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Overcoming left-behindedness. 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 centre of development policies. Where 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 has 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 article synthesizes the growing interest in territorial development, which has driven to the adoption of what are increasingly place-based and place-sensitive approaches to development. The article also emphasises 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. We conclude by advocating a place-sensitive approach that tailors policies to regional challenges, promoting economic potential, diversification, and inclusivity across all regions.

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' (O'Brien, 1992; Cairncross, 1997; 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 and 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 materialised (McCann, 2008; Rodríguez-Pose and 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 and Nijkamp, 2016).

Agglomeration matters enormously for the generation and diffusion of economic activity not only at regional but also at metropolitan and neighbourhood scales (Rosenthal and 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 undermine 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

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problem, but also lead to missed economic potential, social discontent, and, in extreme cases, 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 and 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 and Venables, 2018). Under the right conditions, they have demonstrated welfare gains within cities and other types of regions, including peripheral and rural ones (Ahlfeldt et al., 2017; Rodríguez-Pose and 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 faces challenges in incorporating all potential costs of non-intervention, including lost economic opportunities, long-term human capital losses, and social and political discontent. Against this backdrop, policymakers are often left with little guidance on how to effectively operationalize place-based and place-sensitive approaches for territorial development.

Recent evidence underscores the potential of locally tailored territorial development policies. However, there is still a need to bring together various strands of literature to navigate the multitude of approaches and assist decision-makers in adopting comprehensive frameworks for greater regional economic growth. This article aims to contribute to fill this gap. By taking stock of recent theoretical and empirical progress in territorial development, this article helps organize existing knowledge, rendering it more accessible to both researchers and policymakers. It contributes to bringing to the fore existing research gaps while pointing towards actionable solutions for policymakers to address real life development problems. Far from being a mere overview of the literature, the article intends to help practitioners —in the spirit of this journal— operationalize new theories, whether being through regional clubs, institutional interventions, or development projects and strategies. It aims to do so by first reviewing recent theoretical and empirical developments in territorial and regional science. It then explores new theoretical developments 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 article synthesizes key insights and lessons from scholarly research 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; one that would eventually subside as markets cleared. As such, the benefits provided by economies of agglomeration in cities were expected to spread in time from dynamic cores to lagging-behind peripheries. 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 and 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 at 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, labour 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). Such a situation can give rise to 'sterile' agglomeration economies (Grover et al., 2022). Large congestion cost may hamper 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 favourable 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 (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 and 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., 2016).

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 and Smith, 2000; Iammarino and 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 well-functioning transmission channels (Boschma, 2005; D'Este et al., 2013; Iammarino, 2018).

Moreover, automatic adjustment mechanisms, like labour 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, creating additional hurdles for economic growth (Farole et al., 2011). Weak institutions, 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 and Wunder, 2008). 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

greater 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 and 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, fuelled, 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 and Rodríguez-Pose, 2016) (Fig. 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).

The increasing realisation, 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 a) institutional quality, b) regional development paths, c) agency and resilience, and d) sustainable development practices (Rodríguez-Pose and 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 development policies. In the following sections we cover these growing areas in territorial development scholarship. 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 policymakers 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 continue 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 and 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 institutions and governments may be as, if not more, important for territorial development than the factors traditionally considered as the main drivers of development, like infrastructure, human capital, and innovation. Poor institutions generally represent the main cause for 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 and Dijkstra, 2013; Ganau and 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 labour productivity, and drive innovation (Ganau and Rodríguez-Pose, 2019). Effective institutions promote innovative performance, while ineffective and corrupt institutions hinder innovation, especially in less developed regions (Rodríguez-Pose

