EU ENLARGEMENT AND APPROACHES TO REGIONAL POLICY

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1. Introduction

The empirical evidence contradicts a traditional paradigm, according to which increasing economic integration of the economically lagging regions within the most developed areas would be the cause of a cumulative process of increasing regional disparities. On the contrary, the changes occurring in technologies and in the forms of the relationships between firms, seem to demonstrate that greater economic integration at the European level has been a factor contributing to higher development of various economically lagging regions.

In fact, the isolation of an individual region from its contiguous neighbours hinders the achievement of that critical threshold which allows it to become visible in the framework of increasing global competition. Thus, each area should develop co-operative strategies at least with the most contiguous regions.

This paper illustrates the need for a reform of the principles of the European regional policy in the perspective of EU enlargement. It underlines the increasing importance of focusing on the objective of promoting the process of economic integration within the European territory with respect to the traditional objective of decreasing regional disparities.

The first chapter illustrates the relationships between regional development and the process of networking in a local and in an interregional framework. The second chapter illustrates the concept of organizational/institutional distance and the various forms of interregional and international interdependence between developed and less developed areas. The third chapter analyses the impact of European Union enlargement in the new accessing countries. Finally, the fourth chapter investigates the need for a reform of the aims and instruments of EU regional policy and the characteristics of a regional policy.

2. The "exogenous" and "endogenous" approach in regional policies

According to a traditional "exogenous or corporate approach" to regional policies, financial and fiscal subsidies should attract external investments to economically lagging regions, on the basis of the evaluation of the comparative costs and advantages of alternative locations.

This approach has been challenged by the "endogenous approach", which has been developed on the basis of the analysis of many intermediate regions in Europe, which during the 70's and 80's were able to overcome the gap with respect to the most developed regions. According to the endogenous approach to regional development, the most important factors or resources in regional development are almost geographically immobile. These include: physical infrastructures, specialized labour force, local economic sectoral structure and localization economies, technical and organizational know-how, entrepreneurship capabilities, urbanization economies, local social and institutional structures, local consensus and identity, and so on.

The interregional mobility of mobile resources depends on their respective productivity and prices. However, the productivity of mobile ("exogenous") resources, such as capital, unspecialized labour and codified information, depends on the quantity and quality of local ("endogenous") immobile resources. Thus, the strategic objective of regional development policies is to ensure the quantitative and qualitative development, and the full employment and efficient use of local resources.

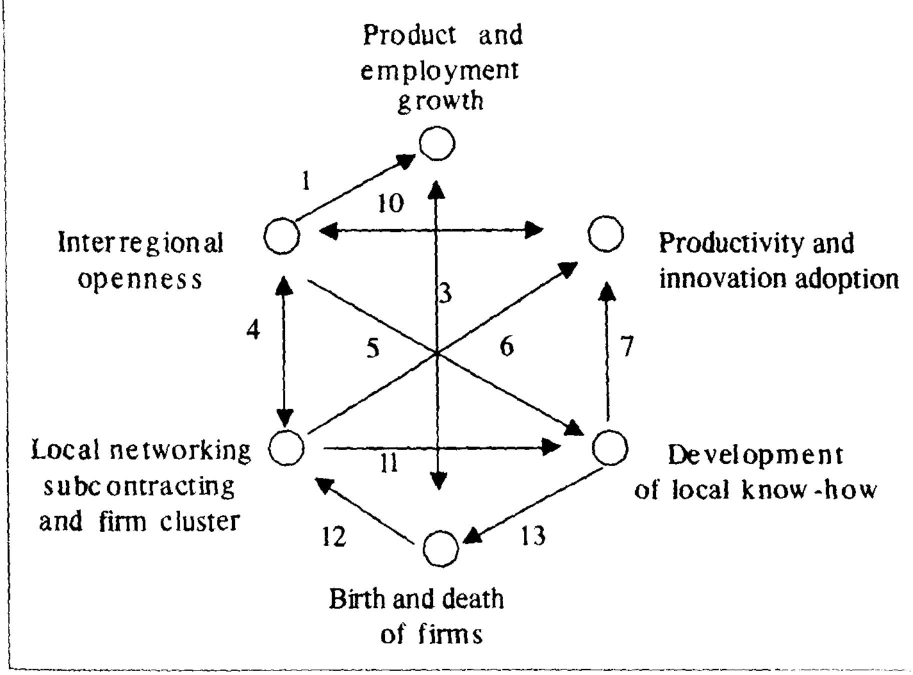
Regional policy should not aim to compensate the local costs and external diseconomies with financial subsidies, but to remove the latter and to promote the specific local factors of strengths. In fact, in various economically lagging regions, a large central public intervention has determined an increasing dependence and hindered an endogenous development process (Latella 1995).

In fact, as illustrated in Figure 1, external financial flows sustain the revenue level and local demand (1). That determines the development of service and industrial firms mainly oriented to the local demand rather than to the national or international market (3).

Moreover, dependence on public resources leads to distortion in the sound economic evaluation of the investment projects and in the behaviour of local actors (5). The abundant flow of financial resources transferred to the firms hinders the stimulus to increase productivity and to introduce innovation (10).

