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Local and Regional Development Thinking and Its Evolution in Finland



1 Introduction¹

Local and regional development is a highly uneven process, producing diverse economic, social and environmental outcomes as localities and regions wrestle with processes of growth, decline and adaptation. (Pike et al., 2019, 3)

Regional development is a broad term embracing diverse contents, actors, strategies and policy processes. In general, it addresses matters related to differences in the economic, social and ecological development trajectories of regions aspiring to identify ways to reduce regional disparities through various policies and specific interventions. It also addresses activities that create new resources and capabilities locally, looking for them elsewhere and thus preparing local and regional actors to work for their own futures by nurturing fruitful local and regional conditions. Fundamentally, regional development creates conditions for something new to emerge or be constructed; it is a collective effort to penetrate the unknown (Hyyryläinen, 1992). Of course, the main concern is always to know in advance whether the contemporary notion of “development” represents progress or regression in the long run. Another key requirement is finding ways to collaborate across many institutional and organisational divides.

In the past, regional development policies focused mainly on large-scale infrastructure development, attracting investments and the provision of subsidies to private enterprises. In the long term, such policies have produced mixed results, to some extent failing in their promise to reduce regional disparities and, in spite of several designated policy schemes and significant public funding, being unable to help lagging regions catch up as fully as hoped. Consequently, the past 30 years have seen a surge of new theories and policies that provide policy makers with food for thought. In contrast to the earlier thinking, which emphasised exogenous models and top-down approaches, the focus has shifted to endogenous models that emphasise regions’ capacities to develop themselves.²

On the research side, regional development studies focus on such overall questions as why some regions and cities grow while others decline, how and why regions and cities grow or decline, why differences in levels of economic development and wellbeing are so persistent, how actors and public organisations aim to promote development in diverse regions and what development signifies in various times and places and to multiple actors. Over the past 60 years, these and many other questions have attracted the attention of a diverse group of scholars representing several disciplines. The growing interest not only from geographers and the regional studies community but also from several other disciplines indicates that geography and location are important attributes in economic and societal

¹ Cover Photo by Jen Theodore on Unsplash, modified by Markku Sotarauta

² Endogenous models emphasise factors having a local or regional cause or origin, resources and capabilities within local and regional economies. Exogenous models emphasise factors that are external to a region.

development – place indeed matters. City and regional development studies aim to shed light on growing city regions and peripheral regions as well as on overall regional development patterns.

This chapter first discusses the concepts of region, place and development. Next, it briefly outlines a key divisive issue in policy making by introducing the basic ideas of place-based policy and spatially blind policy. Finally, it shows how local and regional development thinking has changed and is changing in Finland. The aim is to paint a general picture of what local and regional development is about.

2 Region, place and development

2.1 The elusive nature of region and place

For over 100 years, region and territory have been the core concepts in geographical thinking. The concept of place has been added to the geographical vocabulary more recently (Paasi et al., 2018). Despite the amount of scholarly effort expended on defining and working on them, concepts such as place, space, region and territory are elusive by their very nature. They overlap in many ways, each having its own history and meaning (Entrikin, 2018, 44–45). For clarity, this chapter focuses only on the concepts of region and place.

It is important to remember that *region* is a scalable concept and finds a precise meaning in use (Paasi et al., 2018). In regional development studies, a region is normally assigned to a subnational scale, but it may also be applied to a supranational scale (the Baltic Sea region, the Middle East region). Importantly, a region has no determinate size, but, conceptually, it ought to be homogeneous in terms of specific criteria, the most commonly used being functional, administrative, cultural and/or social criteria. A distinct combination of related features distinguishes a region from its neighbours. Borders may be open or closed depending on the social practices and discourses that construct and shape them (Paasi & Zimmerbauer, 2016). Region is an analytical concept and focusing device, and it must be specified and defined for each study.

