



Title: Shifting industrial strategy in the UK – lessons for CEE countries from a post-Covid perspective

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Abstract

Persistent territorial inequalities in wealth, productivity and life chances remain one of the most pressing challenges in advanced economies. The case of the United Kingdom is particularly instructive: despite decades of regional policy interventions, substantial intra-national disparities endure, with several regions exhibiting socio-economic indicators comparable to lagging areas in parts of Central and Eastern Europe. These patterns reflect broader processes of social-spatial polarisation and peripheralisation, in which certain territories and their populations risk being structurally “left behind.”

This research examines the drivers and policy responses shaping the uneven distribution of prosperity in the UK, focusing on the evolution of its contemporary industrial strategy within a context marked by post-Brexit restructuring, technological change and renewed state activism. Particular attention is paid to the emergence and subsequent partial marginalization of the foundational economy approach, which foregrounds everyday essential services and infrastructures as pillars of inclusive, territorially embedded development. The analysis interprets recent “levelling up” initiatives against the tension between mission-oriented competitiveness strategies and the objective of reducing place-based deprivation.

Empirically, the research analyses spatial inequalities at the NUTS2 level after the global financial and economic crisis, drawing on regional productivity, income and employment indicators. The methodological framework focuses on exploratory analysis and a comparative approach. The preliminary findings suggest that the coexistence of growth-pole-oriented competitiveness agendas and rhetorically inclusive territorial development objectives reflect a structural incoherence in the UK’s current industrial policy model. In the absence of a consistent and institutionally embedded territorial framework, policy interventions risk reinforcing spatial concentration dynamics, thereby limiting their effectiveness in addressing deprivation and breaking entrenched cycles of regional inequality. The results contribute to

broader debates on social justice, spatial polarisation and the capacity of place-based strategies to mitigate uneven development in advanced economies.

Extended abstract

The early 2020s marked a decisive return of industrial strategy across Europe, driven by post-pandemic adjustment, energy price shocks, geopolitical fragmentation and mounting concerns about structural productivity slowdown (McCann – Vorley, 2021, OECD, 2021). The trend break in European productivity growth since the post-2008 period has exposed vulnerabilities in industrial structures, innovation capacity and technological positioning vis-à-vis global competitors. Draghi's seminal report attributes a part of this problem to the static industrial structure and the innovation gap in advanced technologies behind global competitors (Draghi, 2024). It emphasises the need for providing opportunities for education and adult learning and good jobs for all throughout their lifetimes. Within this broader context, the United Kingdom represents a critical laboratory of renewed state activism, combining mission-oriented innovation policies, competitiveness strategies and the political commitment to “levelling up” persistent regional disparities.

Despite decades of regional interventions, the UK exhibits enduring spatial inequalities in productivity, income and life chances. Several regions display socio-economic profiles comparable to lagging territories in Central and Eastern Europe (CEE), suggesting that high national income does not preclude deep intra-national polarisation. These patterns reflect broader processes of social-spatial polarisation and peripheralisation, in which certain territories and their populations risk being structurally “left behind”. The post-Covid industrial policy shift, characterised by selective sectoral support, innovation-driven competitiveness agendas and strategic state intervention, therefore raises the question of whether state activism can reconcile national productivity ambitions with territorially inclusive development.

In the context of long-term spatial dynamics, productivity emerges as a critical concern, particularly in economies constrained by adverse demographic trends. Productivity is of central importance in determining economic growth, and the long-run economic prospects of countries and regions, with implications on the general welfare (Krugman, 1994) and regional living conditions (OECD, 2011). Given Europe's demographic outlook, labour productivity growth may become the sole driver of output expansion, even with rising employment rates (EC, 2018). The late-2000s' crisis had a hysteretic effect (Váry, 2018) on several European economies, including the UK and also the CEE area, manifesting in low economic growth rates (Kónya, 2017; Rodríguez-Pose – Ganau, 2022). This phenomenon came forth as a productivity puzzle (Callaghan, 2021), according to which output growth slowdown coexists with employment growth, and it provides an issue for large-scale research projects Europe-wide, such as the Productivity Insights Network hosted in the United Kingdom as well as the OECD's Spatial Productivity Lab. Nevertheless, these projects lack the coverage of CEE countries.