The dependence on public resources of the central intervention spreads at the local level an assistance mentality and patronage practices (5) and hinders local networking between local firms and institutions (4), implying lower cohesion in the local community. Moreover the development of hierarchical relations with central authorities hinders the development of horizontal relations with other regions and promotes an attitude of closure and an effect of isolation (4).

Fig. 1. - The effects of traditional regional policies in economic lagging regions



The low capability of cooperation and the spreading of internal local conflicts lead to a lengthening of decision-making processes, decrease the potential of interactive learning processes (11) and decrease the ability to promote institutional change and the pace of innovation adoption (6).

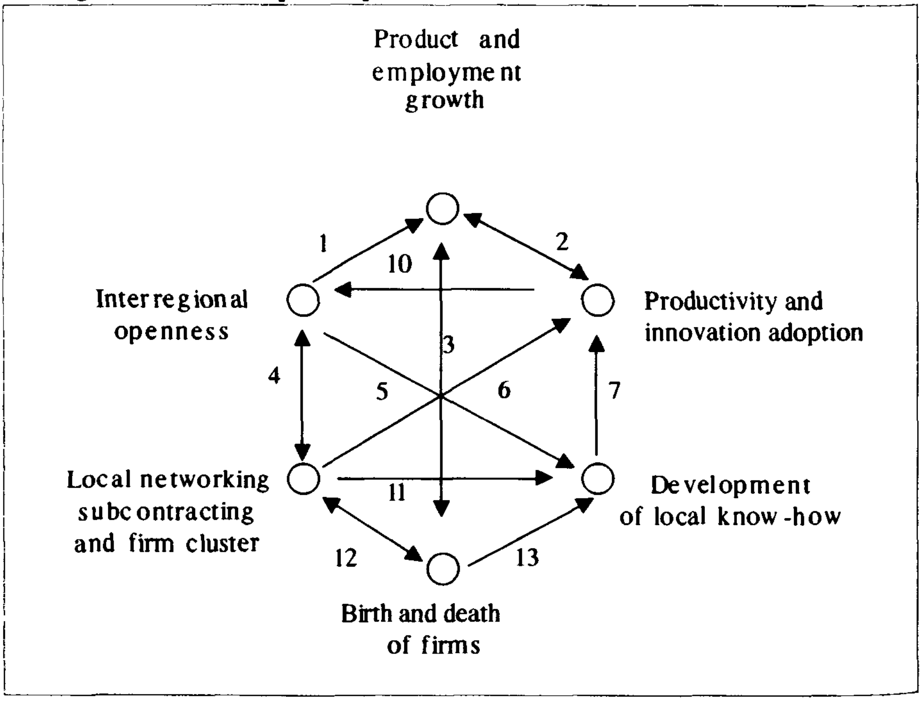
The low rate of innovation adoption and low productivity and higher costs prejudice competitive capabilities (10). The export flows are almost nil and this increases the economic dependency from external resources as also a cultural dependency syndrome, indicated by the imitation of external life habits and the loss of local tradition and identity (5). In particular, the centralized structure of national and European intervention in the field of regional policy and the lack of fiscal powers hinder the sense of responsibility of the local institutions and the development of their internal capabilities (5).

Moreover, the revenue transfers from abroad through the public sector have negative effects on the labour ethic and on saving capabilities (5).The increase of employment in the public sector decreases labour mobility and flexibility (5). The prevailing bureaucratic and conservative culture hinders the development of innovation and of entrepreneurial capabilities (5). On the other hand, the location of large external firms determines the crisis of handicraft activities and of traditional labour crafts (5), which could have become the base for future export capabilities.

The inadequate development of local competence compresses the local entrepreneurial capabilities and the creation of new firms (13). The insufficient birth rate of new firms, and the inability of existing firms to emerge from the black economy and to grow, hinders the growth of employment and production (3). Moreover, the limited number of industrial firms in the local economy hinders the development of local networks, leads to an inevitable isolation and makes more difficult the development of forms of cooperation with other local firms or organizations (12).

The lack of production diversification of the local economy and the difficulties in cooperation between the local firms hinder the development of interactive learning processes, local know-how, competencies and technological and organizational capabilities within the firms (11). Finally, the lack of specialized competencies and the decay of local education services hinders the adoption of innovation and the increase of productivity (7).

Fig. 2. - The development process in the model of territorial networks



However, in other cases the dynamic relationships between the above six variables define a completely different development process, characterized by a positive relationship between external openness and economic growth (Figure 2). In particular, analysis of the current evolution of the local production systems of small and medium size firms in the already developed economies allows the identification of various cumulative processes, which may have a beneficial character.

In fact, the adoption of process innovation and the growth of productivity leads to a decrease in employment (2) and of labour costs and to an increase in profits, which has a positive impact on investment and especially in the creation of new firms (3). That allows an increase in employment (3) and the reconversion of production capabilities which were temporarily unemployed. The maintenance of a low level of unemployment promotes a high social consensus (12) and lowers workers' resistance to the adoption of innovation (6), thus promoting increases in productivity. Moreover, the creation of new firms promotes the diversification and a greater integration of the local production networks (12): this decreases the obstacles to innovation within firms (6).

Secondly, the development of the local economy stimulates the demand for local services by the population and for specialized subcontractors by firms, and thus leads to the creation of new firms (3). The higher number of firms in the local economy implies greater competition and co-operation (12) among them, a greater diversification of organizational and technological know-how and the development of entrepreneurial capabilities (11). This stimulates the adoption of product innovation (7), an improved quality of local product, competitiveness on external markets and the growth of exports (10), which represent the most dynamic component of the demand for local product (1).

