

GVCs reconfigurations call for place-based industrial policies

Since the 2008 crisis, EU officially claimed "the need to reverse the declining role of industry for the 21st century, so to relaunch productivity" (European Commission, 2012, p. 1). The situation was aggravated by the integrated, interdependent, and specialized trade structure that during the 2008 crisis was interpreted as one of the main causes of the collapse of international trade by about 30 per cent between the first half of 2008 and the first half of 2009. The COVID-19 pandemic and the recent geopolitical crises relaunched both the reindustrialization and the backshoring debates. On the one hand, the EU has stressed once more the political interest in strengthening the industrial capacity of Europe through the Open Strategic Autonomy (EC, 2022). On the other hand, the health crisis highlighted the fragility of the international organization of production, calling for backshoring processes.

In this perspective, reshoring, both nearshoring (from distant to European countries) and of backshoring (from abroad to the area that was previously producing the goods) represents a **potential strategy to stimulate EU reindustrialisation process**, and re-establish preexisting industrial capacities.

The crucial question is whether reshoring can relaunch employment growth, and if so, whether this is the case across Europe.

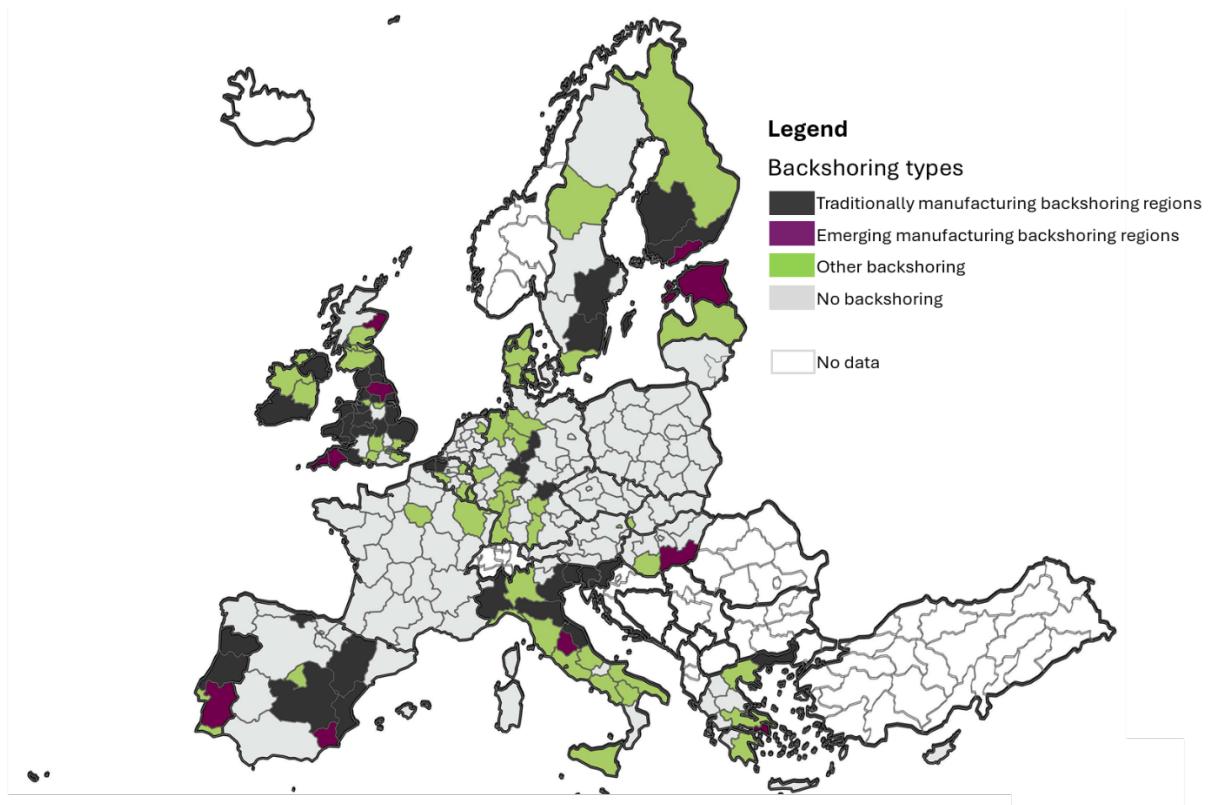
TWIN SEEDS provides answers to these questions, by studying the **capacity of backshoring to relaunch manufacturing employment** and, in particular, its ability to renew industrial capacity in traditionally manufacturing regions.

