

# A New Territorial-Industrial Policy after the Covid 19 Crisis

*Enrico Ciciotti\**

## *Abstract*

*The purpose of this work is to outline a new industrial-territorial policy by taking into account the emerging socio-economic scenarios after the Covid 19 and the crisis of UE and the inadequacy of the traditional policy, which characterized pre-Covid period.*

*Starting from this analysis, a new policy is proposed focused on: orientation to the internal market and to the new needs of citizens in sectors / lead markets (housing, culture and leisure, health and care, energy and environment, mobility and logistics); integrated strategic planning according to the logic of quadruple (local institutions, companies, universities and research, civil society); systemic innovation, open and focused on users: by passing from a production of goods and services led by experts according to a top-down model, with different forms and levels of co-production with consumers, customers and citizens; a governance based bottom-correct and centrally integrated model. Specific attention is devoted to sustainability of development according to Sustainable Development Goals (SDGs) of Agenda 2030. Finally, the role played by individual actors is analyzed.*

**Keywords:** Industrial Policy; Covid 19; Global Competitiveness; Sustainable Development

## **1. The Emerging Socio-Economic Scenario after the Covid 19**

Although there is still not much empirical evidence, it is now possible to hypothesize some of the consequences of the impact of Covid 19 on the socio-economic structure of the affected countries.

In short, the main effects will be on:

□ *Production systems. They will be characterized by the crisis of the globalization model, with the reinforcing of national strategic production and in general a greater reliance on local firms and possible re-shoring of production. Firms will increase short networking and Internalization of production. In general there will be more orientation to internal market.*

*The demand of logistic and delivery services will increase substantially and these sectors will become the new strategic assets*

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\* Full Professor of Economic Policy, Catholic University, Piacenza ([enrico.ciciotti@unicatt.it](mailto:enrico.ciciotti@unicatt.it))

□ *Consumption* First of all the next future will be characterized by an Increase of online shopping, even after the end of lock-down period. At the same time there will be co-existence of new and old models of consumption. After the crisis of small business in the short period, there will be enough market for traditional and neighborhood shops. Shopping malls are already in crisis and this crisis will continue, given the preference for on-line shopping on the one hand and producer markets and personal contact on the other.

□ *Digitalization of economy* . In general the digital technology will dominate the next future as far as the access to services and goods are concerned; in fact there is a very strong agreement among experts on the development of online teaching and on an increase of online shopping. This scenario will determine new investments in logistics and internet infrastructures. Furthermore, teleworking will increase significantly.

□ *Social/geographic disparities*. As a consequence of the digitalization of economy , some negative effects will characterize the next years, such as an increase of social and geographical inequalities in access to services, given the emerging risk of a strong digital divide.

□ *Mobility and Transportation*. Telework, homework and artificial intelligence increase will reduce 'compulsory' mobility and make new scheduling of working and learning time necessary. The increased individual (pedestrian, cycle, scooter) urban mobility will make dedicated traffic lanes necessary. As a consequence of both trends, public transport will decrease and need reorganization; private transport will increase; commuting will be reduced; new traffic regulation will be necessary. Some new forms (car sharing, self-driven vehicles) will be enhanced.

□ *Governance and public intervention*. Opposite effects are likely to occur: more decentralization to local governments, mayors, communities and neighborhoods (with risk of increasing inefficiency); more centralization and stronger central governments (with the risk of central government crisis and of bureaucracy); more digitalization of public data to map and predict, but increased privacy concerns; increased role of civil society, but only limited trend towards privatization.

□ *Housing and Urbanization*. The trend clearly shows that housing is making worse mostly because of increasing inequalities and worsening problems for informal workers (frequent in construction works). Governments should enhance metropolitan sub centers; create new opportunities for the revitalization of small

*cities; provide a better management of urban density; adopt the “15 minute” neighborhood. Furthermore there is the need for new measures like: sharing housing, common spaces, services, internet, fostering new solution for the care of elderly people; granting social protection and unemployment benefits.*

## **2. The EU Crisis and the Inadequacy of Traditional pre-Covid Policies**

To assess the real impact of the changes indicated above in order to clearly identify the guidelines of a new industrial and territorial policy, it is appropriate to analyze the situation in which the EU was before the pandemic.