Thirdly, the tight integration between local firms within the networks of subcontracting and the increased complementarity of the local firms increase the efficiency of the local production system and facilitate the innovation process (6) and thus the competitiveness of local products (10). On the other hand, increased international openness stimulates co-operation between the local firms (4), in order to face jointly the challenges of the international competition.

Fourthly, the development of local networking and especially of the subcontracting networks facilitate the creation of new firms (12), which, as indicated above, promotes the diversity of technological and organizational know-how and entrepreneurial capabilities (11). This facilitates the innovation process (7) and this in turn stimulates networking and co-operation between local firms (6), as it promotes outsourcing and the creation of subcontracting agreements.

The endogenous approach to regional development underlines the need to promote the relationships of co-operation and of technological integration between the various firms and local actors. Moreover, it indicates that the impact on regional economic development of an increasing openness of the regional economy to the international or interregional economy may be very different. In fact, as indicated in Figures 1 and 2, the actual positive or negative outcome of the development process depends mainly on three variables: the process of networking between the local actors, the interactive process of knowledge accumulation within the region considered, and the local entrepreneurship capabilities in the creation of new firms. The neoclassical growth theories have mainly disregarded these three factors, as they have focused on the relationships between economies of scale, increased productivity, lower costs and higher exports, and then higher production and higher economies of scale.

Regional policies could intervene with various instruments on six key variables of the regional development process:

I - productivity and innovation: promotion of investments, adoption of process innovation, product innovation and organizational innovation within firms, investment in R&D, etc.

K - growth of local know-how: vocational education, continuous education, technical and managerial education, territorial knowledge management, creation of centres of technical assistance, co-operation between local firms in innovation projects, etc

F - birth and death of firms: promotion of entrepreneurship, firm incubators, venture capital, managerial assistance, etc.

N - local networking: empowerment of local institutions, improvement of administrative capabilities, creation of intermediate institutions and industrial associations, infrastructure investments, urban and environmental quality, transport infrastructures, etc.

O - external openness: promotion of exports, internationalization of local firms, interregional subcontracting, attraction of external investments, international transport and communication infrastructures, programmes of interregional co-operation, etc.

L - employment growth: employment in public sectors, policies on the labour supply, promotion of female labour participation, disclosure of firms in the black economy, unemployment subsidies, etc.

3. The concepts of distance and the different forms of international integration

The "network approach" to regional development was developed during the 90's and may be considered as an evolution of the "endogenous approach". In fact, according to the network approach, development depends not only on the endowment of local resources and capabilities, but also on the regional openness towards the international economy or on the intensity of the integration with the other regional production systems, in terms of exports, productive investments, financial investments and firms acquisitions, transfers of organizational capabilities, transfers of technological know-how and tourist flows.

According to a network approach, the quality and level of the know-how is a major factor in promoting the competitiveness and the development of a region, and the creation of knowledge is promoted by cultural diversity, by the synergy between local and external sources of knowledge and by measures increasing the connectivity between the various regions. In fact, the receptivity to innovation depends on the circulation of information and on the ability to integrate the explicit or codified knowledge coming from abroad with the local and often tacit production know-how.

In particular, the form of the relationships between the nodes in a network model depends on various factors, among which distance and its associated costs play an important role. Thus, it is interesting to illustrate that a decrease in distance plays a crucial role in strengthening the process of international integration and in determining different types of international relationships between the firms.

In particular, as indicated by the French research group on the "economics of proximity" (Rallet and Torre 1998), the concept of distance may be described as "geographical distance", "organizational distance" or "institutional distance". These three different concepts of distance are tightly linked among themselves in explaining the phenomenon of territorial proximity.

In fact, when strong geographical obstacles and strong organizational/ institutional barriers exist, international or interregional economic integration has a prevailing commercial character. This is illustrated by quadrant II (Table 1), which indicates the case traditionally considered by the classical and neoclassical theories of international trade. Physical exchange or barter ("counter-trade") is sometimes the only alternative in trade with these countries, where the risk is very high due to large differences in the institutional or organizational framework. At the interregional level, high organizational or institutional barriers may lead external firms to limit their activity to the simple export of their products toward some peripheral economically lagging regions, and to concentrate and expand their production activities in the more developed regions. In other cases, firms may limit themselves to greenfield investments within the economically lagging regions through traditional branch-plants, specialized in the production of standardized final goods or of raw material, just for the export markets.

Table 1. - Concepts of distance and forms of economic interregional/ international integration

		Geographical Distance (ICT and Transportation)	
		Low	High
Organizational Institutional Distance (Interactive Learning)	High	I. Interregional industrial integration • Subcontracting networks • Client-supplier co-makership • Intra-industry trade	II. International trade • Isolation • Counter-trade • Sectoral import/ export flows
	Low	III. Internal territorial diffusion • Networks of firms • Industrial districts • Learning regions	IV.International service integration • Strategic alliances and joint-ventures • Technology spin-offs • Intersectoral integration

Instead, when both the geographical distance and the organizational/ institutional distance are very limited (quadrant III), modern forms of "network integration" become possible and convenient, as occurs within the internal market of the most developed countries. Commercial and production partnerships between firms belonging to the same filiere or production cluster, the creation of financial groups encompassing various firms and financial acquisition or minority participation in external firms are examples of these relations.

