent available in the region
- The industry specialisation of a region will give rise to a range of knowledge domains
- Each knowledge domain
 - consists of distinct skills and competencies
 - is associated with at least one industry
 - may or not represent a competitive advantage











Impediments to interaction

- There is no relationship and therefore no potential for interaction
- Market failure: the cost building knowledge exceeds the private benefits
- Policy failure: the application of new knowledge may require:
 - New regulations
 - New research and teaching facilities
 - Interaction between the private and public sector
 - The defining and development of industry clusters
- Apathy in the private sector – acceptable returns reduce the need to:
 - Increase risk
 - Acquire and apply new knowledge
 - Experiment with new production techniques
 - Seek out new markets

Impediments to interaction

- Uncertainty about the future

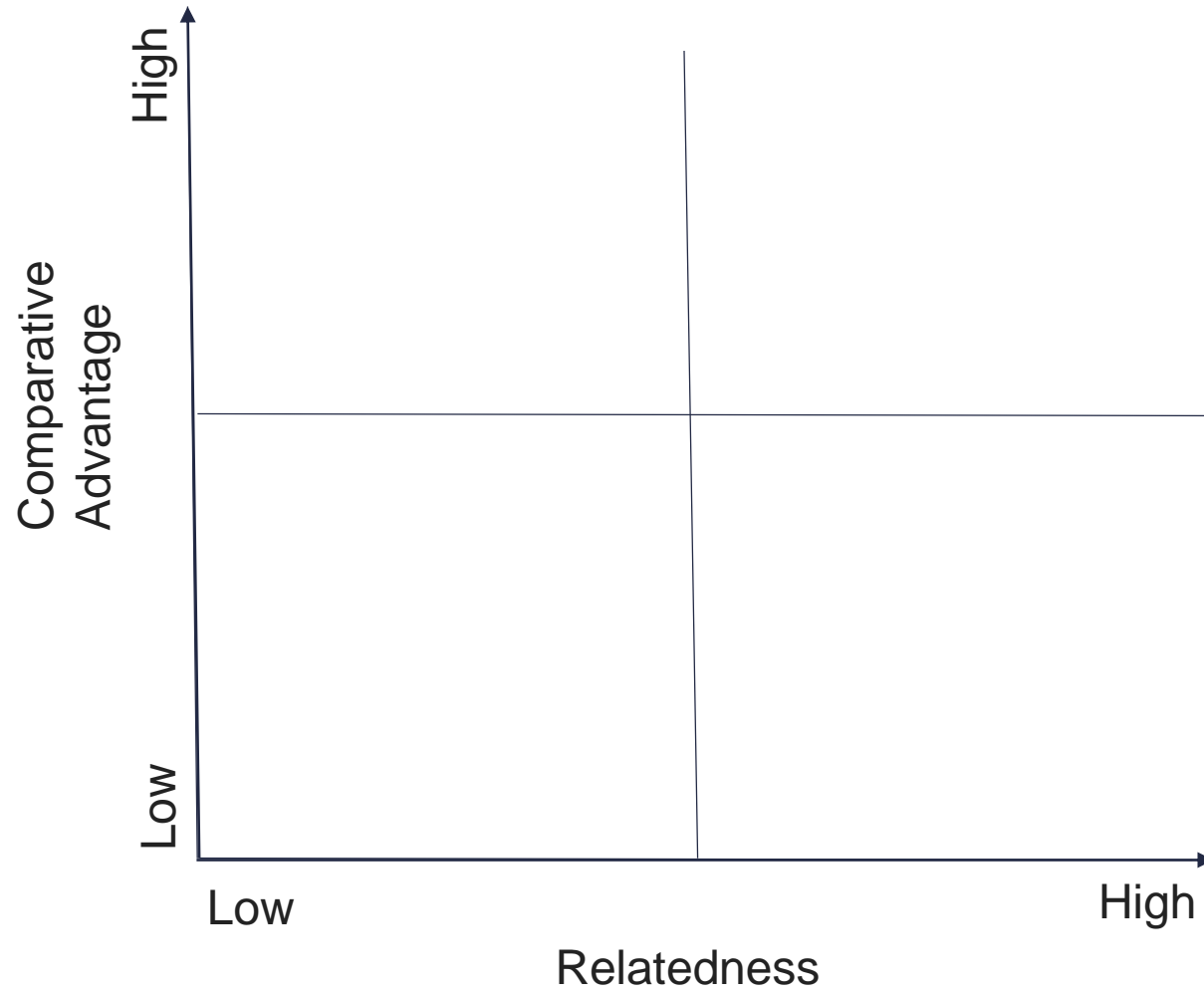
Entrepreneurial process of discovery

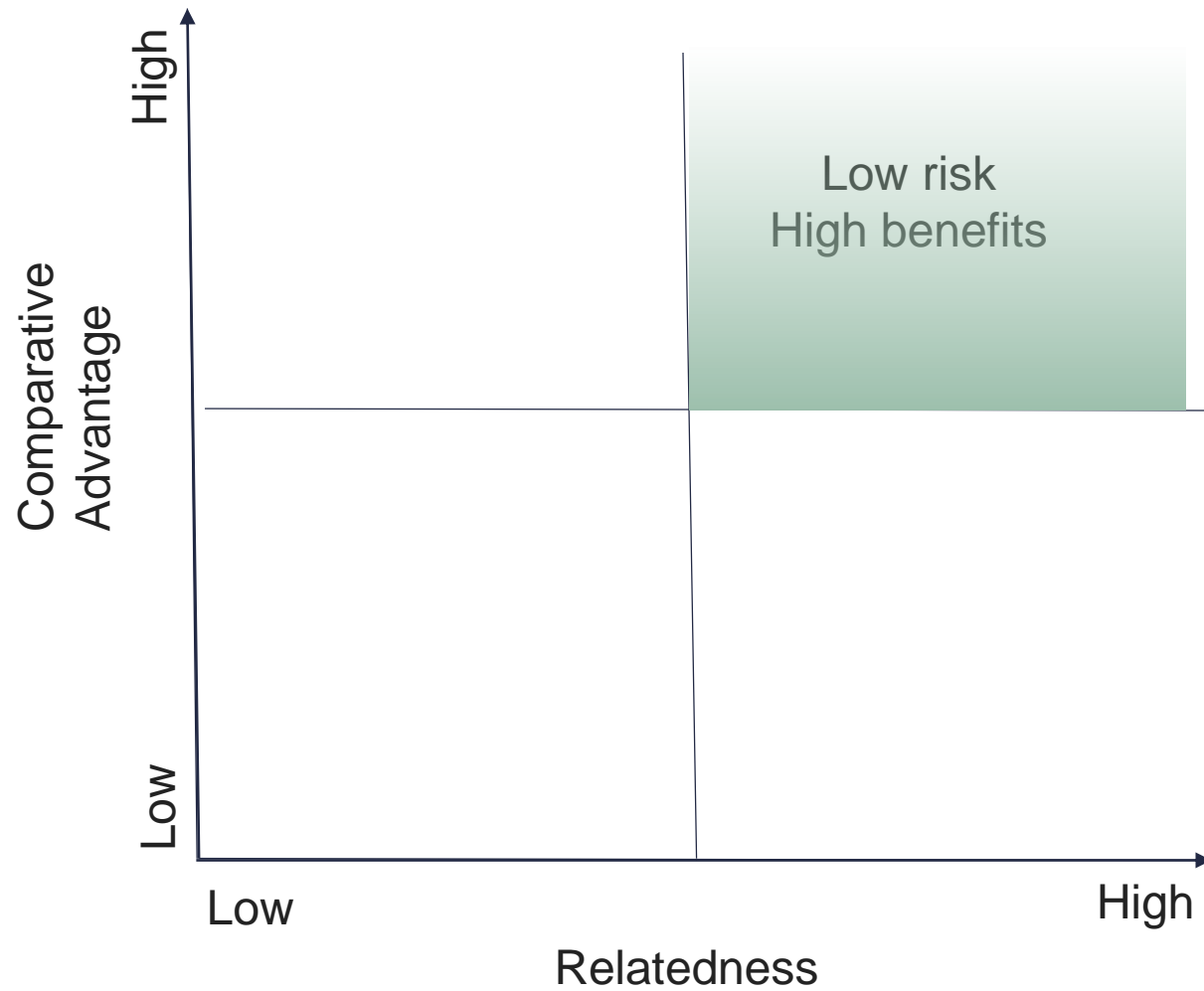
- The real world is not as simple as the diagram suggests
- There are an incredible number of firm types and knowledge domains and a myriad of ways in which they may all be interrelated (or not).
- Smart Specialisation policy requires that a process of ‘entrepreneurial discovery’ is undertaken to identify the most appropriate knowledge domains and industries to target.
- All stakeholders should be engaged in this process:
 - entrepreneurs
 - firms
 - universities
 - training providers
 - government and non-government agencies