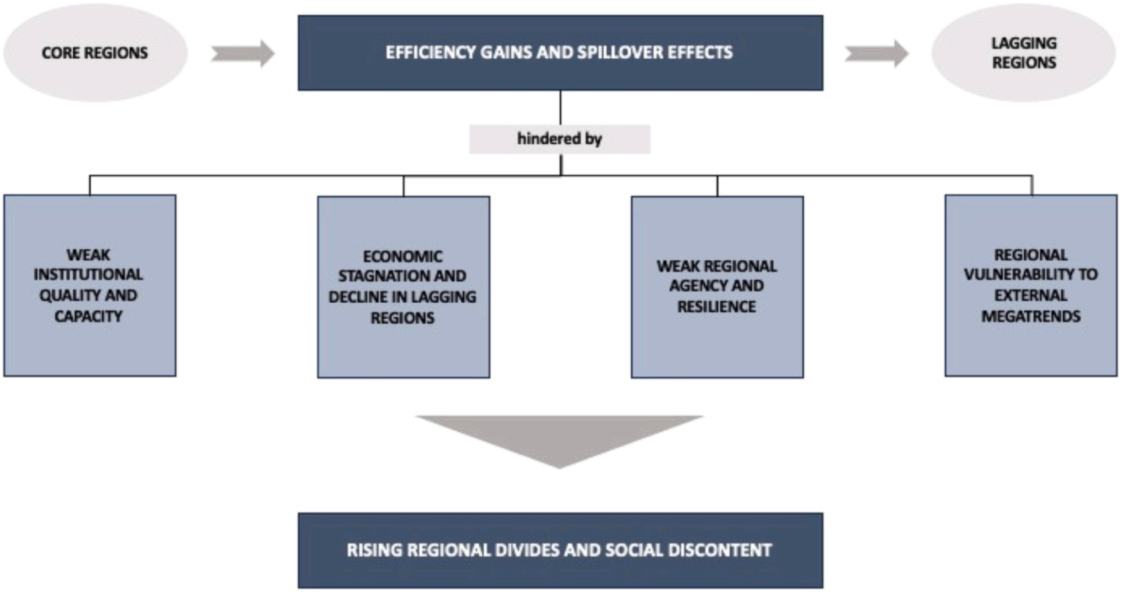

Fig. 1. Schematic representation of barriers to spillovers and efficiency gains in lagging regions.
Source: Author's elaboration based on Coenen et al., (2012); Martin, (2012); Rodríguez-Pose, (2013); Boschma, (2015); Grillitsch and Sotarauta, (2020).

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	Reducing transaction costs, rendering economic growth more viable. Directly increasing labour productivity levels in regions. Improving regional innovative performance, measured through patenting, especially when corruption and government effectiveness are taken into account. Fostering economic dynamism in lagging-behind, low-growth regions. 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 and Dijkstra (2013); Rodríguez-Pose (2013); Huggins et al. (2014); Sleuwaegen and Boiardi (2014); Rodríguez-Pose and Garcilazo (2015); Ketterer and Rodríguez-Pose (2015); Crescenzi et al. (2016); Audretsch and Belitski (2017); Di Cataldo and Rodríguez-Pose (2017); Fritsch and Wyrwich (2018); Ganau and Rodríguez-Pose (2019).

and Di Cataldo, 2015). Government quality improvements are vital for low-growth regions (Rodríguez-Pose and Ketterer, 2020; Ma et al., 2022). Institutions also play a crucial role in establishing regional entrepreneurial ecosystems, alongside traditional factors like infrastructure (Audretsch and Belitski, 2017). Moreover, regions with higher-quality regional governments can attract greenfield investments from highly productive multinational enterprises (Amendolagine et al., 2022).

However, formal and informal institutions remain necessary but not sufficient conditions to increasing innovative activity or improving productivity within regional policy programmes. After all, different types of innovation and economic activity respond differently to different institutional structures. Let's take the case of social capital (Murphy et al., 2016). Bridging social capital, an informal institution which refers to collaboration opportunities across diverse groups within a territory, plays a crucial role in facilitating the diffusion of knowledge and innovation within the regional ecosystem (Murphy et al., 2016) and is positively connected to economic growth (Muringani et al., 2021). Yet, the beneficial impact of bridging social capital is often constrained to "softer" forms of innovation, such as the social benefits of knowledge absorption, transformation, and creation (Murphy et al., 2016).

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 and 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). Likewise, the quality of regional institutions shapes a region's attractiveness for migrants (Ketterer and Rodríguez-Pose, 2015).