These network relationships characterize the modern model of industrial organization and they are especially common in the industrial districts of the most developed regions (Becattini 1991, Brusco and Paba 1997,Cappellin 1998, Maillat and Kebir 1999). However, similar relationships have also started to develop at the interregional level between contiguous regions and even at the international level, especially in the case of the large firms, and between the regions which are leaders at the European level in specific sectors.

On the other hand, particularly interesting are two intermediary cases, where the levels of geographical distance and organizational/institutional distance do not correspond. In fact, whenever the geographical distance can be decreased through investments in transport and communication infrastructures, while a strong organizational/institutional distance persists, a tight technological and financial cooperation between local and external firms is not possible. In this case, at the interregional level, the existence of low transport costs allows tight production integration between the various regions, through the specialization of the most developed regions in the final phases and the outsourcing of intermediate production in the less developed regions.

Thus, quadrant I represents the case of regions which are strongly specialized in the production of intermediate products and which are strongly embedded in the networks of commercial and production co-operation (co-makership) with other regions, such as occurs in the case of subcontracting relations or in the decentralization of productions toward directly controlled branch plants. In these regions, production costs represent the crucial factor of competitiveness, due to the high labour and capital content of the intermediate production and its rather limited technological content.

This case is very important for the regions of Southern and Eastern Europe, which are very close to the most industrialized regions of the European Union and may benefit from the process of decentralization of intermediate production from these regions. Similarly it is important for the areas in Mexico which are close to the USA border. In particular, at the international level, these forms of very tight production integration determine the so-called "intra-industry trade".

Tight integration of the industrial firms of the economically lagging regions in Southern Europe within the interregional networks of subcontracting has been enhanced by the construction of highways and more recently by improvements in logistic services, the use of containers and the integration of road transport with railway and maritime transport. This integration may also be strengthened by a wider use of the Internet, which promotes "business to business" electronic commerce and an easier exchange of technological and organizational information, thus allowing tight integration of the supply-chain.

However, even more interesting for the prospects of economic development in the peripheral regions is another type of intermediate case, which occurs when the organizational/institutional distance has been reduced in a crucial manner, while a high geographical distance still persists. At the interregional level, this case is exemplified by various very dynamic areas in Europe, like Ireland, Scotland and Wales, and also the Italian regions of the Centre-North, which have been very successful in attracting European and non-European qualified investments. At the international level this case may be illustrated by the Far East countries, which are certainly distant from the European and American markets, but are tightly embedded in the networks of international alliances between firms and are clearly characterized by a strong openness to international relations.

Thus the case indicated in quadrant IV represents a challenge for the traditional theory of international trade, as the concepts of production costs and of economies of scale become less relevant with respect to the factors explaining the pattern of international technological co-operation in the so-called "knowledge economy" (Lundvall and Johnson 1994, Cappellin 2001b). This case indicates that the process of international trade integration is increasingly being overcome by a wider and more complex process of internationalization, which is affecting not only industrial production but also the tertiary sectors.

In fact, when the geographical distance is high, the strong intrasectoral specialization and the forms of just in time subcontracting and co-makership indicated in quadrant I become infeasible. However, a low organizational/institutional distance facilitates investment by foreign firms in joint ventures with local firms and also the acquisition or financial participation in these firms. This process determines the creation of technological spin-offs or specialization of the local firms in innovative production, which may be integrated with those of other firms of the same group at the international level.

These forms of international technological, production and marketing collaboration do not require a strong geographical proximity, since the information flows and the financial flows can be managed at a large distance when a strong organizational and institutional proximity exist.

In conclusion, while the transport and communication infrastructures are needed in order to integrate the nodes of the production networks in the perspective of the development of a "just in time" system at the international scale, organizations and institutions represent immaterial infrastructures, capable of integrating between themselves the nodes of the technological and financial networks which have a crucial role for integrating the less developed countries in to the modern "knowledge economy".

4. The interaction between the regional policy and the enlargement of the European Union

The process of the EU enlargement (European Commission 2002) will affect the relationships between the various European "macro-regions". In particular, the relationships between two less developed macro-regions, such as Southern Europe and Central and Eastern Europe, are often interpreted according to a competitive model, as the lower labour costs in the new candidate countries to the European Union could attract foreign investments and thus reduce the development potential of the economically lagging regions in the Mediterranean area.

However, there are profound economic differences between the Mediterranean regions in the actual EU member countries and the regions in the accessing countries in Central and East Europe. That may be illustrated with the model of Table 1, where the accessing countries may be located in quadrant II, where both the geographical and the organizational/institutional distance are high. The economically lagging regions of the current EU member countries seem to be characterized by a lower geographical distance and also by lower organizational/institutional distance and they are therefore in an intermediate position with respect to the most developed regions of the EU, which locates them in quadrant III. In favour of the economically lagging regions of the EU member countries are an already well developed system of transport infrastructures and the fact that they belong to the same countries as more developed regions and can enjoy a modern legal framework.

