Regional Economic Convergence: evidence and policies

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OECD-wide Trends of Regional productivity catching-up

The productivity gap between frontier and lagging regions has increased

Averages of top 10% (frontier), bottom 75%, and bottom 10% (lagging) regional GDP per worker, TL2 regions

Notes: Average of top 10% and bottom 10% TL2 regions, selected for each year. Top and bottom regions are the aggregation of regions with the highest and lowest GDP per worker and representing 10% of national employment. 19 countries with data included.
A majority of regions have a flat or declining labour productivity catching-up

<table>
<thead>
<tr>
<th>Type of regions</th>
<th>Employment share in 2000</th>
<th>GDP share in 2000</th>
<th>Annual avg. GDP growth, 2000-13</th>
<th>GDP growth contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frontier</td>
<td>16.1%</td>
<td>20.1%</td>
<td>1.7%</td>
<td>21.9%</td>
</tr>
<tr>
<td>Catching up</td>
<td>20.3%</td>
<td>18.2%</td>
<td>2.2%</td>
<td>25.3%</td>
</tr>
<tr>
<td>Keeping pace</td>
<td>38.9%</td>
<td>39.1%</td>
<td>1.3%</td>
<td>30.4%</td>
</tr>
<tr>
<td>Diverging</td>
<td>24.6%</td>
<td>22.6%</td>
<td>1.6%</td>
<td>22.4%</td>
</tr>
<tr>
<td>OECD average</td>
<td></td>
<td></td>
<td>1.6%</td>
<td></td>
</tr>
</tbody>
</table>

Note: Frontier regions are fixed for the 2000-13 period. In four countries the values for 2000 or 2013 were extrapolated from growth rates over a shorter time period as data for 2000 or 2013 were not available. The countries are FIN (2000-12), HUN (2000-12), NLD (2001-13) and KOR (2004-13).

62% of OECD GDP is generated in regions were productivity is Keeping pace or Diverging. They contributed to 53% of GDP growth

Good or bad productivity performance can be found all types of regions

TL2 regions, 2000-2013

# regions in ()

In which: 70% of mostly urban frontier regions contain very large cities

In which: 75% of diverging mostly urban regions contain very large cities
Region’s contributions to national growth vs. labour productivity growth: **Spain**

Notes: The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region. Percentage contribution shows the share of total GDP growth that was due to growth in the indicated region. Total contribution sums to 100%.

Region’s contributions to national growth vs. labour productivity growth: **Portugal**

Notes: The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region. Percentage contribution shows the share of total GDP growth that was due to growth in the indicated region. Total contribution sums to 100%.
Region’s contributions to national growth vs. labour productivity growth: **Italy**

**Notes:** Percentage contribution shows the share of total GDP growth that was due to growth in the indicated region. Total contribution sums to 100%.

Region’s contributions to national growth vs. labour productivity growth: **Greece**

**Notes:** Percentage contribution shows the share of total GDP growth that was due to growth in the indicated region. Total contribution sums to 100%.
What are the main drivers of regional productivity catching-up?
Rural remote regions present a higher variation in productivity growth rates than other types of regions.

<table>
<thead>
<tr>
<th>Region</th>
<th>Annual average labour productivity growth, 2000-12</th>
<th>Standard deviation</th>
<th>Coefficient of variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predominantly urban</td>
<td>1.01%</td>
<td>1.02%</td>
<td>1.019</td>
</tr>
<tr>
<td>Intermediate</td>
<td>1.07%</td>
<td>1.09%</td>
<td>1.024</td>
</tr>
<tr>
<td>Predominantly rural close to cities</td>
<td>1.36%</td>
<td>1.32%</td>
<td>0.972</td>
</tr>
<tr>
<td>Predominantly rural remote</td>
<td>0.70%</td>
<td>1.15%</td>
<td>1.641</td>
</tr>
</tbody>
</table>

Note: Labour productivity is defined as real GDP per employee. GDP is measured at PPP constant 2010 US Dollars, using SNA2008 classification; employment is measured at place of work. The coefficient of variation represents the ratio of the standard deviation over the mean.