EMPLOYMENT GROWTH EFFECTS OF BACKSHORING CALL FOR A REGIONAL APPROACH

Backshoring is not yet common in Europe. In addition, it manifests itself differently across European regions. Specifically, the research finds variations between backshoring to traditionally manufacturing regions (mainly located in Western member states), and backshoring to emerging manufacturing regions - which are distributed widely across both Western and Eastern countries - (see Figure 1).

Backshoring doesn't always result in manufacturing employment growth. **Traditionally manufacturing backshoring regions do register a 1.2% increase in manufacturing employment growth** compared to the average (over three years). In such contexts reshoring can revive the industrial fabric of the region and exploit traditional know-how.

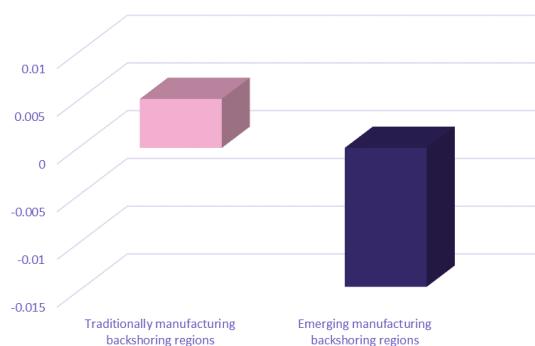
Figure 1: Backshoring regions in Europe.



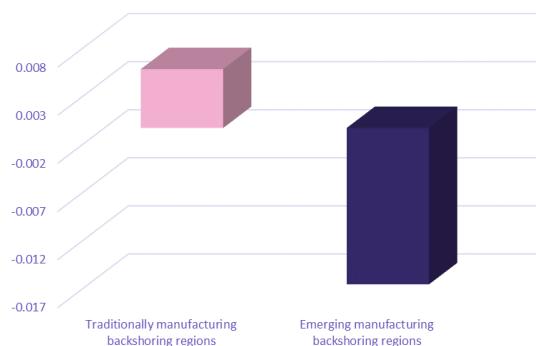
However, in emerging manufacturing backshoring region, manufacturing employment actually decreases. This reflects reshoring which leverages intensive automation and digitalization production processes, rather than traditional skills. These results hold both for high and low level jobs (Figure 2).

Figure 2: Effects of backshoring on employment in manufacturing in different regions by functional specialisation.

a. Specialized in high-level jobs



b. Specialized in low-level jobs



*Please note that the values come from different specifications. See technical appendix.

The values displayed are those associated with the 75th percentile of the distribution in high/low-level functional specialization

REGIONAL INDUSTRIAL POLICIES ARE NECESSARY THAN EVER

Regional industrial policies are therefore required. In particular, policy support for reindustrialization (e.g. entrepreneurship incentives, human capital formation, multinationals' catalysts) should be targeted to the characteristics of the regional economic environment. One of the main characteristics to be taken into account is the historic manufacturing specialisation of the area. In those regions with manufacturing traditions (highlighted in Figure 1), incentives for backshoring should be coupled with programmes reinforcing traditional industrial vocations and skills. On the other hand, new emerging industrial regions should support technological advances, in order to create new jobs for technicians and engineering oriented support functions for the automation processes of firms.

This also suggests that in some regions the two policy objectives that the EU is seeking to pursue – modern reindustrialization and relaunching manufacturing employment – may come into conflict in some regions. If the EU as a whole is to achieve both goals, **targeted industrial policies should be put in place**. Modern reindustrialization strategies seem more appropriate in some emerging manufacturing areas, while strategies focused on relaunching manufacturing employment are likely to be more effective in traditionally manufacturing regions. Only by adapting their industrialisation strategy to historical industrial trajectories and the realities of modern regional capacity, can the EU effectively secure its long-term goals of reindustrialisation, employment growth and autonomy.

PROJECT IDENTITY

PROJECT NAME

Towards a World Integrated and Socio-economically Balanced European Economic Development Scenario (TWIN SEEDS).

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LINK TO THE RESEARCH AND DETAILED RESULTS

<https://twinseeds.eu/wp-content/uploads/2024/10/WP3-Repo>

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