As previously indicated, the case of quadrant II is only compatible with the development of export-import flows of final products or raw materials, while a lower geographical and organizational/institutional distance allows a greater development both of the decentralization of intermediate productions and of technological collaboration agreements. Thus direct competition between these two European "macro-regions" will most probably be rather limited.

In fact, the problems of economic development in Central and Eastern Europe are profoundly different from those in Southern Europe. The collapse of the "command economy" has been due to the large lags in the adoption of modern technologies and the insufficient growth of productivity and hence of per capita income, related to the lack of political and economic freedom. Thus the transition countries are characterized by the heritage of a system not only of institutions but also of management models and of labour skills which should be gradually but profoundly changed.

The prospects of economic development in these countries depend on a variety of reforms and policy measures which are tightly linked and often imply complex trade-offs, such as:

- further extension of the process of privatization and industrial restructuring of large firms, which are still absorbing great flows from the public budget,
- deregulation and creation of new rules of corporate governance, in order to decrease the risks to foreign investors,
- improvement of the quality of existing production for competitiveness in the international markets, thus reducing the actual deficit of the trade balance,
- the need to modernize the banking sector, financial services and the stock market,

- the renewal of technologically obsolete machinery and internal organization, in order to increase the low level of productivity,

- control of the internal pressure of wages and prices,

- increase in the buying power of the workers, which limits the size of the internal market and the development of modern service activities,

- the still inadequate quality of public services,

- enlargement of the fiscal base in order to decrease the tax pressure on firms,

- the need to reduce the public deficit, which may imply a greater fiscal pressure on households and a decrease in disposable incomes,

- instability of the governments, linked to the internal political conflicts, which may slow down the process of economic reform,

- the risk of political tensions, due to the unresolved problem of ethnic minorities and the need to improve international integration with bordering countries.

Key development problems in the accessing countries are:

- obsolete technologies,
- different institutional framework,
- lack of entrepreneurship,
- lack of transport infrastructures.

Therefore, the most appropriate objectives for European policy addressed to promoting long term self-sustained development in Central and Eastern Europe seems to be:

- modernize the institutional system and its harmonization with the EU standards,

- promote technological and organizational change and increase of productivity,

- increase of international openness and economic integration with the firms of the current EU member countries.

In general the prospects of economic development in these countries depend on an increase of international openness and economic and institutional integration with the member countries of the European Union.

On the other side, the key development problems in the economic lagging regions of the current EU member countries are:

- high production costs
- lack of private capital
- high unemployment
- low quality of public services

Therefore, the traditional measures of regional policy adopted in these regions have been:

- credit incentives to private investment,
- lower taxes on labour costs or lower wages,
- State transfers to local institutions.

These policy instruments are of low effectiveness for tackling the problems of the accessing countries. They would even conflict with respect to the policies aiming towards macroeconomic convergence and structural integration, as they could slow down the process of industrial restructuring and increase public deficits in the accessing countries. Moreover, the candidate countries seem to require policy measures mainly at the national scale or of sectoral or industrial type, rather than having a regional or territorial character. Even more important than the transfer of financial resources is to promote the gradual adoption of the Community regulations (which represent the so called "Community acquis" and are considered in the thirty one chapters of negotiation with the EU Commission) and to promote tighter integration with the other EU countries in a technological, financial, social and institutional perspective.

In fact, it is necessary to focus the financial aid of the European Union to the candidate countries on the objectives of modernizing their institutional system, promoting technological and organizational change, and increasing the productivity of the industrial system. Automatic extension to the candidate countries of the existing regulations of the European Regional Development Fund would mean the collapse of the traditional regional policy of the European Union (Cappellin 1999). The size of the public financial resources needed to reduce income disparities between the Central and Eastern European countries and the EU average would be enormous and hardly sustainable within the EU budget.

Moreover, the eventual benefits could hardly compensate for the negative effects on the current EU members, since the abolition of financial transfers to the economically lagging regions would imply the rupture of the social and political contract, which links the most developed with the less developed regions according to the principle of solidarity, representing the foundation of national unity.

On the other hand, the enlargement of the European Union to include the Central and Eastern Europe countries is a positive phenomenon, as it allows the almost automatic effects of the process of globalization and of international integration. In fact, it seems to be in the interests of the economically lagging regions in the EU member countries, that the regions and countries in Central and Eastern Europe should not only trade with the EU and attract foreign investments, but gradually adopt the same rules and harmonize their internal institutions.

5. The reform of the organizational principles of the EU regional policy

The enlargement of the European Union to the Central and Eastern European countries (CEEC) will imply a 28% increase in European population and a 16% decrease of the average per capita GDP. Therefore, the threshold of 75% of the Community per capita GDP, required in order to be eligible for support from the European Regional Development Fund (ERDF), will become equivalent to actual 63% in current terms. This will imply that very few regions of the actual Objective 1 regions in Italy, Spain, UK and France will not be excluded from the ERDF after the end of the planning period 2000-2006. Moreover, all the actual Objective 2 regions excluded from the EU regional policy, when the regions which will be eliminated as Objective 1 areas become Objective 2 areas, as has often occurred in the past when certain regions were withdrawn from Objective 1 areas.

However, the most negative effect will be the fact that these regions, which certainly are problem areas in a national perspective, will not only will be excluded from the EU regional policy, but will also become ineligible for receiving national aid according to Article 92.3 of the Treaty of Rome. This will imply that the national governments will lose the instruments for promoting balanced development between the various regions within the same country and the existence of a national regional policy will be either impossible or severely limited in all EU member countries.

