

Executive summary

Many regions in Europe and across OECD countries have a long experience with industrial change and the uneven impact it can have on economic development. Historically, industrial change has always given rise to new jobs, while the productivity growth from automation has been the most important driver of rising living standards. Yet, industrial transition also poses clear challenges. Changing economic patterns can cause temporary, but possibly prolonged, increases in unemployment, which are often spatially concentrated. Furthermore, the changing demand for particular skills affects wage levels and causes permanent gains or losses for certain groups of workers. Globalisation, technological progress, and the transition to a climate-neutral and circular economy raise additional challenges in these contexts, but can also offer important opportunities.

Regions in industrial transition have a comparatively strong potential to seize the chances offered by current megatrends (e.g. digitalisation and automation) to revive economic growth and productivity, and to improve resilience to future technology shocks. These regions often have a strong legacy in manufacturing and sophisticated innovation activities in local core industries. Well-trained workers, established knowledge and strong social capital long characterised them as engines of growth and prosperity. At the same time, these regions can face specific challenges, notably where deindustrialisation has been associated with a lack of an appropriate skill base for future-oriented occupations and low levels of productivity outside traditional technology fields. Across OECD countries, the share of tertiary educated differs on average by 20 percentage points between those regions with the lowest and those with the highest share in a given country. Even though regions in industrial transition do not necessarily have the lowest share in a country, they tend to be below the national average, implying a significant potential for increases. When there is a lack of skilled labour, it can become very difficult to attract the investment necessary for broad industrial modernisation or increased economic activity in higher value added services.

Successful industrial transition will depend on the ability of a region to foster “high-road competitiveness” strategies – in other words, its ability to foster innovation-led growth and ensure that the benefits from growth are widespread – spatially and, more generally, across the population. Seizing the opportunities of industrial transition while mitigating its social costs locally will require policy interventions that build on each region’s existing capabilities and legacies. Concerted action is needed by both governments and the private sector to successfully move industrial transition forward.

Key messages

- **Regions in industrial transition need to help workers to transition to future-oriented jobs and firms to embrace the digital economy.** Regions in industrial transition are often home to a skilled and well-trained labour force in traditional industries. In addition, some regions have been relatively successful in building a labour force in future-oriented and digital occupations, but most of them are just starting to do so. In order to modernise their local industrial base, it is critical for these regions to continue upgrading the skills and production capabilities of existing industries while simultaneously promoting the diversification of the local economy towards more future-oriented economic sectors. Better anticipating skills needs, for example through industry and skills mapping or through

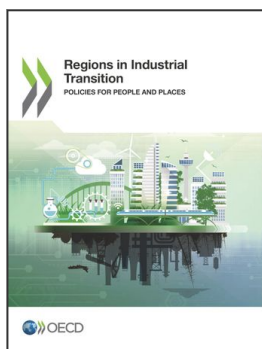
regional skills foresight exercises, helps move industrial transition forward. More generally, the development of future-oriented activities, such as smart manufacturing, life sciences, e-mobility or higher value-added services, has a higher chance of success in those fields where the region already has some assets it can build on.

- **Broadening and diffusing innovation supports productivity growth in regions in industrial transition.** Broadening the focus of innovation policy to include both digital and non-technological innovation is essential for regions in industrial transition. Building up digital competencies in small and medium-sized enterprises (SMEs) can be enhanced through publicly supported training, including managerial training via webinars or through personal counselling. Policymakers in regions in industrial transition can better connect SMEs and start-ups with large businesses through strategic cluster management, project calls for open innovation projects, and the organisation of matching events. Building these connections can support small firm innovation capability. A broadened innovation policy should also strive to support tradable sectors, which tend to be more innovative and productive.
- **Innovative entrepreneurship can support new industrial growth paths.** Empowering and encouraging entrepreneurship is even more important in regions in industrial transition than elsewhere because these regions are in greater need of economic diversification and new firms in growing sectors. Public-support organisations such as incubators, science parks or cluster organisations can help promote industrial diversification. Regional policymakers should also aim to strengthen networks between industry, research, public services, and civil society. Such networks can be built around regional innovation strategies, such as smart specialisation priorities, through open project calls and through cross-cluster and cross-sector collaboration.
- **Industrial transition should aim to be just and inclusive.** The progressive phasing out of carbon industries will present challenges for regions where firms operating in carbon-intensive sectors are large employers. Ensuring a just and inclusive transition requires achieving deep emission reductions while addressing inequalities across both social groups and local communities within the same region. This can mean providing individually targeted training not only to displaced workers, but also to certain groups with lower employment rates such as women or young people. It also means to better measure and integrate well-being indicators beyond GDP in regional development strategies, and to revive peri-urban areas, which often have been affected by a decline in local industrial activity.
- **Ensuring an effective multi-level governance policy framework is key.** Industrial transition takes place in a complex governance environment, requires action by multiple levels of government (local, regional, national and possibly supranational), and involves a wide variety of actors. Promoting a cross-sectoral and multi-stakeholder approach includes fostering active co-operation among all actors to clarify roles and responsibilities and to ensure that policies at all levels of government are well aligned.
- **Managing policy complexity requires active policy learning and adaptation.** Experimental governance that embeds learning-by-doing and trial-and-error processes into policy design can help regional policymakers develop better approaches to address industrial transition. This includes making more and better use of forecast techniques to understand future trends, including more and better data-driven forecasts (e.g. on skills needs and mismatches) as well as introducing more robust performance measurement.

Looking ahead

Regions in industrial transition use a variety of policies and implementation tools to support their transition processes. As policymakers advance on their path to industrial transition, they may need to consider that additional progress may not always come from more or new policies, but rather from improving the implementation of existing ones. More generally, taking a strong place-based approach, and ensuring that

current governance structures and policies can better accommodate structural change will be essential to successful industrial modernisation.



From:

Regions in Industrial Transition Policies for People and Places

Access the complete publication at:

<https://doi.org/10.1787/c76ec2a1-en>

Please cite this chapter as:

OECD (2019), “Executive summary”, in *Regions in Industrial Transition: Policies for People and Places*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/fbcd50f-en>

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