Second, subpar institutional quality at the local and regional level 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 and 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 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 (Aroca and Atienza, 2016; Iddawela et al., 2021; Hussen and Çokgezen, 2022). 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 (Fig. 2).

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 and Wilkie, 2019).

4. Regional development paths - diversification and avoiding development traps

Improving the quality of 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 policymakers are increasingly scrutinizing 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 labour 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.,

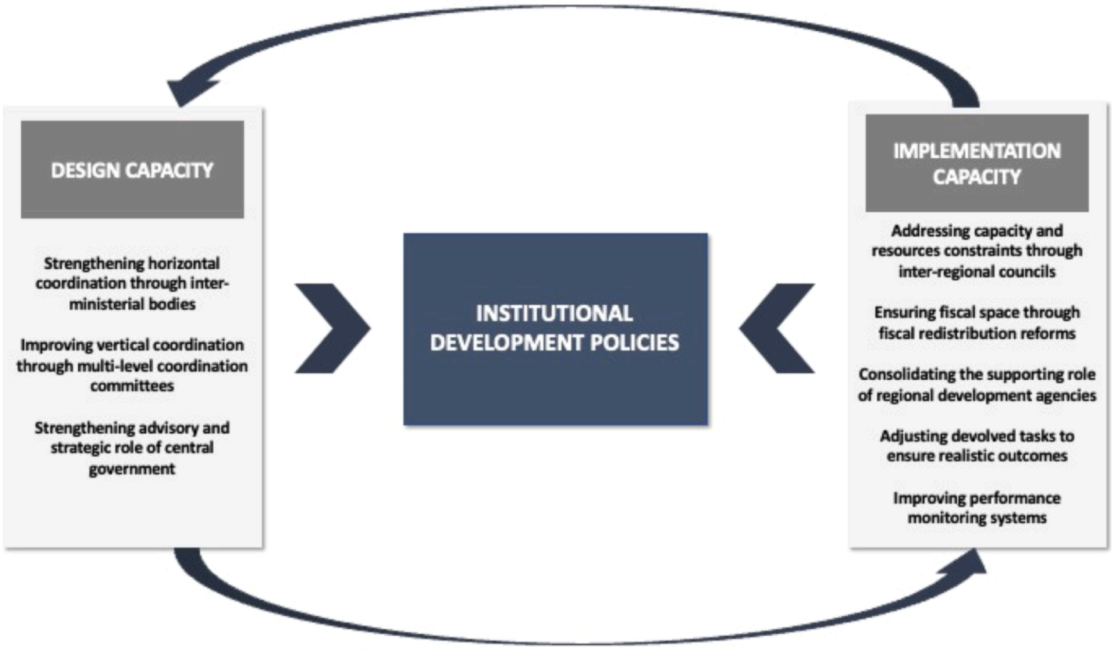

Fig. 2. Summary of main areas of intervention for institutional development policies.
Source: Authors' elaboration based on Barca et al. (2012); Rodríguez-Pose (2013); Cejudo and Michel (2017); OECD (2017); (2019); (2020a); Rodríguez-Pose and Wilkie (2019); Rodríguez-Pose (2020).

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 aspects have been identified as key for shaping regional specialization and diversification trajectories, allowing regions to escape left-behindedness. 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 and 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 and Boschma, 2021). Finally, the presence of external agents of change serves as source of new knowledge and diversification (Neffke et al., 2018; Cortinovis et al., 2020; Miguélez and Morrison, 2022). The role of multinational enterprises (MNEs) and migrant inventors is fundamental in this respect. Fig. 3 provides an overview of the main factors driving diversification at the regional level.

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, in the case of the EU, 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 and 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 realisation of the existence of development traps is pushing policymakers more towards recognizing the need to address stagnating regions alongside lagging-behind and poor regions, thus promoting more inclusive territorial development.