The GDP criterion is clearly inadequate as the main criterion for the selection of the areas of intervention of the European regional policy. It is necessary to consider also a geo-economic perspective, as indicated by the concept of European "macro-regions" (Cappellin 1993). In fact, the Mediterranean and North European regions perform the role of interface with the countries external to the European Union, which implies various costs, such as that of external immigration, and also new opportunities, such as the potential of a tighter economic co-operation with the non-EU countries. Thus, the fact that important European "macro-regions" will be excluded from any intervention from the European Regional Development Fund seems to contradict the European character of the EU regional policy.

Even according to a strict economic perspective, the actual regulations of the European Regional Development Fund have three major shortcomings. First of all, the principle of geographical concentration contradicts the principle of subsidiarity, as the European regional policies should avoid concentrating on the economic development problems of micro-areas, which hardly have any European relevance, while European programmes would be needed in order to tackle obstacles to economic integration, which have a transnational character. Thus, it seems less efficient to redistribute funds in small scattered regions, than to promote economic integration and institutional co-operation between all European regions within various European "macro-regions".

Secondly, the concentration of EU regional policy in a few limited areas will not increase its effectiveness, as is suggested by the argument of the economy of scale, but rather decrease it. In fact, the isolation of each area of intervention with respect to the surrounding areas hinders the exploitation of important complementarity and synergy effects in the economic development of these areas. For example, the areas of policy intervention often correspond to level III of regional aggregation and are too small to be significant in the perspective of international competition, which requires that each small region co-operate with the contiguous areas.

Thirdly, an endogenous development strategy can certainly be more effective for larger regions than for small regions, as the latter depend totally on the evolution of external factors due to the very large openness of their economy. In fact the larger a regional economy is, the greater the number of factors which may be considered as endogenous, and the lower the relevance of external constraints.

Moreover, according to a political perspective, the regulations of the European Regional Development Fund have four major shortcomings. First of all, a crucial limitation of the European regional policy is to have withdrawn the debate on regional disparities from national public opinion and political parties and to have transformed it into a seemingly technocratic issue of application of statistical parameters and of distribution keys of financial resources.

By hindering countries from having their own national regional policy and by excluding many regions, European regional policies will lead to an increase in political tensions, as the problem of regional disparities is perceived more strongly at the national level than in an European wide perspective and interregional solidarity is a key factor at the base of national unity.

Furthermore, the exclusion of almost all the present Objective 1 regions in the future will further marginalise the EU regional policy and decrease the public support for it. National representatives will hardly be interested in the development of the EU regional policy and they will most probably advocate a decrease of the national transfers to the Community budget or an increase in other European policies, from which the respective countries and regions may take some advantage.

Finally, the future reform of the EU regional policy will determine a conflict between, on the one hand, the regions of the new Central and Eastern European countries together with those of the current EU countries who remain eligible and, on the other hand, countries with many regions to be excluded from the ERDF. Thus, paradoxically, the regional policy, which should aim for European cohesion, will become a factor of division and conflict, weakening the solidarity between the various European regions and countries.

In fact, the regional policy is not a simple redistribution of financial resources according to a "zero sum game", but it should rather consist of the design of a strategy and of projects which may enhance the economic and territorial integration of the regions of the EU. The disproportionate effort devoted in the European Union to discussions and negotiations on the criteria to be used in measuring regional disparities and on the selection of the intervention areas, severely limits the time and resources which should be devoted at the European level in order to identify effective strategies and projects capable of tackling the problem of integrating the European territory.

European regional policy, which accounts for less than 0,47% of the European GDP, may be more effective when it ceases to attempt to remove per capita income disparities, but instead aims to reduce those transaction costs which have a specific territorial dimension and hinder greater integration at the European level of the various regional economies.

Regional policy has not only an European dimension, but also and first of all a national dimension. Basic principles of a national regional policy are both the principle of cohesion (solidarity criteria) and a principle of subsidiarity (efficiency criteria). The first of these principles indicates that solidarity should be higher between regions which are closer to each other, or that interregional solidarity applies first at the national level and only secondarily at the EU level.

Thus disparities between the individual areas within a region should be tackled by a regional government, disparities between the various regions of the same country should be tackled first of all by a national government, and the EU regional policy should only intervene in the case of large areas (European Macro Regions or individual Countries) which have European dimension and importance. According to the subsidiarity principle, the EU regional policy should not intervene in smaller areas, unless there are particular very severe problems, which the national government are unable to cope with. The subsidiarity principle also implies that national governments should continue to apply regional policies in their respective countries, in order to decrease to intranational disparities and to promote the interregional integration of less developed regions with the most developed regions, as these policies can be more effectively pursued at the national level.