Place involves a sense of presence and belonging in an environment (Entrikin, 2018, 48) and has three dimensions: (a) location – the fixed geographical coordinates of a physical location, (b) locale – the material settings for social relations and (c) the sense of place – the subjective emotional attachment people have to the places they inhabit (Collinge et al., 2011; Cresswell, 2004). Place also emphasises human experience and subjective views on development. Agnew (2011, 3–4) says that place is “the geographical context for the mediation of physical, social and economic processes” (Agnew, 2011, 3–4).

In sum, the concepts of both place and region are scalable, overlap in many ways and are more nested than parallel, place adding a human touch in studies focusing on sub-national phenomena. In spite of their elusiveness, they focus our attention on cities and regions as

well as other spatial entities. Of course, in any piece of research or policy making, they are complemented by a more precise conceptual toolkit.

2.2 The value-based nature of development

Whether in practicing or discussing regional development, it is crucial to determine what one means by *development*, yet it is far from easy to precisely define the term as the concepts of (and issues related to) city and regional development are much more complex than is usually appreciated (Pike et al., 2019). Matters related to development are often approached superficially, on a general level and assuming unanimity, but it is of utmost importance to bear in mind that development is a value-based conception; what one person sees as development may be a step backwards to another. What constitutes local and regional development varies both between and within countries, and the aspirations for and articulations of local and regional development are dynamic in any country. As Pike and colleagues (2019, 21) say, “aspirations for regional development are subject to change over time and space. Precedents, existing practices and norms are subject to incremental and, sometimes, radical changes – for example in response to the dramatically changing context”.

When discussing and assessing regional development, one must be aware of forward movement towards a desired destination (while being aware that there is no final destination) that fosters improved or more advanced regional conditions. Therefore, it is important to be able to identify the direction of changes and, hence, be able to discuss whether the perceived changes or desired future are “good” or “bad” and to whom, which again calls for proper metrics and other assessments to continually discern where a region or an entire spatial system is going. In this way, the concept of development differs from that of change, which simply observes how something differs from time period T^1 to period T^0 . The identification of collective values, intentions, interests and purposes should be a significant part of local and regional development discourses and practices.

More often than not, local and regional development is approached as *economic* development and seen as a set of activities targeted at advancing the economic development of the region in question. Therefore, economic growth, employment, household incomes and wealth creation have assumed central positions in the setting of objectives and identification of variables to measure regional development (Beer & Clower, 2019). Commonly, regional development measures and metrics align with those used nationally and transnationally.

As Beer and Clower (2019) argue, the economic development of cities and regions is crucial for four major reasons:

- Economic development empowers regions and cities to shape the future; it provides greater choice with respect to pathways for future development.
- The processes of economic globalisation have made regions and cities more, not less, important. Scholars have talked about “glocalization” (Swyngedow 1992), which describes

the simultaneous growth in importance of global networks and individual regions; both are central to the prospects for economic development.

- Economic development has become more complex than previously, and, thus, the importance of understanding local and regional institutional and social contexts has become ever greater.
- Cities and regions not developing well economically are likely to experience external shocks more severely than their economically well-performing neighbours.

(Beer & Clower, 2019, 2)

Recently, criticism has intensified against an overemphasis on economic growth, and the desire has been expressed to foreground matters related to health, wellbeing and quality of life. Importantly, the rapidly expanding concern about climate change and many other sustainability concerns is pushing both regional development scholars and practitioners to re-evaluate definitions and aspirations. For these reasons, both policy makers and scholars working on economic development have begun integrating growth and ecological concerns in the concept of “green growth” as a core organising category. Green growth refers to economic growth that uses natural resources in a sustainable manner and thus provides an alternative to typical industrial economic growth (UNEP, 2011; Sotarauta et al., 2020).

