

INNOVATION AS DRIVER OF REGIONAL DEVELOPMENT: THE OECD TERRITORIAL REVIEW OF SWITZERLAND

Speaking notes Rolf Alter, Chur 21 January 2011

Thank you for the invitation. It is a pleasure to be here.

Switzerland is an OECD member that is actively involved in our work on regional development. An earlier Territorial Review was conducted in 2002 and it was in the High Level Meeting in Martigny in 2003, presided by Switzerland, under the leadership of Mr. David Syz, then State Secretary for Economic Affairs that important new directions were developed for an OECD regional policy approach. In this new approach - the “new regional paradigm” - regional competitiveness is at the centre, moving away from subsidies. It calls for a policy stance promoting regional competitiveness through private and public investment, reliance on local assets and effective governance.

The **economic context of the current Review is dramatically different**. We have witnessed the most serious global economic crisis of our life times and governments all over the world have tried to find the right responses to tackle this. Large fiscal stimulus packages have been put in place in many countries; and as we are heading towards economic recovery attention has shifted to fiscal consolidation. Underlying these efforts are in many cases strategies to enhance the economic structure, and both innovation and regional policies have an important role to play in this.

This is true for Switzerland as well albeit at higher levels, and with a different profile of challenges.

Our assessment can be summarized in three main points:

1) Swiss regional development policies can be considered the “icing on the cake” of a very well performing national economy

Switzerland is now one of the **economically most advanced** countries in the world. It has the third highest GDP per capita among OECD countries and scores well on employment, education and several other

indicators. Regions in Switzerland also show impressive economic performance, with high levels of GDP per capita, strong export performance and highly educated population compared with OECD average. Interregional disparities and the challenges of de-population, distance to services and ageing are all relatively limited. In conclusion , **development challenges of Swiss regions are relatively modest**. It is relatively rare that both regional and national economic performance are in line.

However, Switzerland, as well as Sweden and many other leading OECD members, will not stay the course in the future if they do not address emerging challenges early on. Will all Swiss regions be able to react and adjust to the big global changes underway? Swiss industry, for example, bases its competitive edge on skilled people and advanced technology, like the Netherlands, Sweden and others. But that same technology and equivalent skills are now available across the globe. And competition for R&D investment is intense.

A sign of potential weakness is **labour productivity growth**, which in several cantons has been lagging over the last decade, contributing to flat productivity growth at the national level. And there are some other indicators pointing to scope for improvement:

- Switzerland is a leading country in science, technology and innovation, but R&D and innovation activities have tended to stagnate.
- Barriers to entrepreneurship and limited diffusion of innovation across regions and sectors are likely to leave growth opportunities untapped.

2) NRP – is Switzerland at risk to waste its potential for policy coherence?

The current review identifies the situation of individual regions meticulously, presenting evidence of small but critical differences among them. Switzerland has taken policy reform seriously, not at least by benefiting from the earlier OECD review from 2002. In order to improve regional economic performance, Switzerland introduced the new regional policy (NRP) in 2008. This reflects a clear shift of focus from infrastructure and financial assistance towards economic support for the creation of value added to the regional economy. We welcome this new regional policy, that corresponds well to a new generation of regional policies and that can be considered a source of inspiration to other OECD countries.

Governance must be at the centre of these new policies if they are to be successful. It determines how effectively public services are provided, public policies are implemented and markets are organized. In

Switzerland, the key governance challenge for the new regional policy appears to be **policy coherence**, with three different elements connected to this:

First, there is a question of **coverage**. The NRP focuses exclusively on lagging regions and does not include the main cities in Switzerland. It is however in these cities that most of the value added is created from which regions in Switzerland could benefit, if they would be connected to it.

Second, there is the issue of **functional economic realities**. Although cantons play a key role in regional policy, commuting flows and business cycles suggest that functional areas often go beyond cantonal boundaries, and regularly beyond the *Grandes Régions* and national boundaries in terms of economic specialisations and co-patents. How to make sure that cantons design policies that correspond to functional realities, which exceed cantonal boundaries?