Recent regional science literature documents the emergence of subnational economic clubs of development, consisting of regions with wide differences in dynamics of income, employment, industrial composition, education, productivity, innovation, as well as urbanization and demography (Diemer et al., 2022, Ouwehand et al., 2022). It seems that much of the income

convergence within the EU took place between 2000 and the global financial and economic crisis, and this convergence is almost entirely attributable to the decreasing between-country disparities. In contrast, the extent of within-country disparities remained almost the same during the whole period since the early-2000s (Monfort, 2020). This could pose serious socio-economic and political tensions which is investigated by the literature on the geography of discontent (Dijkstra et al., 2019; Rodríguez-Pose et al., 2024). A relevant theoretical framework for this is the concept of cumulative causation, as evidenced by spatial spread and backwash effects (Myrdal, 1957 and Hirschman, 1958), which describe how economic and human capital flows reinforce regional inequalities. While spread effects facilitate knowledge diffusion and economic spillovers from core to peripheral regions, backwash effects often dominate, leading to persistent talent outflows from lagging regions and exacerbating spatial disparities. In CEE countries, the capital regions have a labour productivity far above the national averages, while the most backward regions persistently lag behind. Moreover, CEE countries do not follow the same trends, since they have different endowments and growth models that provide important lessons for further research (Egri – Lengyel, 2024).

In this research we examine the drivers and policy responses shaping the uneven distribution of prosperity in the UK, focusing on the evolution of its contemporary industrial strategy within a context marked by post-Brexit restructuring, technological change and renewed state activism. Particular attention is paid to the emergence and subsequent partial marginalization of the foundational economy approach (Earle et al. 2018, Froud et al. 2020), which foregrounds everyday essential services and infrastructures as pillars of inclusive, territorially embedded development. The analysis interprets recent “levelling up” initiatives against the tension between mission-oriented competitiveness strategies and the objective of reducing place-based deprivation.

Our results suggest that current competitiveness-oriented policy frameworks, often articulated at the national level, insufficiently account for the territorial embeddedness of productivity processes. Without a coherent place-based perspective that addresses institutional capacity, human capital formation and regional value capture, productivity growth may remain spatially concentrated, exacerbating social-spatial polarisation and limiting the resilience of lagging regions to economic shocks. The UK experience indicates that mission-oriented industrial policy and competitiveness strategies alone do not automatically translate into territorial cohesion.

These findings provide important lessons for CEE countries. Across the region, labour productivity dispersion, particularly between capital regions and peripheral territories, remains a primary driver of within-country inequality. Demographic decline, labour outmigration and dependence on externally controlled value chains further constrain endogenous development capacity. If CEE countries adopt post-Covid industrial strategies centred primarily on technological upgrading and sectoral competitiveness without integrating place-based institutional capacity, regional value capture and human capital formation, existing core–periphery dynamics may deepen. Boda et al. (2023) argue that higher production volumes and increased productivity do not always correlate with higher profitability (income-generating capacity), which can undermine national performance and hinder the convergence of middle-

income countries. This phenomenon is evident not only in the international division of labour among countries but also in regional contexts, particularly in core-periphery relationships. It also affects relatively developed, non-capital regions that specialize in highly productive activities but generate low domestic value added, thus persistently hindering regional economic dynamism. For middle-income CEE economies, the challenge is not only accelerating productivity growth but ensuring that productivity gains are territorially embedded and linked to local income-generating capacity. This requires aligning industrial upgrading with regionally differentiated institutional development and foundational service provision, rather than relying on capital-region-centred growth impulses.

The persistence of regional inequalities implies that the suggested spatial spillover effects do not work sufficiently, or they work in the wrong direction as backwash effects. Without a coherent territorial dimension, the new wave of European industrial policy may strengthen competitiveness at the national level while leaving structural regional inequalities largely intact, thereby resulting in increasing social tensions.

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