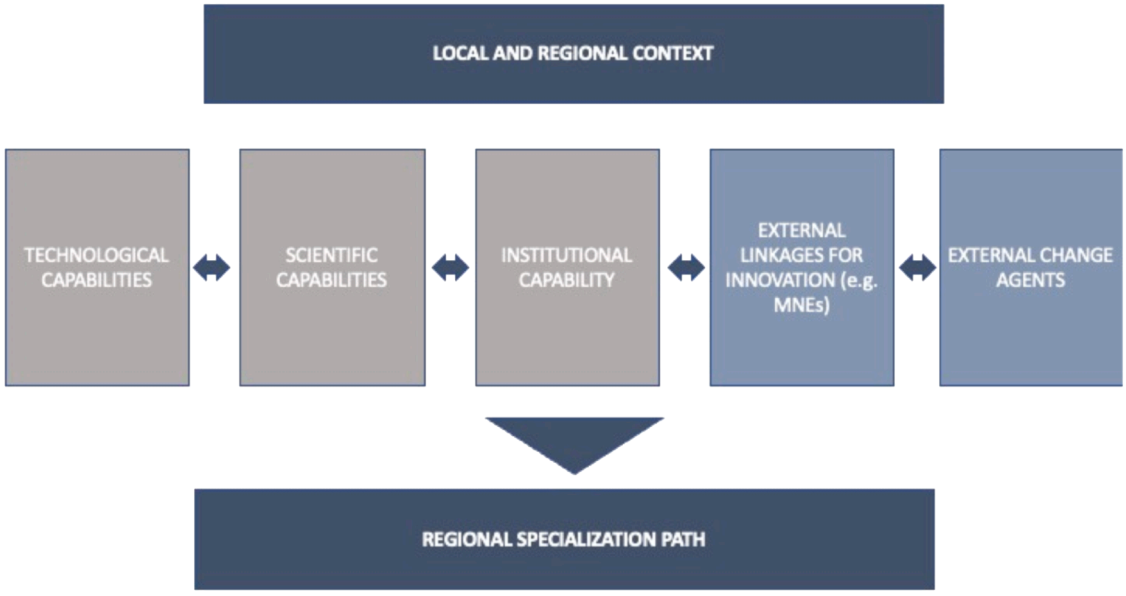

Fig. 3. Schematic representation of factors driving the emergence of regional specialization and diversification paths.
Source: Authors' elaboration based on Cortinovis et al., (2017)*; Montresor and Quatraro 2019;* Cortinovis et al., (2020)*;* van den Berge et al., (2020)*;* Balland and Boschma, (2021)*;* Santoalha and Boschma, (2021).

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 policymakers.

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 and 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 progress 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 policymakers to engage local actors in discussions and consider strategies to promote these elements of agency change. However, challenges remain, including understanding the contextual conditions facilitating or hindering agency chance and understanding any 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., 2008; Simmie and Martin, 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 also linked to diversification and adaptability, which empower regions to adapt to economic transitions and withstand 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 labour 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 policymakers to design and implement strategies that are adapted to the specific conditions of every territory. Such shift in policy focus can contribute to mobilise 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; 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 and Ketterer, 2020). Resilience in regional development has become a critical focus for dealing with economic shocks and transitions (Martin and Sunley 2015; Martin et al., 2016; 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 centres 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, promote aggregate development.

Consequently, new territorial development policies are placing significantly more emphasis than their predecessors on the need to adopt

more holistic approaches. These strategies aim to balance market dynamics through complementary policies that remove development barriers while also capitalizing on local strengths and advantages. 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?

Understanding that local conditions shape regional socio-economic development has not only permeated academic research but is increasingly influencing policymakers. This is translated into territorial development policies that more than ever recognise 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, with the involvement of other local stakeholders, identify local needs, formulate strategies, and implement and monitor development initiatives (Crescenzi and Giua, 2016; Iammarino et al., 2019). This shift has represented a fundamental change in the foundations for inclusive territorial development, leading to significant transformations in the theoretical design and empirical implementation of policies. The consequence is 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 place-based policies have come to the fore. Increased attention 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 localised 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 prioritising 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 policymaking, leading to more inclusive stakeholder engagement exercises (Crescenzi and Giua, 2016). A similar, though less comprehensive, place-based drive has taken place in the United States, where a series of place-based industrial policies amounting to an investment of almost $80 billion has been passed during the Biden administration. These policies fundamentally guide investment toward economically distressed areas with the aim of stimulating economic activity in places considered to have been disadvantaged (Muro et al., 2023).