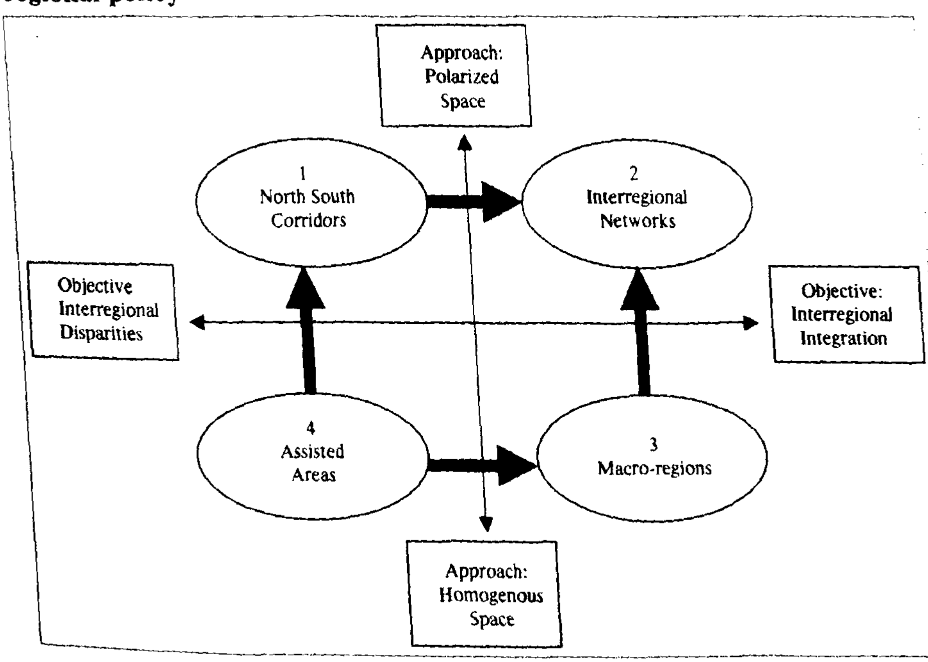
Traditionally, national regional policy has been understood as the regional distribution of public financial resources, with the explicit aim of promoting the economic growth of the less developed regions in the country considered. However, the European regional policy should also promote an increased openness of the regions, thus reorienting the often inward looking development strategy adopted by the local and national institutions. In fact, the European regional policy should promote the European integration through the increase of the accessibility and the connectivity of the various regions. That may have a leverage effect on the traditional regional policies of the national and local institutions, which traditionally aim to reduce regional income disparities.

The traditional regional policy, with its objective of decreasing regional disparities, is going to be increasingly less adequate for a European Union having a much larger size and including very different economies, among which it seems crucial to promote the level and various forms of economic integration rather than equal income and consumption levels.

The enlargement of the EU should lead European regional policy to aim for the typical European objective of promoting a greater integration both in an economic and in a territorial sense between the individual regions and cities of the European territory, while leaving to the national regional policies the traditional objective of decreasing regional per-capita income disparities.

At the EU level, regional policy could focus on those factors which hinder greater integration of the various regions or on those spill-over effects or interdependencies between the various regions which could be better tackled at theinternational and interregional level. Interregional integration and regional isolation are clearly related to the capacity of the various regions to exploit their development potential, but they also represent a intrinsic value, since the EU should aim for economic and political integration.

Figure 3. Alternative spatial frameworks of the European Union regional policy



Regional policy should not concentrate interventions in small areas isolated from their respective framework, as they would be in an "homogenous space". It should rather consider the European territory as a "polarized space", as it is organized by network relations and regions are linked by relations at the interregional level (Fig. 3).

Thus, the traditional approach leads to consider, as a spatial policy framework, the individual problem regions (Objective 1 and 2) or specific development corridors and the North – South axis. In contras, the perspective of a "territorial cohesion" aiming at greater integration of the European Union in a territorial sense suggests new types of spatial policy frameworks, such as the "European macro-regions" and the interregional transnational networks.

According to a traditional approach to regional policies, the EU Commission has combined:

- geographical concentration on a small number of problem regions with

- the diversification of the types of policy instruments, by extending them to a panoply of heterogeneous fields.

A more modern approach, which would respect the principle of subsidiarity, could be that aiming for:

- a greater geographical integration of all regions of the European territory, in the framework of large European "macro-regions", and

- a focus of the policy programmes on a more limited number of specific fields, which may have a clear European dimension (Cappellin 1999).

The key dimensions of these two different approaches to the EU regional policy may be described as in Table 2. A new approach to European regional policy would lead to a better integration between the strategy of economic endogenous development, which represents the basis of the programmes financed through the instrument of the "Single Programming Documents" in the individual regions, and the focus on the territorial dimension, which characterises the document "European Spatial Development Perspective" (ESDP) (European Commission 1999) and the aims of the European initiative "Interreg".

A new approach to European regional policy would lead to reconsideration of the difference between the Regional Development Fund and the Cohesion Fund and their respective aims. In fact, the latter has not been affected by the 1998 reform of the Structural Funds, notwithstanding the fact that various countries have already absorbed the impact of the creation of the "European Single Market", which was the rationale for the creation of this Fund in 1993. Moreover, various countries considered in the Cohesion Fund have either passed the threshold of 90% of EU per capita GDP or are certainly going to reach it when the new countries of Central and Eastern Europe become members of the EU. The division of tasks between the two funds should correspond to the experience accumulated in the adoption of different policy approaches, as the Cohesion Fund has in the recent past concentrated on problems having a wide national or international perspective, while the ERDF has concentrated on the promotion of economic development in specific and often small regions.