The first aspect regards the export lead development model that characterizes the main EU countries. The export-driven model presents some risks at the system level and for the individual countries such as the excessive financialization of the economy and the consequent greater financial instability; the increasing trend of imbalances between exporting countries and others; the negative effects that excessive dependence on external demand may have in cases of contraction in world trade.

In order to have a healthy global economic and financial system, the foreign accounts of the single countries must be in substantial structural balance. In the case of the mercantilist model for the individual countries in which  $M > X$  is necessary to get into debt, with the consequent financialization of economy and increase in their debt, generally to the advantage of the exporting countries, which finance them through their own credit banks and their own central bank. There is also an increase in the divergence between these countries and exporting countries. The persistence of imbalances between areas of the world with excess savings compared to those with structural debt, has very often led to financial bubbles and, in general, the increase in debts is accompanied by an increase in the risk of default by debtors.

In addition, the model centered on exports not only diverts resources to consumption and domestic investment but it creates a strong dependence on external demand, to which very often we respond with policies aimed at reducing labor costs without taking into account the possible consequences on the economic structure as well as on social and political structures. On the contrary, it would be necessary for countries with a structural surplus in their exports to increase their domestic prices to a greater extent than the prices of countries in deficit, in order to rebalance the real exchange rate (which is given by the relationship between domestic prices and foreign countries) and through this the balance of the current part. However, these mechanisms are not automatic, but they depend on political decisions. If, on the contrary, deflationary policies are practiced by surplus countries to increase their trade surplus they contribute to the accumulation of enormous imbalances in debt and credit relations between euro area countries. The second point concerns the characteristics of industrial policies pursued by both the EU and individual countries. If we refer to all past experiences, we can see how industrial policies have always been oriented towards the supply side, with a more or less explicit reference to an exogenous development model, mainly driven by exports between the single states, as well as between the regions inside the same states.

What has been said applies to policies aimed at strategic sectors and large companies operating in the field of steel industry, shipbuilding, energy, petrol chemistry, etc.), as

well as in the case of industrial policies based on factors, aimed at supporting and developing human capital, training, research, and development and so on.

Even the recent competitiveness policies set according to the place based approach have continued to have a marked orientation towards supply rather than demand. In fact, the Smart Specialization Strategy was characterized by a typically export led approach, aimed at enhancing local excellence and resources and at stimulating technological diversification (no lock-in) and complementarities, in order to achieve economies of scope at scale regional-national (specialization and diversification).

The policy of smart cities has only partially improved this approach through an orientation towards the integration of demand and supply based on the model of innovation inspired by the quadruple helix (users, companies, universities, public authorities). The reduced resources made available and a marked orientation, at least at the beginning, towards technological innovations, however, make the impact of this policy quite marginal.

More in general, the stalemate in which the European economy finds itself even before the Covid, as a consequence to its own slowdown in foreign markets, requires a marked shift on demand side, which can be reconciled with more structural interventions on the supply side.

Exports are not enough to sustain growth and it is necessary to increase internal demand and in particular internal investments and start up joint investment projects by collecting the financial and fiscal resources that are indispensable in the various countries.

The continuing economic crisis is increasingly demonstrating the inadequacy of the economic policy pursued at European and national level and the impact of Covid has worsened the situation, making a change of direction essential.

The macro-economic policy of the European Union has strongly underestimated the breadth of the European internal market and the enormous potential for domestic demand and has instead been over-focused on international competitiveness, towards international markets (Cappellin, 2012).

