

Overcoming Left-Behindness

Moving beyond the Efficiency versus Equity Debate in Territorial Development

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Abstract

Territorial development theory and practice have witnessed significant change in recent times. This change has increasingly put the spatial dimension at the center of development policies. Although agglomeration-focused policies derived from urbanization and agglomeration economics were once prominent, their empirical limitations have become increasingly apparent. Greater territorial polarization and pervasive left-behindedness have underscored the need for a more inclusive territorial development approach, prompting increased interest in understanding and addressing regional disparities to ensure more equitable economic growth. This paper synthesizes the growing interest in

territorial development, which has driven the adoption of what are increasingly place-based and place-sensitive approaches to development. The paper also emphasizes the need for complementarity between efficiency-driven and equity-focused interventions, while highlighting emerging topics in regional economics research, including the role of institutions, agency, and external megatrends such as the green transition. The paper concludes by advocating a place-sensitive approach that tailors policies to regional challenges, promoting economic potential, diversification, and inclusivity across all regions.

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Overcoming Left-Behindness: Moving beyond the Efficiency versus Equity Debate in Territorial Development

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1. Introduction

Over the past two decades, research and policy in territorial development have undergone a significant transformation. In 2005, Thomas Friedman introduced the concept of a 'flat world,' suggesting that globalization had created a level playing field through trade expansion, internationalized firms, outsourcing, and global knowledge networks (Friedman, 2005). This notion echoed previous discussions on the 'death of distance,' the 'end of geography,' and the emergence of a 'weightless economy' (Cairncross, 1997; O'Brien, 1992; Quah, 1999). Subsequently, in 2008, Edward Glaeser advocated for a focus on helping individuals rather than places to maximize efficiency (Glaeser, 2008).

As a result, traditional development policy shifted towards providing equal opportunities irrespective of location (Rodríguez-Pose & Crescenzi, 2008). Territorial development policy put the emphasis on spatially-blind approaches, postulating policies aimed at improving the conditions and opportunities of people regardless of where they lived, while recognizing the need for spatial differentiation (World Bank, 2009).

However, the significance of place in development policy has resurfaced in economic theory and policy design. In a globalized world, location greatly influences regional outcomes, while assumptions about knowledge spillovers and the diffusion of economic activity, well-being, and prosperity have not always materialized (McCann, 2008; Rodríguez-Pose & Crescenzi, 2008). Proximity — encompassing not only physical proximity, but also geographical, cognitive, organizational, and institutional aspects— plays a vital role in facilitating knowledge transfer from prosperous regions to lagging ones (Boschma, 2005; Caragliu & Nijkamp, 2016).

Agglomeration matters enormously for the generation and diffusion of economic activity not only at regional but also at metropolitan and neighborhood scales (Rosenthal & Strange, 2020). However, the diffusion of the prosperity linked to agglomeration economies also faces numerous barriers that may prevent the flow of economic benefits from leading and more dynamic areas to lagging and falling behind ones. Issues such as institutional shortcomings, weak regional leadership, deficient innovation systems, and the inability of many regions to adapt to emerging structural transformations obstruct the diffusion of economic activity and prevent a more equitable distribution of economic gains (Milanovic, 2005). These barriers can contribute to deepening and perpetuating spatial inequalities, incurring significant economic and social costs. Spatial imbalances are not just an equity and social problem, but also lead to missed economic potential, social discontent, and, in extreme cases, even unrest (Barca et al., 2012; Rodríguez-Pose, 2018).

Both economic literature and policy design increasingly focus on understanding the local determinants of regional development. While mainstream research once emphasized exogenous forces like globalization, trade, and technology (Krugman, 1991), attention has increasingly shifted to endogenous factors that shape a territory's ability to leverage both internal and external growth drivers. Factors such as institutions, productivity, employment opportunities, agents of change, regional resilience, and a region's adaptability to global megatrends play crucial roles in determining regional economic dynamism (Coenen et al., 2012; Martin, 2012; Rodríguez-Pose, 2013; Boschma, 2015; Grillitsch & Sotarauta, 2020).

This paradigm shift has given rise to more localized development interventions to deal with harnessing economic potential and left-behindedness, starting with place-based and, more recently, place-sensitive approaches (Iammarino et al., 2019). While a consensus on the effectiveness of place-based policies is still evolving, recent work highlights the importance of evaluating pre-existing

territorial strengths before implementing such interventions (Duranton & Venables, 2018). Under the right conditions, they have demonstrated welfare gains within cities and peripheral rural regions (Ahlfeldt et al., 2017; Rodríguez-Pose & Wilkie, 2017). Place-based policies can be successful when they build upon existing competitive advantages but may result in inefficiencies without proper assessment of both their potential direct and indirect impacts. However, assessing the welfare gains and conducting cost-benefit analyses of place-based and place-sensitive policies still face challenges in incorporating all the potential costs of non-intervention, including lost economic opportunities, long-term human capital losses, and social and political discontent.

Recent evidence underscores the potential of locally tailored territorial development policies. However, there is still a need to synthesize various strands of literature to navigate the multitude of approaches and assist decision-makers in adopting comprehensive frameworks for greater regional economic growth. This paper aims to contribute to fill this gap. It reviews recent theoretical and empirical developments in territorial and regional science. It then explores the role of institutions, new theoretical advancements, and evidence related to the role of institutions, resilience, agency, and leadership. It later addresses territorial development in the context of sustainability transitions and the socio-economic costs of regional inequalities. Finally, the paper synthesizes key insights and lessons from the scholarly literature and offers policy implications and future directions for territorial development interventions.

2. Seeking efficiency and equity through territorial development policy

Early theories on economic geography viewed spatial inequalities as a temporary phenomenon that would eventually decrease as markets cleared. As such, the benefits provided by economies of agglomeration in cities were expected to spread in time from the core to the periphery. Encouraging agglomeration in the core was seen as a way to generate positive externalities, such as increased innovation capacity and lower knowledge-sharing costs, which would drive the dynamism and economic growth of mega-cities (Fujita et al., 1999; Duranton & Puga, 2001). Urban economists echoed this sentiment, viewing urban density as the path from poverty to prosperity (Glaeser, 2011: 1).

