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November 26th, 2024

The EU must take the territorial dimension of industrial policy seriously

Is there a misalignment between EU cohesion policy and the EU's industrial policy? Tea Gamtkitsulashvili and Vassilis Monastiriotis show that while the former targets less developed areas of the EU, the latter predominantly aids well-developed regions.

The EU's development strategy hinges on two cornerstone policies: **cohesion policy** and **industrial policy**. Both aim to propel Europe forward, but as these policies evolve, aligning them has become increasingly complex.

Traditionally, cohesion policy has focused on promoting economic and territorial cohesion, prioritising support for Europe's less-developed regions. In contrast, industrial policy has shifted its focus toward guiding Europe's green and digital transformations while pursuing overarching goals such as "**open strategic autonomy**", decarbonisation, and creating a resilient single market. Harmonising these two frameworks may be as challenging as it is vital, for Europe's pursuit of economic prosperity and political stability.

Contrasting governance models

In a **recent study**, we examined the tensions and affinities of the two policies, along a number of dimensions. At the organisational level, cohesion policy and industrial policy operate in fundamentally different ways, each with its own benefits and drawbacks.

While cohesion policy funding adheres to structured **allocation rules**, reflecting the policy's commitment to territorial balance, the key funding vehicles of the EU's industrial policy (**Horizon Europe**, **InvestEU** and the **Innovation Fund**) operate through competitive grants that reward excellence, often favouring institutions and places with advanced technological capabilities and innovation track records.

Programming under cohesion policy is by close cooperation between the European Commission, national authorities and regional stakeholders, ensuring that funding decisions account for **regional needs** and foster local engagement. By contrast, programming of industrial policy actions is rooted in market-driven principles, aiming at promoting efficiency and innovation in a rather space-blind way.

While the latter allows for more flexibility and **lower administrative burdens** (which may be important especially for regions with limited resources and capacities), it is naturally less inclusive and tends to overlook the specific needs of lagging regions. Without explicit territorial or participatory mandates, EU industrial policy risks perpetuating inequalities and sidelining the very regions that might benefit most from industrial support.

Widening regional inequalities

On funding allocations, our analysis reveals a stark imbalance between the EU's funding for innovation and its cohesion policy funds for regional development. While cohesion policy funds target less developed areas, funds from Horizon and the European Innovation Council flow predominantly to well-developed regions, resulting in an almost inverse relationship between a region's level of development and its research funding.

We also find inconsistencies between cohesion policy funds and funds dispersed in support of the EU's industrial strategy under the **Recovery and Resilience Facility**. While both funds support environmental and digital goals, their differing priorities in social and territorial cohesion show a policy mismatch. This fragmented approach makes it harder to achieve a cohesive, EU-wide impact on development, potentially widening regional inequalities rather than bridging them.

Beyond these differences, there are also fundamental misalignments in how regions are exposed to the demands and opportunities of the green and digital transitions. Less developed regions are often more reliant on "brown" jobs and rank high on the **green transition vulnerability index**, while they tend to specialise in traditional, lower knowledge-intensive industries.

Our analysis reveals that these regions tend to be over-represented in "**industrial ecosystems**" with lower degrees of technological sophistication and more disruptive supply chain challenges (e.g. agri-food and energy-intensive industries). They are also at a disadvantage with regard to the potential of their firms and businesses participating in key industrial policy initiatives such as the recently announced **net-zero acceleration valleys** or the various **industrial alliances** and **important projects of common economic interest**.

History has shown that neglecting equity, both across individuals and regions, can provoke significant pushback from society, ultimately hindering progress toward the green and digital transitions and a competitive and autonomous Europe. The EU's industrial strategy has a concerning lack of alignment with the objective of territorial cohesion. While addressing these

misalignments is undoubtedly challenging, there is **ample evidence** to suggest that failure to do so could undermine long-term progress. Therefore, it is crucial that these misalignments are confronted directly and head-on.

A “territorialised” industrial policy

We propose two recommendations for addressing these issues. First, aligning industrial policy with cohesion policy requires a significant shift in approach, towards a more spatially aware, regionally inclusive industrial policy framework that would allow the EU to target areas with untapped growth potential that are hindered by systemic market failures that perpetuate regional disparities.

To achieve this, the EU’s industrial policy should incorporate an explicit spatial strategy alongside its thematic and sectoral priorities. The latter would in turn require closer coordination with spatial institutions, such as **DG Regio** and local “smart specialisation” plans, which can provide valuable insights into the strengths and needs of specific regions and can inform strategic decisions, for instance on the location of **gigafactories** and other deep-tech investments, or on the demarcation of **net-zero acceleration** and **regional innovation** valleys.

Beyond that, industrial policy programmes should also integrate spatial criteria into their funding models, for example, via the introduction of quotas or selection criteria favouring entities from underdeveloped regions in Horizon and European Innovation Council grants. This would ensure that projects are not only awarded based on excellence but also consider the impact that their allocations have on harmonious development. While such a shift may increase complexity in industrial policy decision-making, it also presents an opportunity to foster inclusive growth by integrating regional potential with broader EU goals.

Developing a “strategic” cohesion policy

While cohesion policy’s shift to “smart specialisation” emphasised localised, place-based strategies, it must now take on a more strategic alignment with the EU’s overarching objectives. The need for a more coordinated approach is clear: local re-specialisation efforts must not only become “**smarter**” and more focused but must also aim at advancing the EU-wide objectives of sustainability, digital transformation and economic sovereignty, ensuring that cohesion policy contributes meaningfully to Europe’s long-term resilience.

This alignment may require a level of re-centralisation of cohesion policy to create a spatially coherent, prioritised network of regional strategies. To achieve this, cohesion policy should work in closer alignment with industrial strategy bodies, such as **DG Grow** and the European Innovation Council, while leveraging existing EU frameworks of inter-regional and spatial cooperation like **Interreg**, the **Territorial Agenda**, and the **European Spatial Development Perspective**.

Connecting local “smart specialisation” strategies to the EU-wide framework of innovation and industrial transformation can help ensure that the developmental tools and resources of cohesion policy reinforce the EU’s strategic objectives. It can also ensure that regional initiatives not only address local needs but also contribute to broader EU goals, such as securing critical supply chains or advancing the green transition. Ultimately, a more strategic policy that directly supports EU industrial goals will empower regions to achieve both local and EU-wide ambitions.

These two policy recommendations, a “territorialised” industrial policy and a “strategic” cohesion policy, would together create a more cohesive and effective framework for EU policy. By tailoring industrial policy to regional development needs and reorienting cohesion policy to directly address the EU’s long-term goals, the EU can build a more resilient, inclusive economy that bridges regional disparities while advancing its competitiveness on the global stage.

For more information, see the authors’ [accompanying study](#) for the Luiss Hub for New Industrial Policy and Economic Governance (LUHNIP).

Note: This article gives the views of the authors, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: [European Union](#)



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