In particular, the development of the individual regions in the Accession Countries depends on factors which may be better tackled in a national perspective than at the regional level. EU authorities should clarify whether these policies will be considered as a part of the "regional policy" or as part of an extraordinary programme (similar to the "Marshall programme") for the development of the Accession Countries.In principle, EU regional policy in the Accession Countries should deal with specific regions within those countries and be separate from a policy aiming for the development of the country overall.

On the other hand, the regions in the EU member states, especially those which are problem regions in a national perspective, can not be excluded from any intervention from both the Cohesion Fund and the Structural Funds, as that would lead to a decrease in European integration and sense of belonging, and to political tensions. Therefore, EU authorities have to select whether to include them still in the Regional Development Fund, by modifying the criteria of eligibility, or in the case that the regulations of the Regional Development Fund will be maintained as they are now, to consider them in a separate fund, which may be the Cohesion Fund. This will clearly require the definition of the Cohesion Fund as the Fund which intervenes in problems which have an interregional dimension and which can not be tackled by the Regional Development Fund.

The Cohesion Fund, rather than being abolished, could be expanded in its geographical coverage and become the key financial instrument of the policy strategy designed in the document "European Spatial Development Perspective", focusing on the aim of promoting the integration of the European territory.

Table 2. Two complementary strategies in E.U. regional policy

REGIONAL POLICY AIMING AT REGIONAL DEVELOPMENT	REGIONAL POLICY AIMING AT EUROPEAN INTEGRATION
DEVELOPMENT MODEL - economic development is promoted by the interdependence between endogenous and exogenous factors	DEVELOPMENT MODEL - innovation and competitiveness are promoted by interregional network and interregional cooperation
SPATIAL FRAMEWORK - individual problem regions - concentration in EU regions	SPATIAL FRAMEWORK - networks of regions - extension to non EU regions
POLICY STRATEGY - intersectoral integrated programmes - partnership between local actors - promote local entrepreneurship	POLICY STRATEGY - tackle common European problems - promote interregional cooperation - decrease transaction costs in interregional relations
POLICY DESIGN - mainly bottom-up - local authorities propose specific projects - EU elaborate general regulations and evaluate project proposals	POLICY DESIGN - mainly top-down - EU elaborates strategic plans - local authorities contribute with specific projects
FINANCING - EU financing has a complementary role - coordination of regional, national and EU programmes	FINANCING - EU funding has a major role - interregional cooperation - public-private partnership
INSTITUTIONAL PROCEDURES - hierarchical principle - vertical coordination - cooperation between regions, respective State and EU Commission	INSTITUTIONAL PROCEDURES - subsidiarity principle - horizontal coordination - cooperation between regions - coordination between an assembly
RELATIONS BETWEEN REGIONAL AND NON REGIONAL POLICIES - regional policy aims to cohesion as decrease of regional disparities - each policy aims to different and often conflicting objectives - regional policy has mainly a redistributive and compensatory character	RELATIONS BETWEEN REGIONAL AND NON REGIONAL POLICIES - regional policy aims at cohesion as greater European integration - regional and non regional policies aim for common and complementary objectives - regional policy contributes to achieving the objectives of other policies

Source: Cappellin R. (1993) Interregional co-operation in Europe: an introduction, in R. Cappellin and P. Batey (eds) *Regional Networks, Border Regions and European Integration.* London: Pion Editor, European Research in Regional Science, pp. 1-20.

The aim of the Cohesion Fund could be to promote European cohesion in a territorial perspective or to promote the economic integration of the less developed with the developed regions. The European territory could be subdivided into 10-15 European Macro-Regions, such as the Alpine Arc, the Baltic Basin, the Italian Mezzogiorno, the Atlantic Arc, the North Sea Basin and the Latin Arc from Valencia to Livorno. The definition of these macro-region could be left to the proposal of networks of regional governments, provided that a lower threshold of population and spatial contiguity are satisfied.

The Cohesion Fund has already focused on the Trans-European Networks and on environmental of projects in a large interregional perspective. However, its activities could in the future be extended to other policy areas which are important for promoting a territorial integration in a wide European perspective, such as, for example:

- a new European urban and rural policy,
- a policy of interregional technological transfers and co-operation,
- a policy promoting interregional production co-operation between small and medium size firms.

On the other hand, the Regional Development Fund could be restricted to interventions in a short list of regions, which according to equity and solidarity criteria really deserve Community support for their incomes and for their economic development policy, since the respective country can not cope with the problem. Thus, the eligibility criteria for the Regional Development Fund should become stricter than they are now, when almost half the European territory receives some aid from the European regional policy.

There is a need for a medium and long term reform of the Structural Funds and of a turnaround in the actual development approach adopted in European regional policy. In this perspective, the 2000-2006 planning period may be used in order to discuss a new identity of the European regional policy which should clearly be different from the policy which was appropriate thirty years ago when the Community cosisted of only six countries. This implies a change of the three main principles of EU regional policy.

In particular, the concentration principle should be replaced by the principle of networking aiming to promote greater integration at the European level. Second, the principles of integrated planning may be substituted with the approach of strategic planning aimed at well focused policy areas. Third, the principle of cofinancing and partnership should be substituted with the principle of subsidiarity, which requires a more clear division of responsibilities between regional, national and European institutions and the need to maintain the phases of planning, financing and implementation united under the same authority.

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