Source: OECD Regional Outlook 2016

There is growth gradient depending on the proximity to large cities.

Source: Ahrend et al, 2014
Mainly in rural remote regions productivity is diverging.

Productivity levels of Predominantly Urban regions = 100

(2) Regional catching-up is characterised by a stronger intensity of the tradable sectors

Notes: Tradable sectors are defined by a selection of the 10 industries defined in the SNA 2008. They include: agriculture (A), industry (BCDE), information and communication (J), financial and insurance activities (K), and other services (R to U). Non tradable sectors are composed of construction, distributive trade, repairs, transport, accommodation, food services activities (GHI), real estate activities (L), business services (MN), and public administration (OPQ).
The contribution of tradables is mainly within sectors

Structural change also creates productivity growth, but the adjustment is painful

Productivity and employment growth in the Norte region (Portugal), 2000-13

Bubble size indicates percentage contribution to total GVA

-177 000 jobs

+20 000 jobs
In tradable sectors competitiveness of labour costs is key.

Growth in per capita exports and unit labour costs in Portuguese regions relative to the country average, 2000-10.

Role of policies & Governance
OECD regional development policy paradigm

The OECD regional policy paradigm is basically made of good structural economic policy with two main differences:

- It allows for spatial differentiation
- Calls for a specific investment in Governance to coordinate policies across levels of government, sectors and administrative boundaries

Accordingly, the OECD ‘place-based’ approach is based on:

- Identification of regional specific assets (or create absolute advantages to stimulate competition & experimentation across regions; smart specialisation)
- Complementarities among sector policies at the regional (or local) level
- Multi-level governance mechanisms for aligning objectives & implementation

(1) Fragmented governance lowers productivity of Functional Urban Areas
Rural-urban linkages require governance mechanisms

**Explicit rurban partnerships**
- Rennes (France)
- Geelong (Australia)
- Nuremberg (Germany)
- Central Zone of West Pomeranian Voivodeship (Poland)
- BrabantStad (Netherlands)

**Implicit rurban partnerships**
- Forlì-Cesena (Italy)
- Extremadura (Spain)
- Castelo Branco (Portugal)
- Central Finland (Jyväskylä and Saarijärvi-Viitasaari) (Finland)
- Lexington (United States)
- Prague/Central Bohemia (Czech Republic)

<table>
<thead>
<tr>
<th>Model 1</th>
<th>Model 2</th>
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<tr>
<td>Delegated functions</td>
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</tr>
<tr>
<td>Rennes (France)</td>
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(2) Strategies for developing tradable sectors

To remain competitive in Tradable sectors there are mainly three main options:

1. Continued specialisation in **Natural resources**. This is typically an option for remote rural regions.

2. Be integrated in **Global Value Chains**. Integration between manufacturing and service sectors is needed. Connectivity and proximity may favour low-density areas close to cities. Without a territorial strategy it may be difficult to benefit from GVCs for regional development. Forward and backward linkages (re-bundling) are critical to maximize value-added of FDI and creation of a network of local suppliers.

3. Develop **Territorially differentiated products & services** through mobilisation of local assets. Consumers may express preferences for local or traceable products, without subsidies or some form of protection.
Macro structural policies (or ex-ante conditions) also play a role

There is scope to coordinate better SME and regional policy

- Uneven recovery in SME access to finance, with persistent differences in real cost of credit and diversification of SME financing sources
- Large differences in investments in knowledge assets, training and lifelong learning

Pilot country: Portugal
Regional productivity catching-up contributes significantly to national productivity growth.

It requires mobilisation of specific regional assets and an appropriate governance model across levels of government.

Thus, the decentralisation and regional governance agenda is a productivity & growth agenda for the whole country.