However, reality has proven far more complex and variegated, considering the many market failures that exist. Empirical evidence points to the many benefits from agglomeration in cities. Making cities work can boost productivity and inclusion at various stages of development, for instance in the early and medium phases of structural transformation (Grover et al, 2022). However, negative externalities in large cities, such as congestion costs, pollution, labor crowding, and a high cost of living, can act as significant barriers to economic growth and may dampen economies of agglomeration, making further investments in large cities costly and sometimes inefficient (Dijkstra et al., 2013), giving rise to 'sterile' agglomeration economies (Grover et al., 2022). Large congestion cost may hamper the economic dynamism of large cities. With this in mind, scholarly research has also pointed at cases where mid-size cities, intermediate ones, and some rural areas have shown considerable dynamism, despite what can be regarded as less favorable conditions for the flourishing of economic activity (Frick and Rodríguez-Pose, 2018). For instance, in Europe, smaller towns and rural regions outpaced megacities in growth rates during the late 2000s and early 2010s, citing congestion costs, pollution, labor crowding, and high living expenses as constraints on further agglomeration (Dijkstra et al., 2013). A similar trend was observed in developing countries like China, where urbanization did not always correlate with higher living standards (Jedwab & Vollrath, 2015). In cases where the growth of mega-cities has been attributed to a dependence on resource exports rather than industrialization

and manufacturing, lower performance in welfare and development measures is also observed when compared to production cities (Gollin et al., 2015).

Second, there are important barriers that may limit the positive spillovers from large cities to surrounding regions. For countries to fully harness the advantages and potential of their major cities, good governance, a well-developed urban infrastructure, and an economic structure that benefits from agglomeration economies are needed. While economic theory posits that agglomeration fosters innovation, benefiting left-behind regions through knowledge spillovers, research shows that these spillovers are weaker than agglomeration forces, leading to strong distance decay effects and limiting the impact of innovation and new economic activity generated in core areas on lagging regions (Dunford & Smith, 2000; Iammarino & McCann, 2013). Knowledge struggles to diffuse from cores to peripheries —or, in other words, from more to less developed regions— for lack of adequate and functioning transmission channels (Boschma, 2005; D’Este et al., 2013; Iammarino, 2018).

Moreover, automatic adjustment mechanisms, like labor migration and firm investment responses to price signals, are not always functioning as expected. Barriers to migration and the stickiness of firm locations, benefiting from agglomeration effects, hinder the benefits of knowledge spillovers towards lagging areas (Floerkemeier et al., 2021). Left- and lagging-behind places struggle to establish the necessary connections to absorb new knowledge and innovation, hampering the replication of economic success (Farole et al., 2011). Weak institutions and limited local innovation and skill accumulation further hinder convergence.

The complementary nature of efficiency and equity focused policies for territorial development has become more evident in recent years, as within-country inequalities have risen in both advanced and emerging economies (Rodríguez-Pose, 1999; Puga, 2002; Ezcurra et al., 2005; Heidenreich & Wunder, 2008) and the need to ensure that efficiency and equity objectives are tackled together has become more evident.

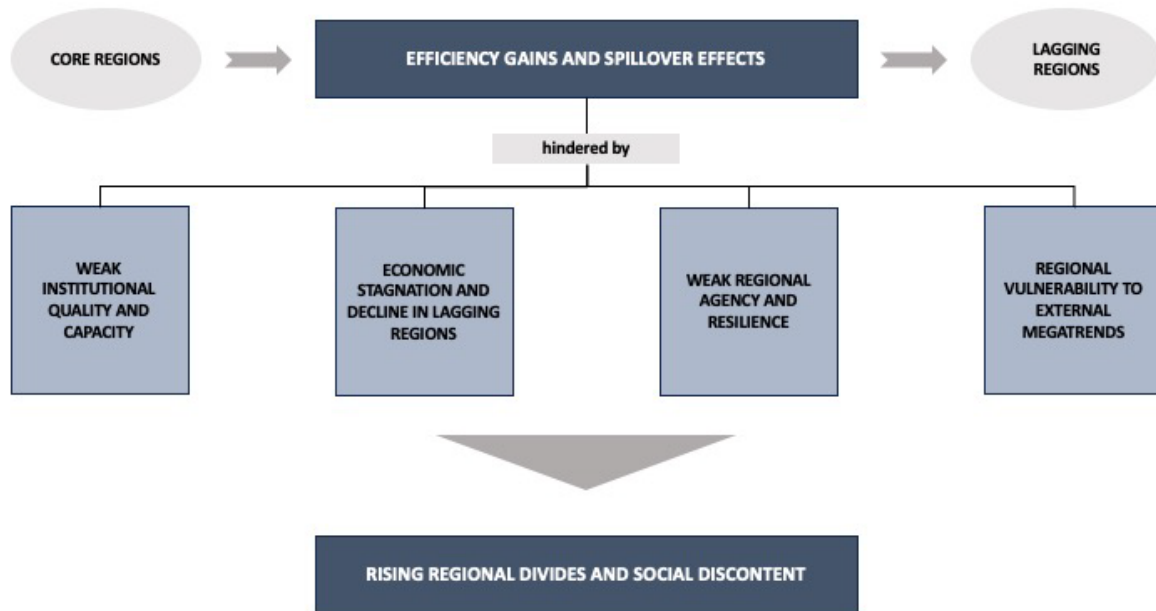
Consequently, the adoption of efficiency-driven approaches has failed to bring most left-behind territories out of their left-behindedness, meaning that within-country inequalities have generally continued to rise in both advanced and emerging economies. The outcome has been rising polarization, with many poor regions remaining trapped in a low-income equilibrium and incapable of adapting to changes in economic trends and to transition towards more integrated and open economies (Ezcurra & Rodríguez-Pose, 2014; Diemer et al., 2022).

This situation has always had considerable economic costs. However, the hitherto neglected social and political costs of regional inequality are in recent times becoming far more evident and costly. Rising discontent in marginalized regions, fueled, among other factors, by barriers to mobility and limited economic opportunities, has led to increasing discontent, the rise of populism and, in some cases, it has also resulted in violent protests (Rodríguez-Pose, 2018). Disparities have become politicized in various countries (Hewison, 2014; Rodríguez-Pose, 2018; Dijkstra et al., 2020) in ways that are also provoking considerable harm to the overall performance of national economies.

