

# The evolution of regional policy in Switzerland: From a growth oriented to a challenge-led policy?

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## Abstract

Switzerland is the only central European country that is not a member of the EU. While the country engages in several bilateral treaties and programs, its regional policy neither follow the EU Cohesion Policy framework nor do they explicitly adopt concepts such as the smart specialization strategy. In this *In perspective* paper, we explore the evolution of Swiss regional policy within the broader context of shifting paradigms in regional development. While much attention has been given to regional policies within the European Union, there is a notable gap in scholarly analysis concerning Switzerland's unique approach, particularly in relation to contemporary societal challenges and regional policy debates. This paper seeks to fill that gap by providing a comprehensive examination of Switzerland's regional policy evolution, which has been developed independently of EU influence.

## Keywords

regional policy, sustainability transition, challenge-lead approaches, smart specialisation, Switzerland

## Introduction

When looking at the maps produced by various EU research institutions such as Eurostat, DG-Regio or ESPON, one notices that most of these cartographic illustrations have a grey or white spot in the middle of Europe. This blind spot is Switzerland, the only central European country that is not a member of the European Union. As a result, the maps tend to lead us to gloss over this country that is characterized by strong economic growth rates, dynamic innovation

trends, high rates of in-migration, and generally low levels of regional economic divergence ([Regiosuisse, 2024](#)). Yet, with its vast mountainous regions, Switzerland is a country that boasts various inequalities among cities and

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regions, and these are often subject to public debates such as the urban–rural divide, the language-divide (which in German is referred to as the *Rösti-Graben*), or the valley–mountain divide. Differences between the highly populated urbanized valleys and peripheral mountain regions that are characterized to various degrees by depopulation, an ageing society and outmigration have been subject to explicit development policies for a long time. Indeed, Switzerland has a national and international track record when it comes to specific policies for mountain regions (Rudaz and Debarbieux, 2014). Yet, starting in 2008 these policies changed significantly, and the explicit mountain focus gave way to a broader competitiveness-oriented policy approach that covers all types of rural regions.

Back then, Switzerland was on track with changes taking place in many Western industrialized countries. The so-called ‘new rural paradigm’, which was promoted by the OECD (Brown, 2010; OECD, 2006), was also adopted in Switzerland and regional policy changed from being oriented towards improving infrastructures in peripheral regions and trying to level differences between regions through such investments to an approach that started to encourage entrepreneurship and innovation, value creation and coordination of several sectoral policies (Frey, 2008). Yet, while regional policy paradigms changed in the countries surrounding Switzerland towards a more place-based approach with the EU Cohesion policies and the concept of smart specialization strategies, Switzerland mostly stayed with the competitiveness-oriented regional development paradigm. At the core of the policy are targeted sectors such as industry and tourism and the policy measures aim at promoting innovation (through the Regional Innovation System concept), value creation, and competitiveness in rural and mountain regions (Bundesrat, 2015). The theoretical foundation of the New Regional Policy (NRP) is the export base approach and thus

the policy is referred to as a regional growth policy.

However, recent research suggests that regional policies would need to embrace a place-sensitive approach (Iammarino et al., 2019) and that regional innovation systems need to be oriented towards grand societal challenges and transformation towards sustainability (Isaksen et al., 2022; Tödtling et al., 2022). Many regions in the EU are developing and implementing regional policies that aim at challenges and transformation. Therefore, in the case of Switzerland, various actors from subnational entities, development organisations, and academia have in recent years criticised the existing framework in Switzerland and argued for its revision. These discussions have been partially fruitful: Looking to the new legislature that began in 2024, the government has assessed the existing framework and has launched a participatory process to identify how to incorporate new debates on economic development.

In this *in perspective* paper, we explore the evolution of Swiss regional policy within the broader context of shifting paradigms in regional development. While much attention has been given to regional policies within the European Union, there is a notable gap in scholarly analysis concerning Switzerland’s unique approach, particularly in relation to contemporary societal challenges and regional policy debates. This paper seeks to fill that gap by providing a comprehensive examination of Switzerland’s regional policy evolution, which has been developed independently of EU influence.

By examining the Swiss experience, this paper aims to provide insights that could inform the development of regional policies in other countries, particularly within the EU. Switzerland’s experience shows how a decentralized approach can be both effective and equitable, making it a compelling case study for countries looking to design regional policies that are both locally tailored and nationally coherent.