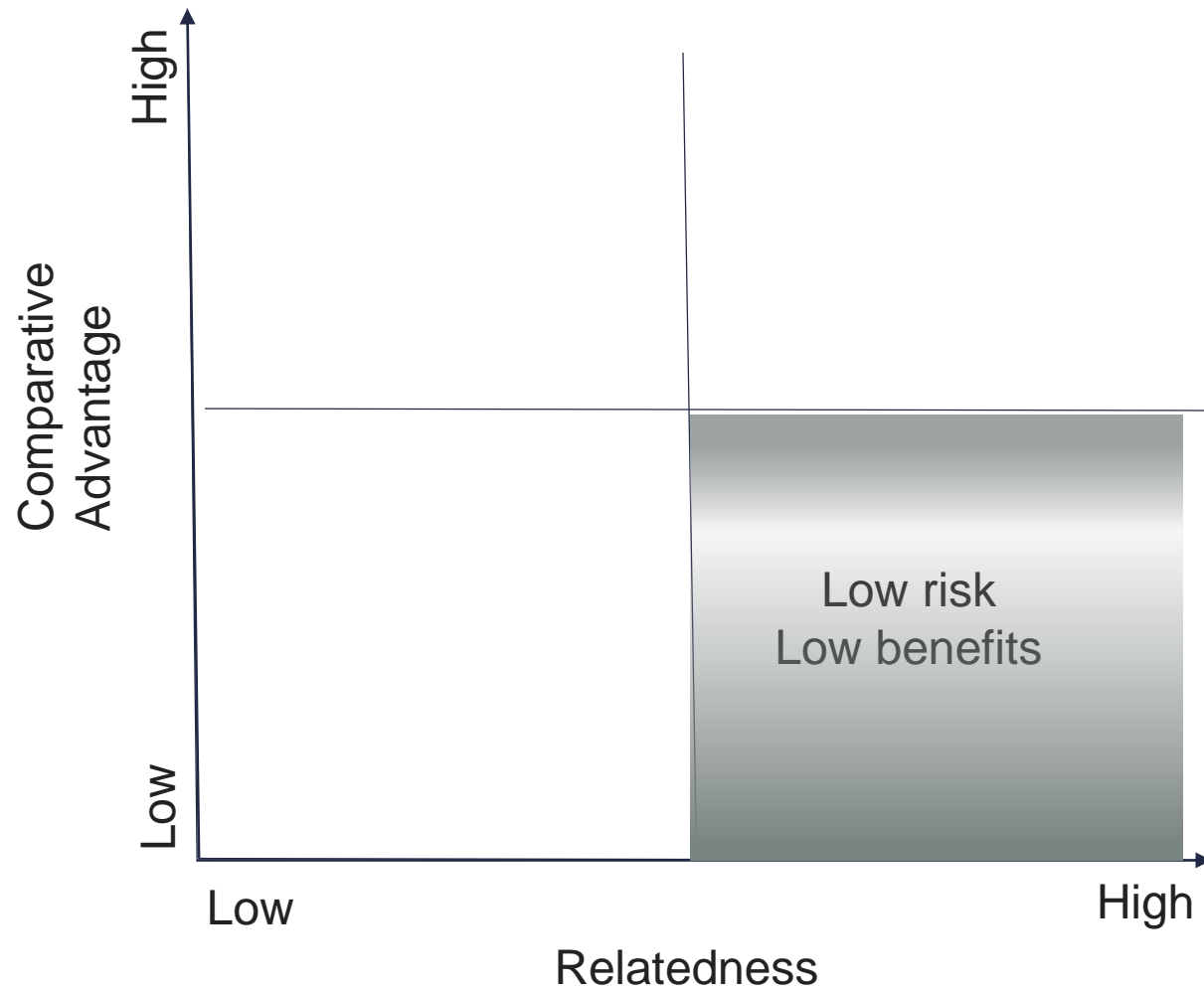
Entrepreneurial process of discovery

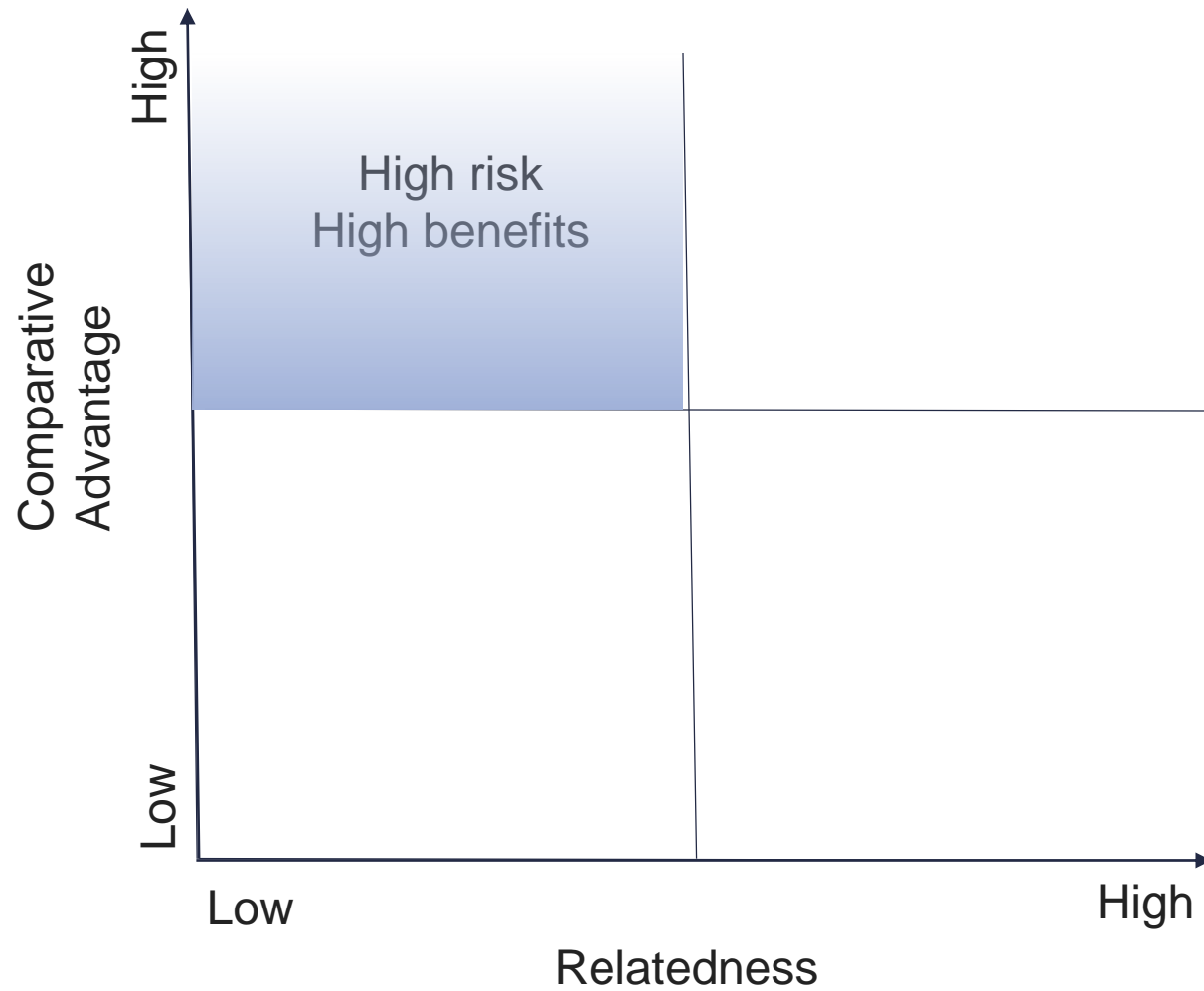
- Because regions differ so much from one another they will not all be presented with the same choices.
- The following diagram gives an indication of how different those choices might be.