In practice it is a question of moving from an approach in which a decisive role is played by strategic sectors (for foreign trade) and by key factors for development (research, human capital, etc.) to one in which even the new needs of citizens and of the territories are taken into consideration, that is, from an orientation mainly directed to the supply to one addressed also to the demand. In fact, it is possible to grow by focusing on both approaches but with differentiated policies even if they can be integrated: on the one hand, the companies that mainly produce for the domestic consumption (at EU level there is a market of more than 500 million people) and from the other, companies that export to non-EU markets that base their competitiveness on innovation and quality.

### **3. The Founding Principles of a New Policy**

Starting from the previous analyses it is possible to identify the characterizing elements of a new industrial-territorial policy for sustainable development. In a nutshell they can be summarized as follows.

### **3.1 Greater Orientation towards the Internal Market and the New Needs of Citizens**

Housing, culture and leisure, health and social assistance, energy and environment, mobility and logistics, are the principal sectors to which address new investments, when considering that part of them have been strongly influenced by Covid both in negative terms (e.g. loss of employment and crisis in the field of culture, leisure and construction) as well as in positive terms, with the development of new markets in the face of growing demand (health and social assistance, sustainable mobility and urban logistics, digitalization). An important innovative aspect of the new policy is represented by the need to overcome the exclusively technological (smart cities policies) and sectorial (pact for cities policies) approach, favoring the matching of demand and supply of new technologies and the diffusion of strategic integrated planning, also thanks to the circulation of good practices.

The sectorial / vertical approach, i.e. on the side of the supply of technologies, must be integrated with the horizontal one, on the demand and needs side. In this context the city, as a complex system, is able to operate this synthesis in a circular relationship between supply and demand that feeds itself virtuously (Ciciotti et al. 2018).

### **3.2 Integrated Strategic Planning at Local Level According to the Logic of Quadruple Helix**

The legitimacy of policies, which also focus on the internal market, however, also requires the involvement of final users and recipients of innovation policies, moving from the triple helix (Etzkowitz, 2003), to the quadruple helix (Institutions, Research, Business, Civil Society). The quadruple helix highlights a greater cooperation in innovative activities, among the indicated subjects, and represents a clear turning point towards a policy for systemic innovation, open and focused on users. (Goddard & Vallance, 2013). This marks the passage from a production of goods and services led by experts according to a top-down model, to different forms and levels of co-production with consumers, customers and citizens (Arnkil et al., 2010).

This approach implies a strategic an integrated urban planning in order to promote systemic innovation, open and focused on users by passing from a production of goods and services led by experts according to a top-down model, with different forms and levels of co-production with consumers, customers and citizens.

### **3.3 Governance Model based on Bottom-up Approach Centrally Integrated**

The use of bottom-up approaches must be done taking into account the limits that place-based policies have encountered in terms of planning and management capacity in the case of complex initiatives. It is also appropriate to aggregate demand on a regional and national scale to achieve the appropriate economies of scale in the production of new goods and services. We must operate according to the logic of sustainable development from the economic, social and environmental point of view, centered on a bottom-up governance model, correct and framed in a national strategic framework. In this way is possible: to select the markets / sectors considered strategic; to provide assistance in the design and financing phases; and to integrate

individual projects according to the logic of cooperation and synergy networks, by obtaining economies of scale both on the demand and the supply side (Ciciotti 2017).

### **3.4 Strong Orientation towards Sustainable Development**

The term “green new deal” used in recent times to define the orientations of the new European policies can be misleading with respect to the pursuit of the goal of sustainable development. The necessary reference point is represented by the Sustainable Development Goals (SDGs), also known as the Global Goals, adopted by all United Nations Member States in 2015. In particular if we look at Goal 11: Make cities inclusive, safe, resilient and sustainable, and to its specific objectives we find precisely some of the new needs and new sectors seen previously (European Union, 2017), such as:

- adequate, safe and affordable housing and basic services;
- safe, affordable, accessible and sustainable transport systems by expanding public transport;
- inclusive and sustainable urbanization and capacity for participatory;
- integrated and sustainable human settlement planning;
- protection and safeguard of cultural and natural heritage;
- attention to air quality and municipal waste management;
- integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, and resilience to disasters.