To address regional polarization and its associated social, political, and economic risks, governments have traditionally employed two approaches. Firstly, they resorted to large-scale projects in lagging and left-behind regions, often resulting in expensive initiatives with limited development gains due to weak socio-economic and institutional foundations (Flyvbjerg, 2009; Crescenzi et al., 2016). Secondly, they relied on redistributive transfers, which sometimes sustained stagnant economies, creating 'sheltered economies' (Fratesi & Rodríguez-Pose, 2016) (Figure 1). However, the effectiveness of these policies has varied depending on the policy adopted and the conditions of the target territory,

with some suggesting that transfers can generate equity gains outweighing efficiency costs (Gaubert et al., 2021).

Figure 1: Schematic representation of barriers to spillovers and efficiency gains in lagging regions.



Source: Author’s elaboration based on Coenen et al., 2012; Martin, 2012; Rodríguez-Pose, 2013; Boschma, 2015; Grillitsch & Sotarauta, 2020.

The increasing realization, amid rising territorial inequality and social discontent, of the need to tackle the barriers to spillovers and efficiency gains in lagging areas has prompted a re-evaluation of existing territorial development policies. This has been conducive to expanding the focus of research into the areas of institutional quality, regional development paths, agency and resilience, and sustainable development practices (Rodríguez-Pose & Ketterer 2020; Venables, 2023). Research in these areas has become far more prominent and an important source of reflection to improve development interventions and design far more efficient territorial policies. In the following sections we cover these growing areas in territorial development scholarship. In what follows, we summarize research emerging in these four areas, and point at key lessons for policy design.

3. The role of institutions in territorial development

Until the turn of the century, territorial development primarily relied on two models: neoclassical theory (Solow, 1956) and endogenous growth theory (Romer, 1986; Lucas, 1988). These theories offered policy makers a limited range of development strategies, primarily focusing on investing in physical capital (e.g., infrastructure) and promoting innovation and human capital. Even the more recent New Economic Geography highlighted the value of enhancing connectivity through investments in transport infrastructure as a key driver of economic growth. However, these

approaches have struggled and continued to struggle to deliver consistent regional development outcomes (Pike et al., 2007).

To address this, researchers have turned their attention to institutions, a dimension traditionally overlooked in past regional development strategies (Acemoglu et al., 2001; Vijayaraghavan & Ward, 2001; Rodrik et al., 2004). Consequently, institutions, especially regional ones, have gained prominence in territorial development theory and analysis (Gertler, 2010; Rodríguez-Pose, 2013).

Recent advancements in theory and empirical research suggest that the quality and efficiency of local governments may be as, if not more, important for territorial development as the factors tradition considered as the main drivers of development, like infrastructure, human capital, and innovation. Poor institutions generally represent the main cause of persistent left-behindedness. Table 1 summarizes key channels through which institutions can have an impact on regional growth.

The case for investing in institutions is becoming stronger, in particular for two reasons. First, institutions themselves influence economic performance by shaping networks and processes that drive economic activity. Formal institutions that combat corruption and informal networks fostering trust among economic actors offer substantial socio-economic benefits (Annoni & Dijkstra, 2013; Ganau & Rodríguez-Pose, 2019). Institutions can affect regional growth directly and indirectly. Directly, they influence economic actors' interactions within a region, impacting growth, employment, and productivity. They reduce transaction costs, increase labor productivity, and drive innovation (Ganau & Rodríguez-Pose, 2019). Effective institutions promote innovative performance, while ineffective and corrupt institutions hinder innovation, especially in less developed regions (Rodríguez-Pose & Di Cataldo, 2015). Government quality improvements are vital for low-growth regions (Ma et al., 2023; Rodríguez-Pose & Ketterer, 2020). Institutions also play a crucial role in establishing regional entrepreneurial ecosystems, alongside traditional factors like infrastructure (Audretsch & Belitski, 2017). Trust-building networks, known as bridging social capital, facilitate knowledge diffusion and economic growth (Murphy et al., 2016).

Table 1. Summary of direct and indirect impacts of institutions on regional economic performance.

Driver of economic performance	Type of impact	Contribution to regional economic performance
Quality of regional institutions	Direct impacts	<p>Reducing transaction costs, rendering economic growth more viable</p> <hr/> <p>Directly increasing labor productivity levels in regions</p> <hr/> <p>Improving regional innovative performance, measured through patenting, especially when corruption and government effectiveness are taken into account</p> <hr/> <p>Fostering economic dynamism in lagging-behind, low-growth regions</p>

	Attracting greenfield FDI from the most productive multinational companies.
Indirect impacts	Acting as a mediator of public policy interventions
	Affecting the economic returns of policies on infrastructure, human capital development, and the promotion of innovation
	Facilitating the diffusion of innovation and knowledge through the establishment of higher levels of trust.
	Conditioning the economic impact of political processes, such as decentralization and the devolution of authority to subnational levels.
	Contributing to render a region attractive as a migration destination.

Source: Authors' elaboration based on Annoni & Dijkstra (2013); Rodríguez-Pose (2013); Huggins et al. (2014); Sleuwaegen & Boiardi (2014); Rodríguez-Pose & Garcilazo (2015); Ketterer & Rodríguez-Pose (2015); Crescenzi et al. (2016); Audretsch & Belitski (2017); Di Cataldo & Rodríguez-Pose (2017); Fritsch & Wyrwich (2018); Ganau & Rodríguez-Pose (2019).