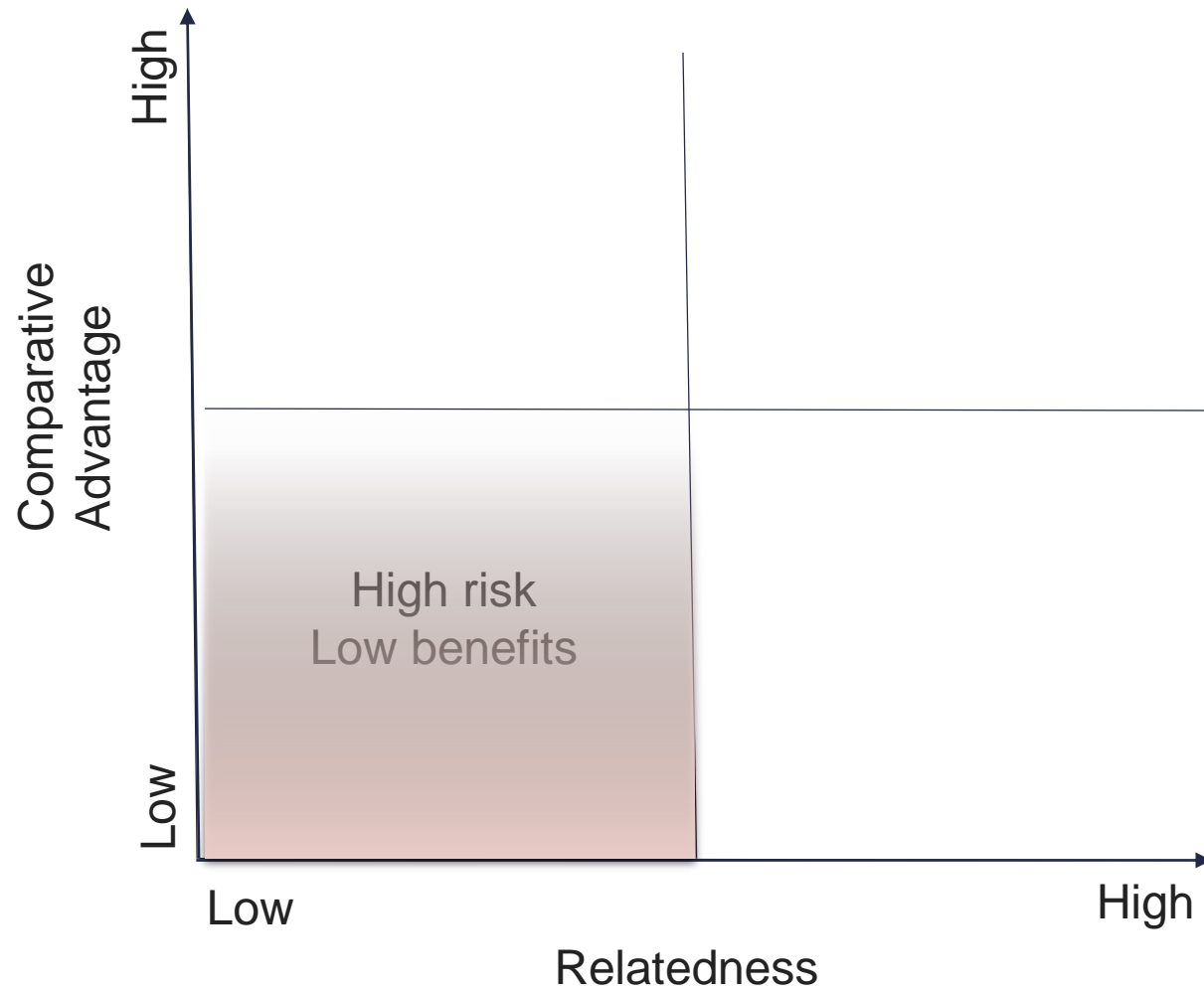












Smart Specialisation in Europe

- Key steps to the European Regional Innovation Smart Specialisation Strategy (RIS3) (Veldhuisen et al, 2018)
 - Analyse the regional context
 - Develop appropriate governance processes
 - Establishment of a long-term vision for the region
 - Undertake the process of entrepreneurial discovery
 - Develop an action plan
 - Establish monitoring mechanisms
- Decided that RIS3 would be applied across Europe and enforced with a threat to withhold structural funding (Kroll 2015)

Smart Specialisation in Europe

- Future funding from the European Structural and Investment Funds required:
 - The central approval of a ‘Smart Specialisation’ document
 - The formal establishment of a consultation structure

Consequences of RIS3 for Europe

- Kroll (2015) undertook a survey of policy makers responsible for RIS3 across Europe
 - Many considered that a template for future specialisation had been created in their regions
 - However, the weaker regions often failed to implement recommendations
 - Support for RIS3 has grown in regions and it has become better understood
 - However, some still fail to grasp the core elements
 - Southern and Eastern regions increased the involvement of the private sector and became more outward and future looking
 - However, this was largely a result of support for the process of consultation rather than ‘discovery’