## The development of the Swiss Regional Policy (NRP) in context of paradigm shifts in rural development policies

### *The beginnings*

From its inception, the goal of Swiss regional policy is to maintain decentralised settlement and reduce regional disparities. It is a policy that functions alongside other spatially effective policies (such as agriculture and spatial planning) and it complements the cantonal fiscal equalization scheme. Its roots lie in various federal laws of sectoral policies such as the 1893 Agriculture Act or the 1930 law to reduce migration from mountain areas (Rudaz and Debarbieux, 2014). This was followed in 1948 when the government introduced an adequate financial assistance programme for mountain farmers (Leimgruber, 2020). In the 1950s the financial equalization between poorer and richer cantons was established. In 1966, the Hotel Credit Act was enacted in response to the crisis in the hotel industry. And in 1970, the Federal Mountain Housing Improvement Act was introduced. During these years, however, there was no dedicated regional policy to reduce regional disparities. As Frey (2008) notes, it was believed at the time that disparities would even out by themselves. However, such a liberal market perspective did not pan out.

With the economic crisis of 1970s, the regional policy instruments underwent their first major change. A law on infrastructure investments in mountain areas (IHG) (1974) was introduced, which can be described as the first explicit regional policy in Switzerland and can be seen as the most important pillar of regional policy at that time (Thierstein, 2009). The IHG contributed to the financing of infrastructure projects, such as roads or sports facilities, to improve living conditions and stop migration. The IHG has no explicit theoretical basis, nor is there any implicit theoretical basis to be discerned, but it fits what in general is referred to

as the old rural policy paradigm. Nevertheless, regions had to define a development strategy to access the fund. In addition, the Federal Law on the Granting of Guarantees in Mountain Areas (BGB) (1976), which provided loan capital to small- and medium sized enterprises and the Federal Decree on the Promotion of Economically Endangered Areas (1978) (Bonny Beschluss), which supported single firms in their diversification in mono structured regions, were introduced (Thierstein, 2009). These laws shaped regional policy over the next 20 years and were mainly characterized by financial redistribution or subsidies.

With the introduction of Interreg, Leader and Urban by the EU in the 1990s new movement came into the discussions around regional policy in Switzerland. These programs emphasized the importance of targeting local economic opportunities rather than relying on redistribution, promoting an endogenous approach to rural development. They fostered collaboration between public administrations and the private sector, required strategic development plans, encouraged bottom-up processes, and supported decentralized financing (OECD, 2006). In this context, RegioPlus (similar to Leader), an impulse program to support structural change in rural areas and Innoutour, a programme to promote tourism, were developed and introduced by the Swiss government in 1997. RegioPlus covered the initial costs of innovative collaboration projects and was limited to 10 years. In addition, the Federal Decree on the Promotion of Economically Endangered Areas and the IHG were slightly adapted in terms of time limits and evaluation criteria (Thierstein, 2009). The Swiss parliament decided to be part of INTERREG, primarily to support border regions.

However, the IHG and other decrees did not reach their goals as they were supposed to. Being primarily an infrastructure-oriented programme, the IHG did not bring the economy in the rural regions forward and disparities did not decline (Frey, 2008; Leimgruber, 2020; Thierstein, 2009). Moreover, a paradigm shift

in regional policy happened all around Europe – also called the new rural paradigm (OECD, 2006). At the centre of the new generation of policies started to be the economic competitiveness of regions and the strengthening of the endogenous potentials. Also in Switzerland, policymakers began to discuss regional policies in the context of investments and not subsidies (Frey, 2008). Hence, between 2003 and 2007 the government developed a new regional policy for Switzerland. It was also necessary because the national financial equalization scheme was newly conceptualized and would in the future help regions finance their infrastructure projects and make IHG redundant.

### *The new regional policy*

The New Regional Policy (NRP) was adopted in 2008. The NRP is based on three strategic pillars:

1. Promoting innovation, value creation and competitiveness in the regions.
2. Creation of synergies between regional policy and sectoral policies.
3. Knowledge exchange between regions and qualification of regional management.

The first pillar is the most important part of the NRP. It enables the financing of projects in the regions and, in addition, it also supports intercantonal programmes such as the six Regional Innovation Systems (RIS)<sup>1</sup>.

The federal government sets the framework and general strategy of the NRP. The cantons, on the other hand, develop their own programs for the first pillar and are responsible for selecting the projects to be founded. Hence, the cantons are responsible for the implementation of the policy. The federal government and the cantons finance the project in equal parts. In the first period (2008–2015), more than 1800 NRP projects were financed with non-repayable grants (about CHF 250 million from the

federal government) and loans (about CHF 320 million from the federal government) (SECO, 2017).