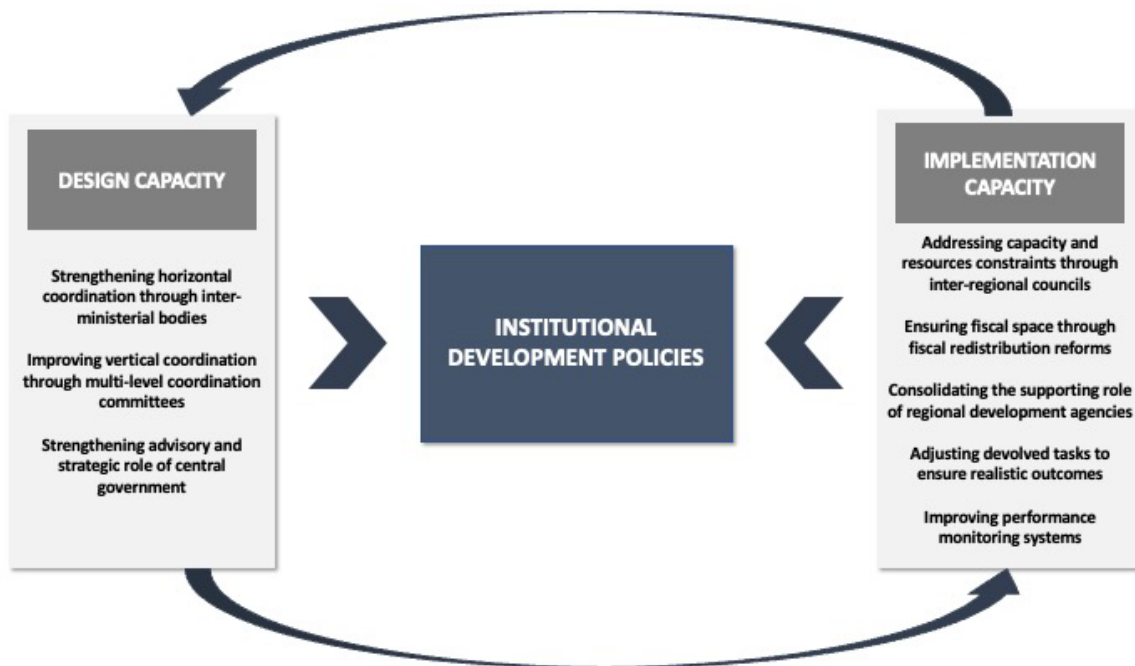
Indirectly, efficient institutions enhance the effectiveness of policies targeting human capital and regional innovation (Crescenzi et al., 2016). In this respect, institutions mediate all local or regional public interventions. They affect policy outcomes, including the allocation of European Union Structural and Cohesion Funds (Rodríguez-Pose & Garcilazo, 2015) and influence the economic impact of political processes like decentralization (Muringani et al., 2019; Jong et al., 2021). Weak institutions contribute to perpetuate regional disparities during decentralization, as seen in Argentina (World Bank, 2020a). Moreover, the quality of regional institutions shapes a region's attractiveness for migrants (Ketterer & Rodríguez-Pose, 2015).

Second, subpar institutional quality at the local and regional levels can undermine even the most carefully designed development efforts. This is because institutions mediate the economic returns of public interventions aimed at revitalizing regional economies. A clear understanding of institutions and institutional quality, encompassing formal and informal elements, is therefore essential for shaping effective policy actions. Formal institutions include rules, laws, and organizations, while informal institutions involve individual habits, group routines, and social norms (Amin, 1999). Formal institutions, often referred to as 'hard' institutions, represent elements like the rule of law, property rights, and competition law. Informal institutions, or 'soft' institutions, encompass social interactions that generate trust, including norms, traditions, relationships, and conventions (Rodríguez-Pose & Storper, 2006). This categorization facilitates a better measurement of institutional quality at the subnational level, revealing variations within and between countries (Charron et al., 2014).

However, despite considerable improvements in our understanding of how institutions shape economic development, significant knowledge gaps persist. Most of the existing research on institutions and institutional quality remains primarily focused on developed countries, limiting generalizability to low-income countries. More research is therefore needed to understand

institutions' role in developing countries (Iddawela et al., 2021; Hussen & Çokgezen, 2022; Aroca & Atienza, 2016). Additionally, informal institutions and their impact on regional development warrant more attention. Finally, translating institutional research into actionable policies is a considerable challenge. Institutional reforms remain underrepresented in development interventions, despite their importance (World Bank, 2020b). To bridge this gap, policy actions should focus on improving regional policy design and enhancing subnational government capacity to implement policies effectively (Figure 2).

Figure 2. Summary of main areas of intervention for institutional development policies



Source: Authors' elaboration based on Barca et al. (2012); Rodríguez-Pose (2013); Cejudo & Michel (2017); OECD (2017; 2019; 2020); Rodríguez-Pose & Wilkie (2019); Rodríguez-Pose (2020).

In summary, while institutions are not an all-encompassing solution for territorial development, recent research has highlighted how incorporating them into development strategies can yield significant benefits. Neglecting institutions may result in short-term gains but leave regions worse off in the long run and perpetuate left-behindedness. A balanced approach that considers institutions across various development axes can lead to more sustainable strategies (Rodríguez-Pose & Wilkie, 2019).

4. Regional diversification and avoiding development traps

But dealing with institutions, while important, is not enough to navigate the policy challenges governments are confronted with when trying to design and implement development policies. That is why, in the context of regional development, researchers and policy makers are increasingly delving into the intricate interplay between innovation, economic dynamism, regional diversification, and the occurrence of development traps. A growing consensus—originally emerging from the literature on evolutionary economic geography—underscores that regions exhibit varying capacities

to confront and harness global megatrends, like digitalization or the green transition for diversification. However, weak innovation systems and productivity have presented significant obstacles to transferring efficiency gains to left-behind regions through these market adjustment mechanisms, frequently resulting in economic stagnation and decline and obstructing diversification (Iammarino, 2018; Floerkemeier et al., 2021).