The place-based approach has also 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 and Giua, 2016; Morisson and Doussineau, 2019; Rodríguez-Pose and Ketterer, 2020). Research indicates that spatially targeted interventions may be ineffective and inefficient if the territory lacks fundamental endowments, like viable firms (Duranton and 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 and Markovic, 2021).

All the limitations of place-based strategies can become more severe in developing countries, where it is often the case that a successful implementation of development strategies is undermined by weak institutional quality. This often means that a key precondition for the successful implementation of place-based policies is to build institutional capacity at the local and national levels. Recent studies highlight effective strategies for enhancing institutions in emerging economies. In Sub-Saharan Africa, for example, the quality of institutions at the local level significantly impacts both business innovation and regional economic growth (Hussen and Çokgezen, 2021; Iddawela et al., 2021). Evidence shows that raising the effectiveness and transparency of institutional frameworks within special economic zones (SEZs) increases the success of these development policies (UNCTAD, 2021). This involves improving the coordination among stakeholders in the development process, as was done in Morocco and Ethiopia with the establishment of inter-ministerial and cross-sectoral committees and boards to enhance coordination (UNCTAD, 2021). Special economic zones can provide the space for policy experimentation and piloting, and provide important lessons-learnt that can be later scaled throughout the whole country (OECD, 2020b).

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 and 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 and Van Ommeren, 2019; Bartik, 2020; Gruber et al., 2023). However, early results tend to be encouraging. In the context of the European Union, there is growing evidence that investments from the EU to less developed regions have contributed to overall welfare improvements (Brachert et al., 2019; Blouri and Ehrlich, 2020). Similar positive net welfare effects seem to be developing as well in the US, as seen with the Empowerment Zone programme (Gaubert et al., 2021). These transfers are 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 and 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 and 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 and Coxhead, 2014).

Further research is needed to assess the efficacy of place-sensitive policies. There is evidence to suggest that such policies may mitigate disparities in the provision of social services and outcomes across regions, enhance investment attractiveness for less developed areas, and encourage innovation among SMEs. Moreover, place-sensitive policies could be crucial for the development of intermediate cities, which have often been overlooked in traditional territorial development strategies (Rodríguez-Pose and Griffiths, 2021). While early studies indicate their potential to reduce regional disparities, a deeper exploration is needed to fully grasp their impact. The effectiveness of place-sensitive approaches often hinges on local governance settings, making it challenging for both policymakers and researchers to measure their effectiveness and impacts (Grover et al., 2022b; Beer, 2023). It is also difficult to determine whether place-sensitive approaches yield self-reinforcing economic benefits. In economic terms, a question that still remains unanswered is whether place-sensitive strategies can continue to move a territory towards a new equilibrium once the policy ends (Neumark and Simpson, 2015).

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 is connected to 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 (Iammarino et al., 2019).

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. To do so, regions often implement interventions aimed at enhancing the regional innovation frontier through high-skill talent development.

Middle-income regions, which have incomes close to the national average, often face development traps fundamentally determined by rising labour costs. These regions must improve workers' productivity by enhancing education and labour force participation to bridge the gap with the best-performing regions. Such a strategy, together with attempts to re-skill the current workforce to avoid skills mismatches and actions to improve the local institutional quality is often instrumental in boosting convergence with higher performing regions.

Low-income and underperforming regions frequently have limited skills and technological resources but may possess advantages like low-cost labour. However, considerable risks loom, like the relocation of activities to emerging countries with even lower production costs. These regions are more at risk of losing talent and suffering from brain drain. Policy actions may offer a number of options: investment in infrastructure, with particular emphasis on intra-periphery connections; active labour market policies, especially targeting women and youth to raise labour force participation; education reforms boosting both numbers of students enrolled and quality of teaching; and job-skilling programmes and university-industry linkages. Improvements in government quality are also essential and often entail a broad range of actions from tackling red-tape to promoting e-government and eradicating corruption. (Iammarino et al., 2019).