In line with what has been said, the role that urban regeneration must play in order for cities to effectively constitute the engine of sustainable and inclusive development appears clear. It is in these projects and in their effectiveness that a synthesis of the interventions and challenges listed above can be made.

### **3.5 The Role of Private and Public Actors**

The methods for the detection and aggregation of the demand for new needs and the implementation of the policy and the role played by individual actors are summarized in Table 1.

As can be seen from the first column, the strategic indications of the new European and national programming constitute the necessary starting point. The subjects called into question for the elaboration of the general strategic lines are the European Union, the central government, the regions and local authorities. The phase of integrated urban planning should concern not only the metropolitan areas (as in the case of the new Italian planning, through the metropolitan strategic plans) also the medium-sized cities, in order to implement the model both in the strategic indications and in the design phase of the quadruple helix. The subjects called into question (albeit with slightly different weights) are universities, citizens and stakeholders, businesses and local and regional governments.

It should be emphasized that the selection phase of projects capable of implementing strategic indications also serves to make explicit the demand for goods and services capable of satisfying the new needs at the scale of individual urban systems.

**Table 1:** *Scheme of Industrial-Territorial Policies*

Subjects	Integrated Urban design		New Industrial Territorial Policy		New National and European Programming	
	Strategic Choices	Demand Survey (Projects)	Strategic Indications	Aggregation of demand	Strategic Choices	Instruments of Intervention
Citizens and stakeholder	***	***	-	-	-	-
Companies	***	***	-	-	-	-
Universities	***	***	-	-	-	-
Local Authorities	***	***	**	-		*
Regional Governments	*	-	***	*	**	**
Central Government	-	-	***	***	***	***
EU	-	-	***	-	***	***

The third phase is placed in a completely original way with respect to the current territorial planning and urban policies. It has the purpose of moving from urban policies centered on solving the problems of cities and the vast area considered individually, to the macro-territorial aspects deriving from the role of cities in economic development on a regional and national scale, through the integration of the supply chain and a new industrial economy.

In this regard, it is important to underline the distinction between aggregation and quantification of demand and strategic choices. In fact, if the actions to be undertaken at the scale of the individual urban realities can be very different from each other, in relation to the starting conditions and the different strategies / priorities, the problems and new needs are the same, and it is therefore possible to organize and aggregate the demand of goods and services necessary according to the logic of cooperation and synergy networks to obtain economies of scale both on the demand side and supply side. In this context, the main role must be attributed to the public sector (central government and partly to the regions) together with businesses and universities. In a certain sense it can be said that in this phase the triple helix model prevails rather than that of the quadruple helix. However, the aggregation of the demand constitutes only the technical cognitive aspect of the new industrial and territorial policy. Strategic choices implemented by the central government and the regions to make the integration of the supply chain operational through specific regulatory and investment interventions. In this regard, an interesting case of EU policies for supply chain integration, pursued through regulatory instruments (directives, regulations, decisions) as well as with direct investments, is the Climate-Energy Package, implemented for example by Norway, which has put together the central government, businesses and 13 largest cities to reduce emissions.

It is quite evident that the indicated approach can constitute a good element for the use of the Recovery Fund by establishing a clear division of tasks between the various parties involved, regardless of the institutional differences between the different countries. This approach highlights the roles of EU public actors, national governments, regions and cities and those of private citizens, businesses and

universities in the various stages of strategic choices and planning of the interventions of a new industrial and territorial policy. In this context, the recovery fund can constitute an important financing element contributing not only to economic recovery but more generally to the implementation of a sustainable development model capable of fully implementing the 2030 agenda.

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