2.3 Place-based and spatially blind policy

This chapter assumes the principle that both cities and regions need designed development efforts. When reaching beyond such disciplines as geography and regional studies, however, there is no universal consensus on the importance of formulating and implementing local and regional development policies. Strong voices argue that regional development policies are not needed at all, claiming that market forces ensure the wise use of resources. For those voices, regional policies promote regional development at the cost of aggregate national growth and should thus be discouraged. The critics advocate spatially blind approaches, arguing that economic mechanisms are generalisable and that, thus, there is no need to formulate policies with explicit considerations of the specific needs of cities and regions (e.g., World Bank, 2018). This briefly outlined tension is crystallised in a distinction between place-based policies and spatially blind policies (Table 1). According to Beer and colleagues:

The debate between spatially blind and place-based policies is one of the “big questions” in contemporary social science and economic policy formation, challenging our understanding of the relationship between regions and national economies. (Beer et al., 2020)

It is undeniable that many regional development policies have a poor track record of success. For example, resources may be invested in infrastructure for which there is either uncertain or limited demand (Daley & Lancy, 2011). Moreover, it is undeniable that, sometimes and in some places, local and regional development measures have led to twisted outcomes, for example, in cases in which firms have acted unethically by seeking a location offering the best financial subsidies (Malecki, 1999). There is plenty of evidence of firms moving from region to region, country to country, in pursuit of financial incentives (Beer et al., 2003).

Regional development policies may indeed produce undesired outcomes, and their core assumptions and main programmes and measures may prove inadequate or wrong over time. Still, much evidence shows that city and regional development is crucial for national development and provides examples of cities and regions where regional development efforts have produced good results. In 2009, the Organisation for Economic Cooperation and Development (OECD) concluded on the basis of extensive empirical studies that the persistent disparities between growing regions and less developed ones do not result from lack of regional policies or misuse of them, *per se*, but from the poorly exploited development potential of many regions (OECD, 2009). Consequently, the OECD also recognised the need to rethink policy content and processes and became a leading advocate of place-based policies instead of spatially blind ones.

As Rodríguez-Pose (2018) argues, spatially blind policies have left too many places behind, which has resulted in economic and political uncertainty at all spatial scales. In place-based policy thinking, geography is taken seriously as is the need to follow an integrated approach instead of sector-based and heavily siloed forms of policy making. Bailey et al. (2018, 1537) call for “an integrative approach, with a mix of appropriate inclusive policies across a range of policy domains, reflecting the desired and aimed-for competitive advantage of regions”. Thus, place-based policy approaches differ from blind perspectives on how to develop economies and improve human wellbeing. Advocates of place-based policy argue that a spatially decentralised approach allows for customisation in regional policies and that policy should seek to encourage diversity and experimentation across regions (Beer et al., 2020).

Based on their review, Beer and colleagues argue for place-based policies as follows:

Place-based policies embody an ethos about, and an approach to, the development of economies and society that acknowledges that the context of each and every city, region, and rural district offers opportunities for enhancing wellbeing. It advocates for a development approach that is tailored to the needs of each. (Beer et al., 2020, 5)

Table 1. A comparison of place-based and spatially blind policies (based on Barca et al., 2012; Pike et al., 2019; Beer et al., 2020).

	Place-based	Spatially blind
<i>Core</i>	Context sensitive	Neutral
<i>Design</i>	Explicit consideration of place	No consideration of place
<i>Focus</i>	Place	People or firms
<i>Emphasis</i>	Context, history and path development	Generalisable economic mechanisms across regions and places
<i>Spatial focus</i>	Cities and regions	Nation
<i>Economic policy resources</i>	Concentrated on identifying context-specific development needs and customised strategies	Concentrated to drive technology and innovation regardless of place
<i>Benefits</i>	Dispersed across space	Large cities with plenty of actors
<i>Examples</i>	An innovation policy scheme targeted at improving learning and innovation capacity in a region-specific way	An innovation policy scheme targeted at the best applicants regardless of where they are from. A welfare policy scheme targeted at all the people in a specific category.

Even though place-based and spatially blind approaches are often presented as direct opposites (as in some ways they are), that does not imply an either/or selection. Both approaches are needed; in some policy matters, people-targeted and spatially blind initiatives may produce the best results while other matters may call for a place-based approach. The challenge is properly balancing the two. In many countries, place-based policies are generally fairly underdeveloped compared to sectoral policies, with economics-based and non-context specific analysis and related policy schemes being dominant. Consequently, the economic potential of many cities and regions remains underdeveloped and underutilised.