The complexity and breadth of policy interventions in each development club may vary (Fig. 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. The level of territorial development as well as the conditions of the local ecosystem will determine which development levers (e.g., infrastructure, foreign direct investment, human capital, technology, institutions) should be prioritized in the development strategy as well as the complexity and breadth of scope of the intervention. 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.

7. Conclusion

This paper has aimed to offer a comprehensive overview of the theoretical and empirical progress in territorial development policies to overcome left-behindedness and improve territorial development prospects over the past decade. Based on this overview, it has aimed at providing policymakers with experiences and potential policy entry points as they consider strategies to promote territorial development.

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 both for economic growth, poverty reduction and inclusion, and long-term stability (McCann and 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 work in progress in various geographic contexts, spanning both developed and developing countries, with their effectiveness under

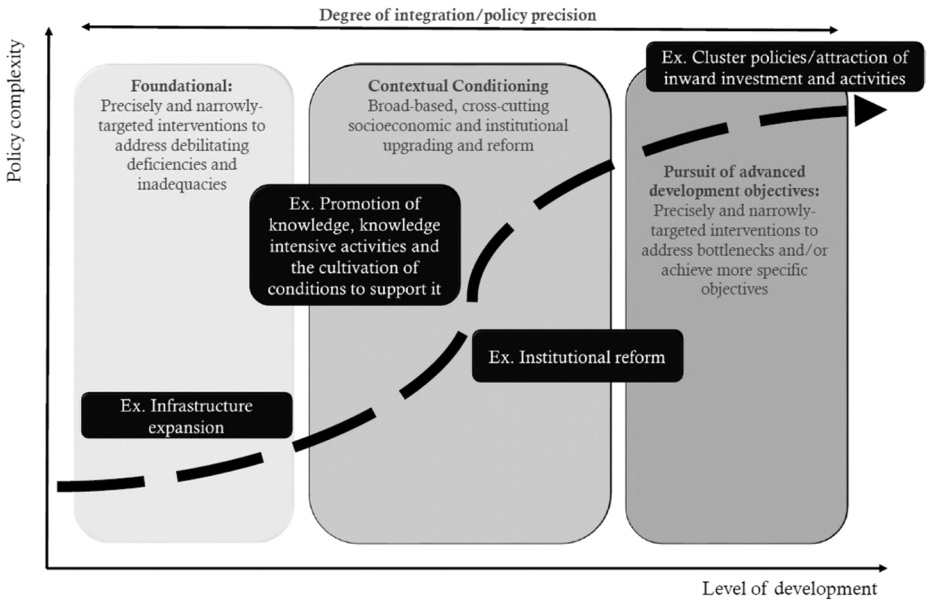

Fig. 4. Conceptual framework for the adaptation of regional development strategies to the local context.
Source: Author's adapted from Rodríguez-Pose and Wilkie (2019).

ongoing evaluation.

Two pressing themes in territorial policy and theory are the emergence of regional development traps and the new insights into the socioeconomic costs of regional inequalities. Evidence from these domains has led to two significant shifts in policymaking 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. Customised 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.

Scholarly research increasingly stresses the complementarity of efficiency-seeking and equity-focused policies. Policymakers are urged to develop frameworks that harness the strengths of both approaches. Mobilising 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.

CRediT authorship contribution statement

María Dávalos: Writing – review & editing, Writing – original draft, Investigation, Conceptualization. **Nancy Lozano-Gracia:** Writing – review & editing, Writing – original draft, Investigation, Conceptualization. **Federico Bartalucci:** Writing – review & editing, Writing – original draft, Investigation, Conceptualization. **Andrés Rodríguez-Pose:** Writing – review & editing, Writing – original draft, Investigation, Conceptualization.

Declaration of Competing Interest

For the manuscript titled "Overcoming left-behindedness. Moving beyond the efficiency versus equity debate in territorial development," submitted to Regional Science Policy and Practice, we, the authors, declare that there are no conflicts of interest. This includes any potential conflict of interest regarding the funding, research, and authorship of this paper. This submission is exclusively the result of our own original research and has not been influenced by any external interests.

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