Consequences of RIS3 for Europe

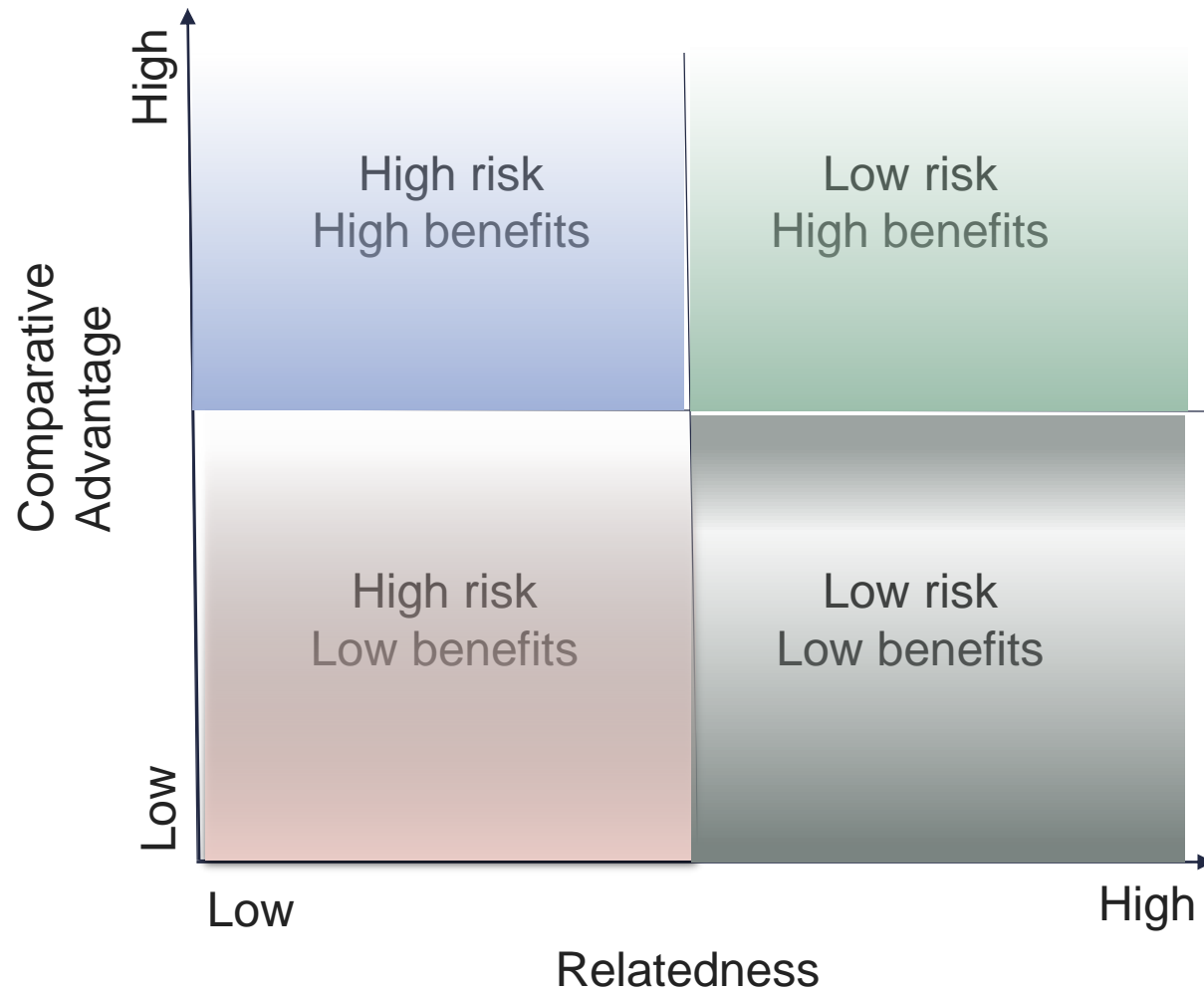
- The processes introduced were supported and largely considered beneficial
- However, establishing the consultation process often proved challenging and was influenced by the capacity of local government
- In Eastern Europe the system gave rise to novel inspirations
 - However, inadequate local governance systems often resulted in the potential of the new knowledge being lost
- In Southern Europe government systems were reshaped in beneficial ways
 - However, this acceptance was often driven by budgetary measures

Consequences of RIS3 for Europe

- In Central and Northern Europe, the strategy fitted in with their past experiences
- However, it helped to improve coordination in what was already a well-ordered system and improved their ability to identify foci for investment

Implications for Australian Regional Development Policy

- Smart Specialisation policy is increasingly becoming part of the Australian scene
 - Hunter 'Australia's first Smart Specialisation Strategy (2016)
 - Australia: Grains Research and Development Corporations strategy was used by the OECD (2103) as a case study on Smart Specialisation Strategy
 - Espostos et al. (2019) identified the establishment of a food processing hub in Gippsland as an example of the adoption of the principles of Smart Specialisation
- Keep in mind the model of Balland et al. (2018)



Implications for Australian Regional Development Policy

- Regional governance is a major issue
 - Who makes the decision at the regional level in the context of multi-level governments?
 - Who implements the decisions – do they have the skills?
- The multi-level government issue may result in the slow introduction of policies in support of a Smart Specialisation Strategy
- When a strategy has been identified, it may sometimes be questionable if an appropriate budget can be put in place
- What is the appropriate size of a region to be considering the adoption of a Smart Specialisation Strategy?
- Will the adoption of a Smart Specialisation Strategy impact on funding from higher levels of government?

Implications for Australian Regional Development Policy

- What mechanisms are available to bring a region's entrepreneurs together?
 - Is this the role of local government?
 - Can universities be of use in this role?
- How can the stakeholders be educated about the benefits of Smart Specialisation?
- How can local government(s) be encouraged to take the lead on implementing Smart Specialisation?
- Can we expect the outcomes to include 'discovery' in an Australian context?