What is required is not pitting public policy against market forces but identifying and constructing ways to promote market-based entrepreneurial activity while simultaneously making an effort to balance the outcome so that economic development benefits the many instead of the few.

3 Regional development policy in Finland

3.1 The point of departure for regional development policy

Finland is a country with a sparse population (18.2 persons per km²) and long distances. Distinct south/north and east/west dichotomies have existed in Finland for centuries (Nenonen, 2018), with southern and western Finland, in general, developing more favourably than the eastern and northern parts of the country. For these reasons, the Finnish regional policy has traditionally been more oriented to the periphery than regional policy in Europe

in general (the same goes for the other Nordic countries) (Mønnesland, 1994). What has also greatly affected Finnish regional policy thinking is the “Great Migration” of the 1960s and 1970s, when people moved in great numbers from rural areas to cities and from north to south (Tervo, 2005). For several decades, regional policy focused on the peripheral regions, not only because of their structural problems but also to reduce the economic handicaps created by long distances to markets and an inadequate supply of skilled labour.

Since the late 1980s, the Finnish regional development system has increasingly treated regions and localities as the authors of their own development, municipalities being responsible for regional development efforts with the State of Finland under the Regional Development Act (Vartiainen, 1998; Moisiö, 2012). Moreover, if the earlier thinking essentially centred on removing weaknesses, the relative emphasis shifted in the 1990s towards identifying and enhancing strengths.

In Finland, due to strong local governments, places have not only a voice but also money, which is a strikingly different situation than in countries where a centralised governance system and top-down policies rule out a voice for localities and regions. In these cases, “communities are effectively denied the capacity to determine their own future” (Beer, 2014, 256). Finnish local governments enjoy constitutionally guaranteed autonomy and fiscal powers, and city councils especially as well as smaller municipalities have invested both human and financial resources in the promotion of local economic development. Over the past decades, municipalities have formulated, in varying capacities, strategies both independently and in collaboration with other municipalities and the central government that also involve higher education and business representatives.

Regional development thinking and related policies are not fixed but evolve with new ideas in European circulation, with novel policies and practices occasionally being sought and experimented with. The next section briefly introduces the evolution of regional policy thinking in Finland.

3.2 From industrialising regional policy (1966–1975) to regional policy planning (1975–1988)

Regional policy was first introduced in Finnish legislation in 1966 with the ambition of narrowing the income gap between the core regions and less economically developed ones. As Finland industrialised rapidly at that time, the main emphasis was on promoting industrialisation in less-favoured regions, the chief means being tax breaks and interest rate subsidies as well as infrastructure development that enabled industries to locate in and operate from peripheral regions. In practice, regional policy sought to distribute economic growth.

In 1975, regional policy was linked with the national planning and policy system, becoming an essential element of government efforts to promote economic and social development in the country. The role of the central government was strengthened, and both

policy objectives and means were designed primarily in Helsinki. Regional policy objectives were rooted in the assumption that market forces alone do not produce balanced regional development; some regions would inevitably be left behind, and the most advanced economic functions would be concentrated in a few cities. It was believed that all Finland needed to industrialise and that doing so would advance economic growth nationally (Vartiainen, 1998).

From the late 1970s towards the end of the 1980s, it was realised that industrialisation alone was not enough, and more emphasis was placed on promoting the versatility of local/regional sources of livelihood. The regional policy objectives merged with the national industrial (later innovation) policy, and the rationale for regional policy was to create a welfare state and enhance Finnish industries. Instead of providing interest rate subsidies, the government began directly subsidising companies' investments and training programmes, and the overall emphasis was kept on promoting business activities and building and improving infrastructure. In place of earlier fairly standardised, one-size-fits-all thinking, more emphasis than before was placed on the unique nature of specific regions.