The cantons' implementation programs form the basis for the cantons' funding decisions. The cantons draw their implementation programs based on the national NRP framework and the cantonal economic strategy. Spatially, the funding focuses on the mountain area, the wider rural area, and the border regions.

Back when the NRP was developed, the group of experts decided on an explicit theoretical framework that would underlie the program. The theoretical basis of the first pillar is the export base approach<sup>2</sup>. The export base approach is defined in the Federal Decree on Regional Policy and is thus legally binding for policy implementation. Thus, export-oriented sectors such as manufacturing industries, but also tourism are the main targets of the NRP. Export is defined as the transfer of goods or services from the region, canton, or Switzerland. Therefore, since 2008, the focus of the NRP has been on supporting projects for innovation and structural change in the export industry and tourism. However, the export-based approach was and is not without controversy. Already in the first 8-year period (2008–2015), the official evaluation of the policy showed that a quarter of the cantons did not consider this approach suitable for the NRP (Sager and Huegeli, 2013). Also, the 2016–2023 evaluation report (Zürcher et al., 2022) states that the export base approach is viewed critically by the cantons.

In addition to the advantages of a clear objective, the approach was criticized for its unclear definition, difficulties in implementation, and restrictiveness. Yet, according to the evaluation report by Sager and Huegeli (2013) most experts supported the approach. They argued that it helps to differentiate the NRP from other spatially effective policies. However, they stated that a broader definition of the export sector would be desirable in certain cases and that it might be beneficial to

include exports of products or services from one part of the region to another (e.g. rural to urban).

However, over the years, theoretical discussions about regional economic development have evolved and the NRP has broadened its focus. In addition to its original focus on the export base approach, the NRP now includes other influential concepts, including regional innovation systems and polarisation theory. This expansion is a response to the multiple challenges facing regions today. Additionally, the 2016 framework highlighted sustainable development as a key priority, mandating sustainability assessments for Cantons' implementation programmes.

### *NRP 2024+ and its relation to recent theoretical debates in the EU and the literature*

The pressure for more sustainability and considerations regarding the direction in which growth should go has not only come from practice but has also been discussed in the international regional studies scholarly community in recent years. Scholars argue that policy makers should take a broader view of regional development and competitiveness and think strategically about to whom and what investments and grants should be allocated (e.g. Crisp et al., 2023; Mazzucato et al., 2020). As Coenen et al. (2015) urged, regional development projects should focus not only on technological innovation but rather on transformative systemic change. As a result, topics such as social innovation, housing, actor-centred approaches, and theories of transition to sustainability have gained prominence in classical economic policy in Europe (Fastenrath et al., 2023). These challenge-oriented approaches support the idea of pursuing goals that go beyond GDP, though they vary in how much they believe economic growth is necessary or limiting in achieving the desired social, ecological, and economic

outcomes (Crisp et al., 2023). However, they mostly share the view that societal challenges, being complex and multi-layered, require systemic changes beyond purely technological solutions (Fastenrath et al., 2023). The EU smart spec approach has started to overwhelmingly embrace this view, promoting social innovation and projects that support the 'economic transformation needed to tackle the major and most urgent challenges for the society and the natural and built environment' (European Commission, 2023, Defining priorities in S3).

In Switzerland, the Federal Council issued its newest national regional policy programme, which provides the basis for the programme period 2024–2027. In the preceding years, the government initiated a participatory strategy development process to enhance the policy's responsiveness to the needs of remote regions and address criticisms regarding the dominance of the export base approach and insufficient sustainability considerations.

The participatory process, which included various workshops with numerous different actors and expert reports, has resulted in several key outcomes: while the existing funding priorities of 'Industry and Innovation' and 'Tourism' remain unchanged, new measures have been introduced to enhance the current framework. These include the eligibility of small infrastructure projects for subsidies under specific conditions, as well as support for non-export-oriented initiatives that strengthen the local economy (residential economy), complementing the export base approach. Furthermore, sustainable development plays a more prominent role, with the national government implementing a concrete strategy to emphasize sustainability criteria. Beginning in 2024, sustainable development became one of the cross-cutting themes alongside digitalization and the local economy in implementation programs. This concept encompasses nine sustainability goals, including sustainable consumption and production, climate, energy, biodiversity, and equal opportunities. Within

each priority theme, cantons will select one sustainability goal and align it with their industry, innovation, and tourism priorities, specifying in their implementation programs the projects and measures aimed at achieving these goals. The RIS will also be guided by these sustainability goals in defining their measures (RIS-Netzwerk, 2022; SECO, 2022).