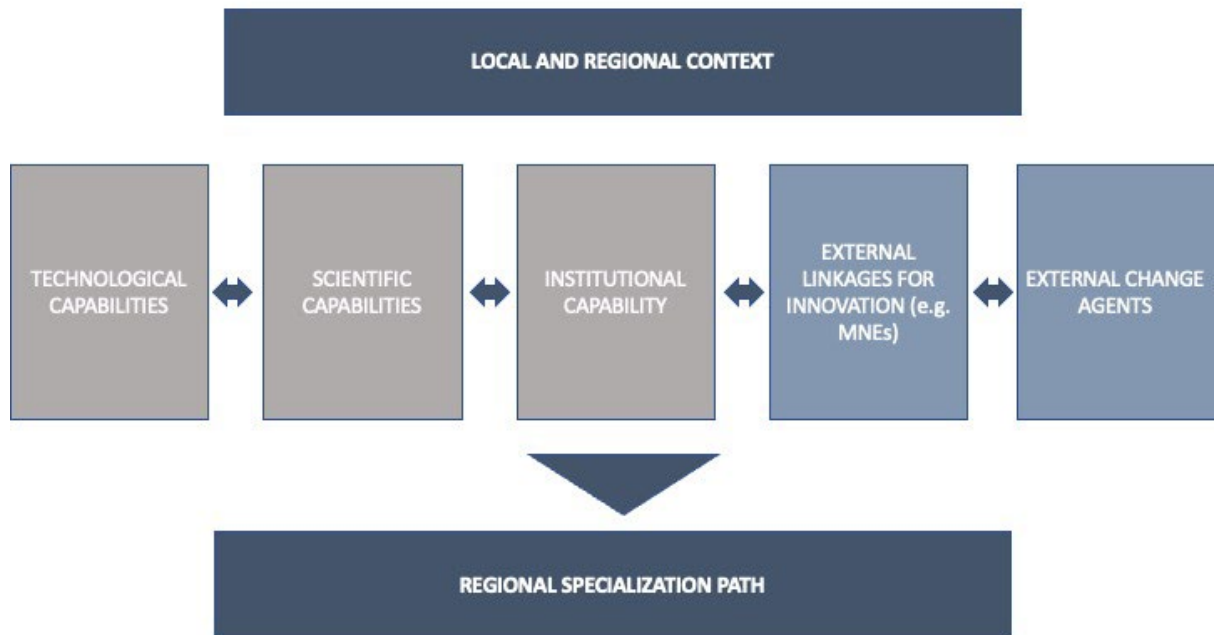
The evolutionary economic geography literature stresses the significance of regional diversification paths in facilitating efficiency gains in lagging regions and the role of endogenous factors in explaining the presence or absence of automatic adjustment mechanisms related to capital and labor mobility from more dynamic core regions to lagging- and left-behind areas. Hence, territorial development policies should account for the unique opportunity spaces of each region, which can vary significantly based on factors like income level, urbanization, industrial history, and the conditions of local ecosystems (Pinheiro et al., 2022). Recognizing these differences among regional development contexts is vital for designing and implementing effective policies tailored to specific diversification trajectories.

Research on regional diversification has primarily concentrated on a region's capacity to venture into new technologies, industries, and occupations based on its local capabilities (Neffke et al., 2011). Each regional economy possesses distinct diversification opportunity spaces shaped by its unique capabilities (Pinheiro et al., 2022). Understanding the emergence of these opportunity spaces becomes particularly relevant as the lack of diversification paths can present significant barriers to disseminating efficiency gains from core areas to lagging regions, thereby perpetuating regional divides.

Various factors influence diversification and path emergence. Regions typically diversify based on their existing capabilities, with technological, industrial, and skill capabilities serving as key determinants (Boschma et al., 2015; Boschma, 2017). Regions that diversify into higher-skill and more complex technologies often experience higher GDP growth rates and employment (Rigby et al., 2022). However, regions aspiring to leapfrog into higher value-added activities often encounter challenges due to deficiencies in local capabilities, a phenomenon observed in both developed and developing countries (Balland et al., 2019; Frick et al., 2019).

Five key aspects have been identified as key for shaping regional specialization and diversification trajectories, allowing regions to escape left-behindness. First, technological specialization determines the local availability of relevant technological capabilities. This is crucial for regional competitive advantage (Montresor and Quatraro, 2019; Van den Berge et al., 2020; Santoalha and Boschma, 2021). The presence of local scientific capabilities —and, particularly, of knowledge derived from universities— is also a fundamental source of regional innovation (Balland & Boschma, 2021). Just as important are the institutional capabilities available. Solid institutions can encourage and ease the implementation of new initiatives, mobilizing resources, and promoting reforms, thereby enhancing diversification opportunities (Garud et al., 2002; Cortinovis et al., 2017). Moreover, diversification in lagging regions often relies on their capacity to set up external linkages, providing complementary capabilities (Fitjar and Rodríguez-Pose, 2013; Balland & Boschma, 2021). Finally, the presence of external agents of change serves as a source of new knowledge and diversification (Neffke et al., 2018; Cortinovis et al., 2020; Miguélez & Morrison, 2022). The role of multinational enterprises and migrant inventors is fundamental in this respect. Figure 3 provides an overview of the main factors driving diversification at the regional level.

Figure 3 Schematic representation of factors driving the emergence of regional specialization and diversification paths.



Source: Authors' elaboration based on Cortinovis et al., 2017; Montresor and Quatraro 2019; Cortinovis et al., 2020; Van den Berge et al. 2020; Balland & Boschma, 2021; Santoalha and Boschma 2021.

In addition to the emphasis on institutions, development paths, and diversification, the 'regional development trap' has emerged as a concept to identify regions struggling to keep pace with development. Development traps manifest themselves when regions fail to sustain economic dynamism in income, productivity, and employment, while simultaneously underperforming relative to their national (and European) peers (Diemer et al., 2022: 489). This concept is akin to the middle-income trap in international economics, where countries experience bursts of growth followed by stagnation or decline (Kharas & Kohli, 2011). Regional development traps can affect regions at various levels of development, adding complexity to their identification and analysis (Diemer et al., 2022). In particular, in the case of European regions the highest incidence of regions caught in a development trap happens at high and middle per capita income levels.

Empirical applications of the concept reveal common characteristics among left-behind places, such as a lower share of manufacturing industry, higher dependency ratios, lower educational attainment, and weaker innovation capacity. These patterns hold across regions at different income levels, underscoring the importance of these factors in understanding left-behindedness (Diemer et al., 2022).

While the theory of regional development traps is relatively recent, empirical evidence and the development of indices to identify trapped regions have been applied in developed countries, such as those in the European Union (Diemer et al., 2022). The application of these indices to developing countries remains an area for further exploration, given the gaping regional disparities in these nations. But, overall, the consequence of the realization of the existence of development traps is

pushing policy makers more towards recognizing the need to address stagnating regions alongside lagging-behind and poor regions, thus promoting more inclusive territorial development.

5. Agency, leadership, and resilience in territorial development

Agency, leadership, and regional resilience also have a role in shaping regional economic growth. These elements influence the spread of efficiency gains from core to lagging- and left-behind-regions, serving as enablers or barriers to economic development. Although these research areas have traditionally operated separately, their integration within research in territorial development is contributing to shift the analytical attention toward the local context and the specific factors that facilitate or impede endogenous regional economic growth and, thus, overcoming left-behindedness. This paradigm shift holds crucial implications for policy makers.