At this time, a comprehensive regional planning system for distributing welfare was created with an emphasis on providing people all over Finland with the same services and opportunities (Vartiainen, 1998). This included the expansion of higher education to various parts of Finland, a process that had already begun in the late 1950s. The merging of place-based objectives with such sectoral policies as welfare and higher education meant that there was a concerted effort to integrate place-based objectives into sectoral policies. This was labelled "grand regional policy" in contrast to "narrow regional policy"; the latter refers to explicit regional policy programmes and initiatives while the former embraces the regional dimension of all public policies. Grand regional policy stresses the distribution of public services, higher education institutions and state research centres.

An important reform of the era was the construction of a regional planning system. A new regional policy act was passed in the Parliament, the State of Finland was obliged to promote spatially balanced regional development and the ministries and state regional offices began to formulate their own regional development plans. Earlier regional policy measures were targeted only at designated development areas, but now the entire country and its various regions became involved. As said, importantly, if regions were earlier seen as objects of top-down regional policy, the new thinking evolved to seeing regions as subjects of their own destiny, and both vertical and horizontal partnerships were emphasised (Sotarauta, 1997; Mäkinen, 1999). Consequently, the visions and views of regional actors were better considered than before, and collaboration between government sectors was highlighted. All this was believed to be achievable through multi-level and multi-actor planning systems. This era placed faith in planning and system building, and, in practice, the planning system became more dominant than regional ambitions.

It was believed in this era that regional development, if left to market forces alone, would become unbalanced, but, along with this conviction, it was thought that balanced regional development should be assessed in relation to the overall development of the country. Such thinking emphasised a grand regional policy that highlighted the importance of scrutinising all public sector investments and activities in regions and not focusing solely on regional policy means and ends.

3.3 Programme-based regional development (1988–)

In the 1990s, several reforms were carried out to adapt the Finnish system to the principles of European Union (EU) regional policy. The country began to adopt the principles and practices of programme-based regional development, which had already been launched in the late 1980s but were essentially mandated by Finland's accession to the EU in 1995. The basic idea of programmatic policy is that projects are compiled into multi-annual programmes that provide a systematic connection between them and the organisations behind them. By concentrating funding, the ambition was also to increase the impact of public funding (Mäkinen, 1999). Also in the 1990s, knowledge-based businesses, innovation and technology were spotlighted both nationally and in cities and regions, and the self-reliance of regions and their endogenous development potential were much more believed in than in earlier eras. Another step forward was taken in making regions subjects of their own development instead of objects of top-down regional policy measures (cf. Vartiainen, 1998).

Programme-based regional development was seen a solution to one of the more persistent concerns in the search for effective regional development strategies and measures: the poor coordination of objectives, strategies and practical measures at the national, regional and local levels as well as between them. Additionally, the competition of municipalities for centrally allocated national resources was characteristic of development activities. The Regional Development Act, enacted in 1993, sought to address the coordination problems by shifting responsibility from the central government to the regions and emphasising the programmatic coordination of measures and numerous projects. Traditionally, the strong position of individual ministries in the Finnish governance system has overemphasised sectoral objectives and strategies, promoting spatially blind policies and thus overshadowing regional views.

The Centre of Expertise (CoE) programme, initiated in 1994 and closed in 2013, is a prime example of a regional policy initiative that attempted to shift the thinking away from weaknesses and towards the identification of regional strengths. It was also the first regional development programme that focused explicitly on innovation and, thus, city regions. The CoE transformed regional policy thinking and added a new element to its vocabulary and practices. Prior to the 1990s, the core ambition was to support designated weak regions to narrow the gap between the best and worst performing regions. Importantly, the CoE

focused on identifying strengths and enhancing them while the focus earlier had been on eliminating weaknesses if possible: “The idea was to promote the already strong regions and fields of expertise and thus strengthen the knowledge-based economy” (Häyrynen-Alesto et al., 2006, 10). The CoE was a prime example of a place-sensitive policy in which place-based local strategies met place-sensitive national coordination.