Furthermore, insights from the evaluation of the NRP (Zürcher et al., 2022) and a report by the OECD (2022) have prompted a reconsideration of innovation in rural areas. It is suggested that innovation should be conceived more broadly, oriented toward specific challenges. As stated in the RIS Report 2024+ (RIS-Netzwerk, 2022), the RIS could also focus on social innovation and address specific needs of women, older individuals, and migrants, provided they meet the NRP's requirements. In sum, the national framework now provides clearer guidelines and greater flexibility to address regional challenges, motivating cantons to re-evaluate and strategize their economic development perspectives. However, so far we do not know, how the new policy framework will be implemented at cantonal level.

## Conclusion

In recent years, the concepts shaping regional policy have undergone a significant shift, with a growing emphasis on addressing social and environmental challenges alongside economic objectives. Research and EU regional policy debates have increasingly focused on these dimensions, moving away from traditional economic development theories like the export base approach. These new strategies are more place-based, requiring a nuanced understanding of regional challenges within a global context and recognizing development in terms beyond economics to include social and environmental considerations.

Based on the new paradigms of regional policy in Europe, the NRP in Switzerland has also been further developed for the new 2024+

legislative period. However, as many companies are only beginning to integrate the idea of sustainability, there could be a lack of eligible projects for a challenge-oriented approach, leading the cantons to potentially accept a wide range of projects. This could lead to a lack of strategic thinking about the region's specific challenges and opportunities for sustainable economic development. Moreover, given the relatively small scope of the NRP as a sectoral policy, expecting it to drive transformative systemic change might be unrealistic. When considering the NRP, it is crucial to contextualize it within the broader framework of national sectoral policies. The national financial equalization system<sup>3</sup> allocates substantially more funds among the cantons than the NRP, and policies like Innosuisse, which support innovation projects in firms, boast significantly higher budgets and, consequently, greater transformative potential. A broader perspective is required to explore how various national funding mechanisms can collectively contribute to such change and can think across sectors.

Another reason for a possible limited adoption of challenge-led approaches may be Switzerland's economic and political stability. Swiss regions have effectively weathered crises like COVID-19 and currency fluctuations, aided by governmental support. As a result, the urgency and political will to enhance regional economic resilience may not be as strong. This stability might also explain why the 'smart specialization' approach has not gained traction, given Switzerland's robust institutional frameworks.

Historically, Swiss economic development policies have mirrored economic circumstances. During the economic downturns of the 1970s, the focus was on job creation, while the prosperous 1980s saw the introduction of non-economic development goals, such as environmental protection (Frey, 2008). Today, economic and environmental discussions are increasingly intertwined, driven by rising energy costs and growing awareness of sustainability. Although the pressure for significant



advancements in clean technology and circular economy activities remains limited, it is gradually increasing (Stuck et al., 2023).

In conclusion, while Switzerland's regional policy landscape continues to evolve, balancing traditional economic strategies with emerging social and environmental priorities will be crucial for fostering sustainable development in the years to come. Switzerland's approach is particularly intriguing as it offers a model for how a small, decentralized country outside the EU can successfully design and implement regional policy. The Swiss model is deeply rooted in a federal structure that grants substantial autonomy to its cantons while ensuring overall national cohesion. This balance between regional autonomy and national unity provides valuable lessons for policymakers in other countries, especially those grappling with the challenge of addressing regional disparities in a way that respects local governance and promotes efficient public service delivery.

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### Notes

1. These Regional Innovation Systems (RIS) play a crucial role in enhancing the competitiveness and innovation potential of small and medium-sized enterprises (SMEs). They achieve this by providing integrated support and services that encompass information dissemination, advisory services, networking opportunities, infrastructure access, and financial assistance. Moreover, RIS also consolidate existing support mechanisms and, when necessary, connect SMEs with relevant funding organizations.
2. The export base theory was developed in the 1950s and considers the base export sector as the economic foundation of a region (see e.g. Hoyt (1954)). The local sector (non-basic sector) is the remaining part of the regional economy and is intertwined with the export sector. When income in the export sectors increases (e.g. due to demand from outside the region), a multiplier effect occurs in the local sector and demand for products and services from the local sector increases.
3. National financial equalization aims to reduce financial disparities between cantons and enhance the efficiency of state services. Economically stronger cantons and the federal government support weaker cantons. The system, introduced in 2008 and updated in 2020, includes resource and burden equalization, with the federal government covering about two-thirds and the cantons one-third of the payments (EFD, 2024).

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