The interest in the role of agency in regional structural changes has grown in recent times. Research has tended to highlight the significance of micro-level processes in shaping regional growth paths (Grillitsch & Sotarauta, 2020). Agency studies have put the emphasis on how regional growth paths result from intentional actions of various actors, influenced by internal and external forces (Sotarauta, 2016). Three types of transformative agency—innovative entrepreneurship, institutional entrepreneurship, and place-based leadership—drive the micro-level processes responsible for regional path emergence. Innovative entrepreneurship is linked to technological advancements and new industrial paths, while institutional entrepreneurship shapes the rules of the game, and place-based leadership guides complex multi-actor processes (Grillitsch and Sotarauta, 2020; Grillitsch et al., 2022).

Early empirical studies confirm the relevance of agency for regional development paths (e.g., Grillitsch et al., 2022). This approach calls for policy makers to engage local actors in discussions and consider strategies to promote these elements of change agency. However, challenges remain, including understanding the contextual conditions facilitating or hindering change agency and potential negative consequences.

The concept of regional resilience—initiated by evolutionary economic geographers—is another one that has gained increasing attention. Regional resilience refers to a region's ability to anticipate, prepare for, respond to, and recover from disturbances or shocks to its economy (Foster, 2007; Hill et al., 2010). Resilience approaches recognize the potential for regions to withstand and recover from economic crises, providing an alternative perspective to the traditional focus on efficiency and specialization. Resilience is associated with diversification and adaptability, enabling regions to navigate economic transitions and shocks (Martin and Sunley, 2020).

The importance of resilience in regional development strategies is also being increasingly acknowledged. This perspective underscores the value of diversified regional economies, flexible labor markets, social safety nets, and targeted investments in innovation and education. Resilience-based policies aim to equip regions with the capacity to bounce back from adversity and adapt to changing economic conditions. This contrasts with policies that might focus solely on promoting specialization and efficiency, providing a richer, albeit more complex, framework for policy makers to design and implement strategies that are adapted to the specific conditions of every territory. Such shift in policy focus can contribute to mobilize more local resources and potential, while promoting a more inclusive and sustainable regional development.

Key takeaways from the shift in focus of research on territorial development include the recognition that diversification paths are influenced by a region's unique capabilities, and policies should be tailored accordingly (e.g. Neffke et al., 2011 and Pinheiro et al., 2022). Research has also established that development traps can hinder regions' ability to keep pace with national peers and that agency and leadership at the micro-level play crucial roles in shaping regional growth (e.g. Iammarino et al., 2019 and Rodríguez-Pose & Ketterer, 2020). Resilience in regional development has also become a crucial area of interest for navigating economic shocks and transitions (Crescenzi & Iammarino, 2018). Hence, recent developments in research stress the importance of moving away from one-size-fits-all and top-down types of policies that would increase growth expected to eventually spread out from dynamic centers to extolling the virtues of more and better territorially-targeted interventions (Storper, 2018; Iammarino et al., 2019). These new types of place-based and place-sensitive approaches emphasize the merits of engaging local actors in development processes and the advantages of encouraging local ownership and empowerment as a way to mobilize all available resources and make the most of the economic potential of every place and, as a consequence, of aggregate development.

Consequently, new territorial development policies are increasingly putting far greater weight than previous ones on the need of adopting more holistic approaches through complementary policies that balance market dynamics while removing that development barriers are lifted and local advantages and strengths leveraged. They focus more on institutions, regional development trajectories, and aspects of agency and resilience, as discussed above. This implies recognizing that a one-size-fits-all approach to economic development is often insufficient to address the diverse challenges faced by regions around the world.

6. Policy implications for inclusive territorial development

In this paper we have outlined the main theoretical and empirical recent developments emphasizing the significance of place-specific attributes in territorial development. How are these shifts translated into policies that help transform the future of dynamic and left behind places alike?

The understanding that local conditions shape regional socio-economic development has not only permeated academic research but is increasingly influencing policy makers. This is translated into territorial development policies that more than ever recognize the need for complementary bottom-up and place-based approaches. While traditional development strategies have been top-down, with national governments setting the vision and controlling policy design and implementation, contemporary regional policies are increasingly shifting towards bottom-up or multi-level interventions. In this approach, subnational governments and other local actors play a fundamental part in identifying local needs, formulating strategies, and implementing and monitoring development initiatives (Crescenzi & Guia, 2016; Iammarino et al., 2019). This has represented a fundamental change in the foundations for inclusive territorial development, leading to significant changes in the theoretical design and empirical implementation of policies, and, as a consequence, the implementation of far more place-based and place-sensitive development strategies. We treat these three dimensions in turn in the following subsections.

6.1 Foundations for Inclusive Territorial Development

One of the main transformations in development policies in recent years is that the focus of place-based policies has clearly evolved. Increased attention on recent territorial development policies is paid to harnessing local potential and promoting economic activity by capitalizing on local strengths while addressing territorial weaknesses and constraints. That is, the main focus is increasingly becoming tapping into untapped local resources and potential. The variations in local endowments require localized development approaches tailored to specific communities or territories. For example, the European Union undertook a profound reform of its Cohesion Policy in 2014, shifting from top-down regional development policies to a place-based approach through the Smart Specialization Strategy (S3). S3 aims to support regions in prioritizing innovative sectors and technologies through a bottom-up entrepreneurial discovery process, uncovering a region's unique strengths (Foray et al., 2009). This shift has empowered subnational public authorities as central players in social and economic policy making, leading to more inclusive stakeholder engagement exercises (Crescenzi & Guia, 2016). A similar, though less comprehensive, place-based initiative in the United States is the more recent Empowerment Zone program, which identifies economically distressed areas eligible for tax incentives, tax credits, and grants to stimulate economic activity in disadvantaged regions.

The place-based approach embodied in Smart Specialization strategies and the Empowerment Zones program has inspired policies beyond the European Union and the United States, influencing initiatives in, among others, many Latin American countries like Mexico, Chile, Colombia, and Argentina. However, while place-based interventions hold promise, assessments of their effectiveness remain mixed and incomplete. Early evidence suggests that these policies can build trust and local support, reducing resistance to top-down interventions during implementation. Nonetheless, challenges such as coordination issues and inadequate institutional capacity can prevent place-based strategies from reaching their full potential (Crescenzi & Guia, 2016; Morisson & Doussineau, 2019; Rodríguez-Pose & Ketterer, 2020). Research indicates that spatially targeted interventions may be ineffective and inefficient if the territory lacks fundamental endowments, like viable firms (Duranton & Venables, 2018; Grover et al., 2022) or adequate institutions (Aresu et al., 2023). Additionally, the presence of inherent competitive advantages in certain regions has been emphasized in scholarly research (Barba Navaretti & Markovic, 2021).