3.4 Regional development priorities 2020–2023 and the constant search for organisational models for collaboration

At the upper levels of regional policy, the Act on Regional Development frames the main outlines and objectives. Each government approves the national regional development priorities for its tenure, which is termed a regional development decision. In principle, the sectoral ministries are supposed to be committed to steering regional development in their own field as dictated in the regional development decision (Ministry of Economic Affairs and Employment Regions, 2020). The government’s regional development decision for 2020–2023 emphasises following thematic areas and related objectives:

- Mitigating climate change and safeguarding biodiversity
- Building sustainable communities with good connections
- Innovating business life and accelerating research, development and innovation
- Making skills and education resources for regional development
- Increasing inclusion and wellbeing and preventing inequality
- Creating an operating model for regional development

(Ministry of Economic Affairs and Employment Regions, 2020)

The main objectives well reflect the contemporary demand for novel approaches that integrate economic and social concerns. In practice, because the regional development decision operates at a fairly general level, it is open to many interpretations, and projects and actions are sought in a complex interplay of spatially blind and place-based approaches. Many ministries, by their very nature, rely on spatial blindness while the regional development decision and related policy initiatives attempt to introduce a place-based view. In practical terms, the regional view in sectoral policies has been weakening for many reasons.

In addition to the national regional development legislation and strategies, local governments have played and still play a central role in development efforts, being able to use their own resources to promote local economic development. City councils especially have invested significant financial and human resources in the promotion of economic development in their localities. In 18 regions, regional councils (statutory joint municipal authorities) are responsible for coordinating regional development in their regions. The management of development funds is shared between several public organisations (Haveri 2015, 138). Indeed, since the 1990s, Finland has been moving towards and relying on a system of multiple overlapping negotiations between diverse actors at various levels. Especially at the local level, development activity has taken many forms, including municipal

companies, intermunicipal federations, joint development agencies with other municipalities, policy networks and the like. Whatever organisational forms local economic development efforts take, there is a tendency to seek effective collaboration between municipalities, the central government, regional authorities and municipalities as well as universities and private enterprise.

Because finding and collaborating on local and/or regional development targets is never easy, the concerned parties constantly seek and experiment with new organisational forms. Regional development programmes are still formulated in Finland, but their relative significance as integrators of development projects and various actors has gradually diminished. Recent efforts revolve around agreements between the government and some cities on land use, housing and mobility as well as innovation ecosystems, the main ambition being to enable closer collaboration between the cities and the State of Finland to boost the selected priorities as defined in the agreement procedure.

4 Conclusion

This chapter introduced the basic tenets of local and regional development thinking and its manifestations in Finland. Much has not been mentioned; most notably, the specific role of the EU and its policies has remained in the shadows as have the local development policies of the municipalities and their sub-regional coalitions. Moreover, the vibrant, continually evolving research agenda on economic clusters, regional innovation (eco)systems, path development, place-based leadership and many other central targets of academic attention have not even been mentioned.

The big story is that, by the mid-1970s, regional policies were commonly justified by three interlinked goals: (a) the search for greater social justice, (b) the strengthening or maintenance of political cohesion and (c) the more efficient use of underutilised national resources (Pinder, 2018). Since the 1990s, greater emphasis has been placed on the insufficient local or regional competitiveness of individual cities and regions than on regional disparities in income. The focus has been on tapping into underutilised regional potential rather than compensating for the weaknesses of lagging regions. Therefore, regional development strategies have aimed to integrate development projects and rely more on bottom-up approaches to achieve a better impact in compensation for the weakness of sectoral, siloed and spatially blind policy approaches. In contrast to the instruments of the old paradigm, which relied mainly on infrastructure investments, subsidies and state aid to individual firms, the instruments of the new paradigm combine measures to boost both soft and hard capital, research, innovation and human capital as well as roads, telecommunication infrastructure and so on. In the place-based paradigm, regions are seen as subject to their own development, but the mix of spatially blind and place-based policies continues to dominate the scene. Even though regional policy thinking is fairly place based, most public policies are not.

The prevailing paradigm is highly demanding for regions and cities, calling for enhanced development capabilities and a well-established capacity to lead complex multi-actor, multi-value and multi-vision processes (see Sotarauta & Beer, 2021).

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