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Territorial inequalities induced by COVID-19 pose tough choices for regional policy

As the COVID-19 pandemic heads into its second year, the associated economic and social implications are still evolving. From the onset it has been clear that the twin health and economic crises are having differentiated impacts across regions, sectors and social groups. However, the scale and scope of these differences have been hard to predict. An emerging clarity on territorial impacts indicates that the pandemic has been re-shaping territorial disparities. This is putting pressure on domestic regional policy to define targeted responses in both the short- and long-term.

The heterogeneous territorial effects of the pandemic have been shaped by the implications of three main factors: (i) the exposure to the virus; (ii) the impact of containment measures; and (iii) institutional and fiscal capacities. The territorial inequalities, stimulated by these factors, have emerged in a context of stalled convergence processes in Europe since the last economic crisis, and widening territorial disparities within countries. Over the past year, the combination of these crisis-related and longer-term processes has shaped a new picture of inequalities across very different geographies.

- **Capital and (large) metropolitan regions**, whose economies have been thriving based on global mobility networks and social interactions, have been hit especially hard by both the health crisis and the containment measures. Sectors such as retail, hospitality, transport and other services, which play important part in the economic fabric of these places, have been significantly affected. These regions have also experienced the consequences of some behavioural

shifts such as an increasing population preference to work remotely from neighbouring rural areas.

- **Industrial regions** where local businesses are highly dependent on imports of certain components, or on exports to international markets, have also been affected negatively due to interruptions in international value chains and trade. Some of these regions may have been facing certain structural challenges pre-COVID-19, in which case the pandemic has had a further aggravating effect.
- **Coastal areas and islands** reliant on a tourist and hospitality sector were cut off from their main sources of income. These often represent regions with healthy economies but susceptible to external shocks due to the high dependence on mono-sectoral economy and seasonal activity.
- **Lagging regions**, urban, rural or remote, which have not necessarily suffered high human loss, have seen their structural problems exacerbated. These regions have been in a weaker position in terms of access to services, public funds and private welfare that could support businesses and households to cope with the crises. Therefore, these structurally weak regions have been more vulnerable to the health crisis, to job losses and business closures during the pandemic. In addition, they are more disadvantaged in terms of investment attractiveness and development potentials to act as base for the recovery process. This means that these regions are likely to suffer for an extended period from the unprecedented shocks, laying the groundwork for increasing socio-economic disparities in the future.
- Coping with the restrictive national containment measures has been asymmetrically challenging for **border regions** as well. This has been especially true for those regions with a high number of businesses and trade tied to markets in a neighbouring country.[i]

Understanding the way these territorial implications of the crisis have been emerging and evolving within countries, however, has been challenging. Consequently, the identification of effective regional policy responses has been particularly difficult.

In the context of great uncertainty, national governments have opted for large-scale and universal economic development support. The priority has been to deliver speedy assistance in an attempt to limit and mitigate the impacts of the economic shock on the most affected sectors, economic structures such as SMEs and vulnerable social groups. This has mainly taken the form of large economic packages of new or re-allocated financing including grants, loans, guarantees and tax deferrals. These were often extended in duration and boosted with additional funds as countries entered consecutive waves of the pandemic. National instruments, most of which sectoral or nation-wide, still dominate COVID-19 responses.

Domestic regional policy instruments have not played a major role in most countries. Insofar as they were used, these were mostly pre-existing instruments that were

recalibrated in terms of budgetary allocation or eligibility to suit specific crisis-related needs.

- **Business investment schemes** raised their aid ceilings and decreased project output targets in order to facilitate the take-up of available funds (e.g. under the German Joint Task for the Improvement of the Regional Economic Structure (GRW)). In Norway, regional policy criteria – peripherality and total population size – were among the criteria used to direct national allocations for business development preferentially to hard hit regions.
- Existing **place-based initiatives**, such as City or Region Deals, received additional funding to support targeted responses at subnational level (e.g. City and Growth Deals in the UK).
- **Soft measures** such as advice and consultancy services were used to support the business community to absorb the shock or use it as an opportunity to transform (e.g. a new coaching program for hospitality industry was supported by the New Regional Policy in Switzerland).
- **EU Cohesion Policy** has been instrumental in delivering regionally focused support, especially in countries that are larger beneficiaries. The flexibility offered by CRII/+ has allowed EU Member States to direct support both to structurally weak and more developed regions, depending on their needs.
- Existing or new **coordination structures** have been tasked with **coordination** of responses between national, regional and local levels, while sub-national authorities were given an increasing number of responsibilities in delivering or providing additional assistance to SMEs and households with special attention to vulnerable groups.