Place-based approaches are, however, not a replacement for the need to address national-level constraints; instead, they should complement nationally-driven strategies and help remove development barriers at the local level. Exclusive focus on equity objectives without considering efficiency can lead, once again, to a mere redistribution of existing economic activity, with limited overall welfare gains (Kline & Moretti, 2014). Moreover, the success of place-based approaches varies considerably depending on the local conditions of the places where it is implemented (e.g., Ahlfeldt et al., 2017; Koster & Van Ommeren, 2019; Bartik, 2020; Gruber et al., 2023). But early results tend to be encouraging. In the context of the European Union, there is growing evidence that transfers from the EU to less developed regions have contributed to overall welfare improvements (Brachert et al., 2019; Blouri & Ehrlich, 2020). Similar positive net welfare effects seem to be developing as well in the US, as seen with the Empowerment Zone program (Gaubert et al., 2021). These transfers seem to be playing a significant role in improving the well-being of these regions.

In response to local challenges, place-based policies often intend to enhance the efficiency of local and regional government structures and establish capacity-building initiatives. These efforts frequently include the introduction of e-government services, e-voting, and capacity-building interventions specifically tailored to local needs. The choice of reforms is often influenced by pre-existing local endowments, such as the presence of high-quality education providers, internet

penetration rates, and levels of social capital before policy implementation (e.g., Vassil & Weber, 2011; Orkestra, 2021). Additionally, in the US context, place-based policies in the form of fiscal redistribution and incentives have, under certain circumstances, been found to achieve significant welfare gains, with equity gains surpassing the typically associated efficiency costs (Busso et al., 2013; Gaubert et al., 2021).

However, place-based policies can also become too place specific, undermining the potential synergies that may arise from addressing widespread challenges and overlooking the interconnectivity of a more integrated economy. Hence, a pure place-based development approach may not deliver in terms of spreading development as widely as possible and maximizing the economic potential of every place. Different places have different endowments and starting points and the type of development intervention to fully tap into untapped potential requires considering the commonalities and challenges affecting different groups of economies. Place-sensitive approaches—i.e., those that are well embedded in development theory and evidence but adapted to the specific conditions and challenges of different groups of regions (Iammarino et al., 2019: 290)—are guided by three principles. First, they acknowledge the need for differentiation between different types of regions (and, specifically, core and peripheral ones), allowing governments to identify the unique needs, challenges, and drivers of change in each regional group. This approach avoids oversimplification and promotes tailored strategies based on the characteristics of each region. Second, coordination is crucial. Effective place-sensitive strategies require synthesis between different approaches, combining top-down and bottom-up efforts, as well as coordination between different levels of institutions, including central and subnational governments. This integration represents the essence of place-sensitive strategies (Rodríguez-Pose & Wilkie, 2017). Third, integration is essential. Instead of focusing solely on one development axis, balanced place-sensitive approaches require a mix of policies and reforms addressing structural, socio-economic, and institutional aspects to foster regional economic dynamism (Barca et al., 2012; Phan & Coxhead, 2014).

Further research is needed to explore the effectiveness of place-sensitive policies. While early studies indicate their potential to reduce regional disparities, more investigation is required to understand their full impact. Evidence suggests that these policies can reduce inequalities in social service provision and social outcomes across regions, enhance investment attractiveness for less developed areas, and promote SME innovation. Moreover, place-sensitive policies can become crucial for the growth of intermediate cities, which have often been overlooked in traditional territorial development strategies (Rodríguez-Pose & Griffiths, 2021).

6.2 From Theoretical Design to Empirical Implementation: Regional Clubs and the Complexity Matrix

In practice, implementing place-sensitive policies often involves club theory, which stems from recent research on regional development traps. Identifying regional development clubs allows for differentiated approaches that support prosperity in leading regions while enhancing it in others (Diemer et al., 2022). Club membership can be determined based on various criteria, such as per capita income levels or comprehensive socio-economic performance measures.

In higher-income and overperforming regions, maintaining specialization in high-wage activities is often what makes a difference for development. These regions often face dynamics that reduce their value-added contributions over time, such as the routinization of activities and the diffusion of

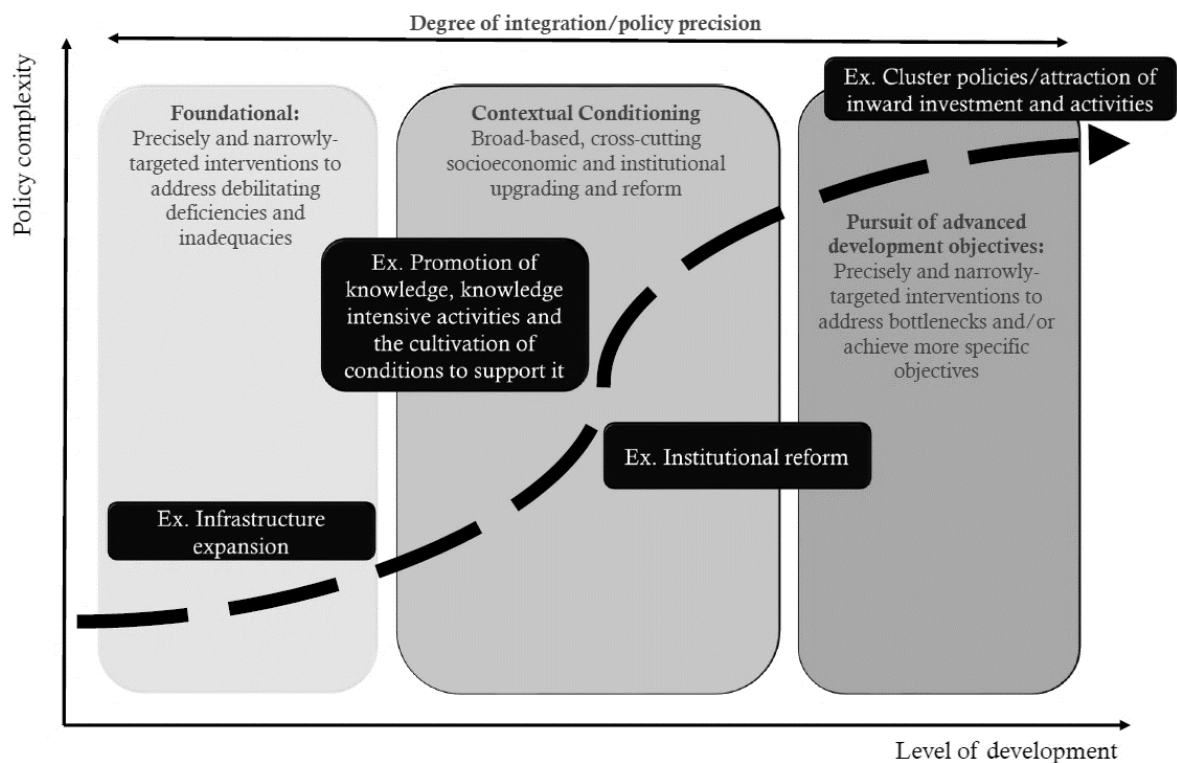
innovative capabilities. To sustain economic dynamism, these regions must either generate innovations within their specialized sectors or transition to related economic activities.