And third, there is a need for **coherence between regional and other policies** that have an impact on regions, such as agricultural policies, agglomeration policies or national urban policy, spatial planning and tourism policies. The NRP provides new tools for cooperation, but the question in practice remains how these different policies could be co-ordinated more effectively.

Based on an analysis of these policies, the OECD Review recommends:

- **Extend the coverage** of NRP from rural, mountains and border regions to all types of regions
- **Improve incentives** for inter-cantonal collaboration
- **Formally link (or merge) NRP** with other policies, such as agglomeration policy and agricultural policy

Underlying all this is the need for **better capacities and information by cantons on the outcomes of their interventions**. Currently there appears to be a lack of empirical analysis of the impact of regional policy interventions. It would thus be very important to build strategic management and evaluation capacity at federal and cantonal levels.

3) Successful support of innovation – spatial policy coherence is a must

Innovation is a pervasive driver of economic progress and value creation. For this reason, the OECD has launched an Innovation Strategy, which includes policy-relevant indicators and policy benchmarks. A huge challenge in innovation policies is to find policy synergies between policy instruments and policy areas;

and also to find a balance within a policy mix between targeting firms and systems; and between local and global dimensions.

Switzerland has a robust science and technology policy, and scores very well on many more traditional indicators such as patents and R&D. In fact, various Swiss regions, such as Basel City, Zug and Schaffhausen score highest on patents per capita among all OECD regions – see figure 1.17 on page 31 of the Territorial Review. However, innovation is more than patents or R&D. We believe that there are good arguments why Switzerland should **support innovation in a broader sense** to *complement* the current orientation on science and technology. While this is not the place nor time to look at the potential measures at the national level, from a regional perspective, however, **scope for improvement** exists again in the governance arrangements – such as: who does what?

- Federal level policy for technology transfer and start-ups promotion and regional initiatives for innovation promotion **evolve in parallel**, creating overlaps and gaps, missed opportunities and tensions between the various actors involved in innovation promotion.
- Regions and cantons are engaged in cluster support, start-up promotion, business coaching, etc. However, these regional initiatives suffer from a **lack of visibility**, a high degree of fragmentation, and their effectiveness remains undemonstrated in many cases.
- The NRP stimulates such initiatives but there is a need to further **monitor** the complementarity and effectiveness of these efforts, create more critical masses, learn from good practices across cantons, and develop more cross-cantonal activities.

Therefore, a clearer division of responsibilities needs to be defined:

- the **federal level** would remain in charge of its efficient science and technology-policy and concentrate its action on supporting technology transfer and joint public-private R&D projects across the whole country. It would rely on strong regional technology transfer networks when they exist. The target groups for the federal level should remain the technology-advanced sectors.
- **functional regions** would be in charge of innovation promotion in the wider sense: this would be done by establishing networks of innovation promotion agencies and advisors, covering the local and cantonal dimensions, coordinated and quality-controlled at the level of the functional region. The target groups for the regions should be the sectors where innovation happens in a learning-by-doing and learning-by-interacting mode. Such a clarification of responsibilities would also increase the visibility of regional initiatives

Closing remarks

The new regional policy in Switzerland is an important accomplishment and serves as an inspiring case for OECD countries and a good illustration of the OECD “new regional paradigm”. The OECD Territorial Review of Switzerland gives further evidence to this and points to three important lessons:

1. Even in an economically advanced nation such as Switzerland, regional policy has a role to play.
2. Policy coherence is key in order not to waste policy potential
3. Effective innovation is dependent on spatial policy coherence.

It was an honour to be involved in this Territorial Review of Switzerland. I offer you hereby our services in accompanying the implementation of the reform and our recommendations, and we would be more than glad to hear about your experiences and results in due course in our OECD Territorial Development Policy Committee.