Tailored or additional domestic regional policy measures to support regions to cope with the uneven territorial effects of the pandemic have, therefore, been rare. Largely, the support delivered through the instruments mentioned above has targeted those territories eligible for support before COVID-19. One exception is the financing delivered under EU Cohesion Policy, which in some countries was re-directed to different regions. Indirectly, however, the substantial national support has benefited some regions more due to sector-specific characteristics. In the Netherlands, for instance, statistical data on the use of business support schemes by September 2020 indicated a concentration of support in North Holland, where the city of Amsterdam is located, and Limburg province in the southeast of the country.

As attention has shifted to the economic recovery from COVID-19, consideration of a **number of regional policy initiatives have been emerging** designed to address strategic national priorities set out in domestic recovery packages. Example include:

- the Netherlands (promoting **innovative structural change** in the trade, logistics and industrial sectors):

- Finland (promoting **investments in skills** and social equality);
- France (**industrial independence** and ecological transition);
- Norway (acceleration of **digitalisation**); and
- Switzerland (re-examining the importance of export-oriented value creation in the New Regional Policy due to the high dependency on international value chains; motivation to move towards **making remote areas attractive places** to live and work.)

Looking to the future, political decisions and budgetary choices concerning the role of regional policy in the recovery process are likely to be influenced by both **positive and negative processes** emerging as a result of COVID-19. On the positive side, the **pandemic has accelerated efforts to achieve regional policy goals** such as digitalisation, sustainable development, promoting place-based potentials, and local institutional capacity building. There has been an increased awareness of the benefits that these priorities could bring, not least in terms of building regional resilience. The pandemic has also sharply highlighted territorial disparities in access to healthcare and in demographic change. On the negative side, **there are concerns about the legacy of inequalities that will be left for the recovery to address**. Once the universal national support is withdrawn, the viability of certain regional economies, whose core sectors have been dependent on state assistance, might be at risk. **The recovery from COVID-19 will also be slower in those regions that need to cope with a number of other pressures** such as structural transformations and the increasing effects of aging, climate change, automation or other trends. To what extent regional policy will need to respond to **pandemic-driven behavioural shifts**, such as home working and online retail, which have implications for physical spaces and the local and regional economy, also remains to be seen. Finally, the uncertain implications for regional policy are evident in the National Recovery and Resilience Plans, required for the delivery of EU recovery support in the next seven years, where the pursuit of a territorial cohesion objective is limited or entirely absent.[ii]

Neli Georgieva (<http://eprc-strath.org/people/neli-georgieva/>), June 2021.

Notes:

[i] <http://pub.nordregio.org/r-2021-6-crossborder-covid/#>
(<http://pub.nordregio.org/r-2021-6-crossborder-covid/>)

[ii] *The Recovery & Resilience Fund: an economic stimulus at the expense of territorial cohesion?* EPRC Blog. (<https://eprc-strath.org/the-recovery-resilience-fund-an-economic-stimulus-at-the-expense-of-territorial-cohesion/>)

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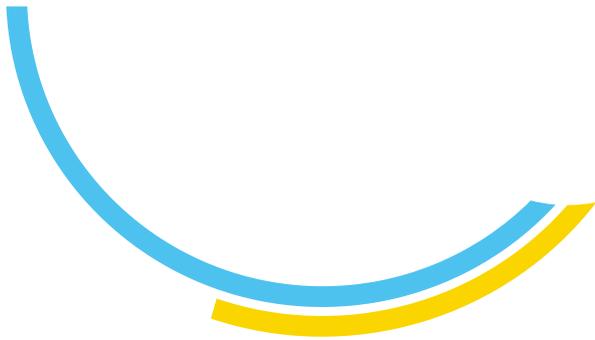
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