Middle-income regions, which have incomes close to the national average, often face development traps fundamentally determined by rising labor costs. These regions must improve workers' productivity by enhancing education and labor force participation to bridge the gap with the best-performing regions.

Low-income and underperforming regions frequently have limited skills and technological resources but may possess advantages like low-cost labor. However, they face considerable risks like the relocation of activities to emerging countries with even lower production costs. These regions may require investments in basic infrastructure, labor market policies, education, and government quality to promote economic development and reduce talent outflow (Iammarino et al, 2019).

The complexity and breadth of policy interventions in each development club may vary (Figure 4). Regions at early development stages may benefit from targeted interventions addressing basic deficiencies like infrastructure. As the level of development increases, more complex interventions, including institutional reforms and cluster policies, become necessary. Choosing the appropriate policy interventions based on the local context and endowments of each territory is therefore crucial to ensure that any development intervention works.

Figure 4 Conceptual framework for the adaptation of regional development strategies to the local context.



Source: Author's adapted from Rodríguez-Pose & Wilkie (2019).

6.3 The Limitations of Infrastructure Projects for a Place-Sensitive Approach to Development

Large-scale infrastructure projects, like growth corridors and special economic zones, have traditionally been the preferred form of development intervention by policy makers to revitalize local economies. These projects have gained attention as tools to drive growth across a country. They are believed to generate various outcomes, from reduced transport costs to enhanced economic welfare and equity.

However, there are important caveats associated with these projects. Gains may be unevenly distributed across regions, creating winners and losers. The returns on such projects can be highly dependent on local endowments, such as variations in the quality of institutions. Weak institutional contexts can lead to lower-than-expected returns (Crescenzi et al., 2016). The effectiveness of a transport project is influenced by local institutions, especially the local government, and is susceptible to political intervention.

Social and human capital have been found to be better predictors of economic growth than infrastructure endowments (Rodríguez-Pose & Ketterer, 2020). Moreover, greater connectivity from peripheral regions to urban areas may lead to the reallocation of firms and labor, negatively affecting less developed territories. Therefore, complementary interventions, including institutional strengthening and improvements in local public goods, are needed to transform large infrastructure investments into effective regional development projects.

7. Conclusion

This paper has aimed to offer a comprehensive overview of the theoretical and empirical advancements in territorial development policies to overcome left-behindedness and improve territorial development prospects over the past decade. Policies have increasingly recognized the importance of considering the local context to expand the spread of efficiency gains, economic opportunities, and knowledge spillovers from core to peripheral regions. This increased attention has been driven by a growing body of research stressing the existence of multiple barriers to regional convergence and pointing at the importance of tackling regional inequalities for economic growth, poverty reduction and inclusion, and long term stability (McCann & Rodríguez-Pose, 2011). Today, there is a growing consensus that understanding and harnessing local endowments is fundamental for the socio-economic development of regions. These endowments encompass infrastructure and accessibility, but also human capital, competitiveness and innovation, and, last but not least, institutions. They also take into consideration other factors such as the presence of regional development traps, the resilience of different places, agency, and sustainability transitions. In particular, the significance of institutional quality and its direct and indirect impact on regional economic growth has gained prominence, as has the recognition of the need for suitable prerequisites to benefit from sustainability transitions. These theoretical and empirical developments are leaving their mark on territorial policies worldwide, prompting a shift from spatially-blind approaches to more place-based strategies and, more recently, place-sensitive approaches. However, these new approaches are still very much works in progress in various geographic contexts, spanning both developed and developing countries, with their effectiveness under ongoing evaluation.

Two pressing themes in territorial policy and theory are the emergence of regional development traps and the new insights into the socio-economic costs of regional inequalities. Evidence from

these domains has led to two significant shifts in policy-making paradigms. First, there is a move away from conventional static measures of regional backwardness toward a dynamic understanding of development traps, impacting both lagging and higher-income regions. Customized policy interventions are deemed essential for rejuvenating territories that have experienced stagnation or decline in recent years. Second, regional inequalities, once viewed as a temporary byproduct of rapid economic development, are no longer considered acceptable. Neither efficiency-driven nor equity-driven interventions in isolation have effectively addressed the profound spatial disparities observed in many countries. Consequently, place-sensitive approaches, which aim to reduce regional imbalances while fostering overall growth, are gaining prominence as better suited for addressing issues of social discontent and disharmony.

The academic literature increasingly stresses the complementarity of efficiency-seeking and equity-focused policies. Policy makers are urged to develop frameworks that harness the strengths of both approaches. Mobilizing economic potential and overcoming left-behindedness requires certain minimum standards and endowments applicable to all regions. Simultaneously, we have to acknowledge that place-specific conditions profoundly shape the outcomes of development interventions in specific areas. This implies that spatially-blind policies must be adaptable to the distinct ecosystems in which they are implemented, taking into account factors such as institutional quality, leadership and agency, and a region's historical development trajectory. This adaptive framework closely aligns with place-sensitive strategies (Iammarino et al., 2019), which aim to unlock the growth potential of each territory, regardless of its initial position on the development spectrum, while leveraging existing local endowments to chart future development paths.

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