DESENVOLVIMENTO & COESÃO

DEVELOPMENT & COHESION

SEMINÁRIO INTERNACIONAL | INTERNATIONAL SEMINAR

CONVERGÊNCIA ECONÓMICA E POLÍTICAS DE DESENVOLVIMENTO REGIONAL

ECONOMIC CONVERGENCE AND REGIONAL DEVELOPMENT POLICIES

3 Abril | April 2017 | Fundação de Serralves, Porto

AD&C Agência para o Desenvolvimento e Coesão, I.P.

DESENVOLVIMENTO & COESÃO

DEVELOPMENT & COHESION

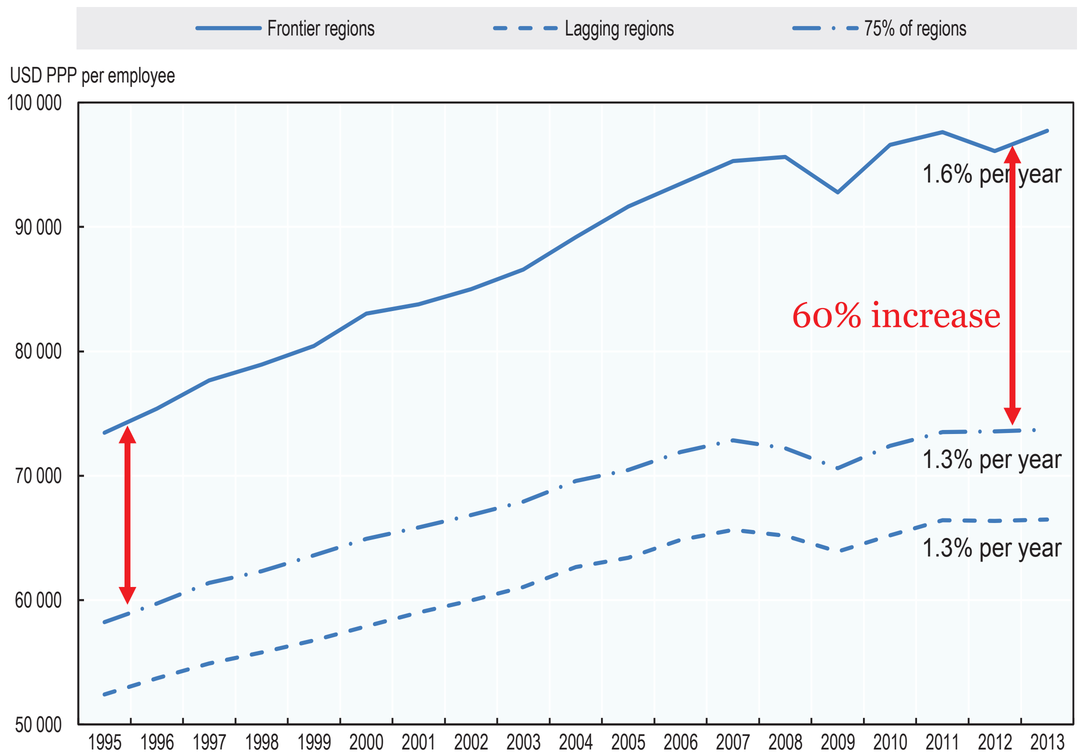
Regional Economic Convergence: evidence and policies

Joaquim Oliveira Martins

Regional Development Policy Division, OECD

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.

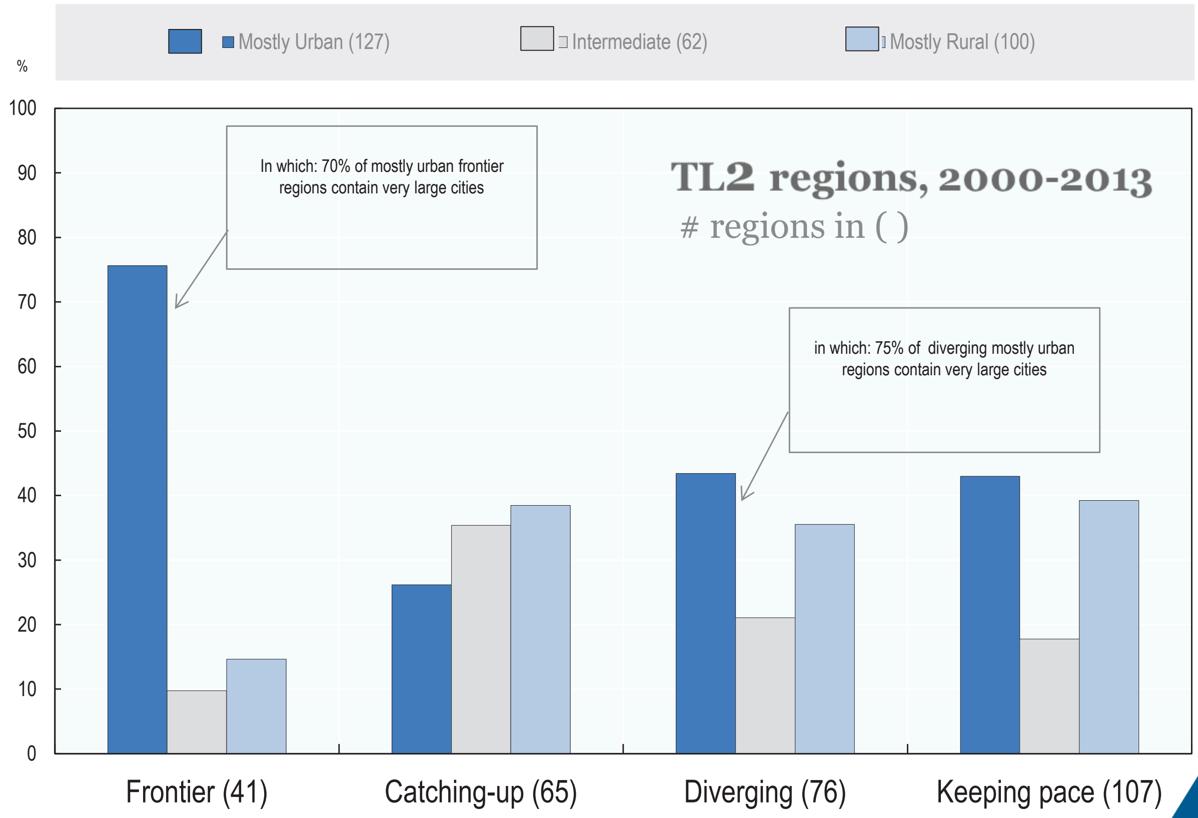
A majority of regions have a flat or declining labour productivity catching-up

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

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

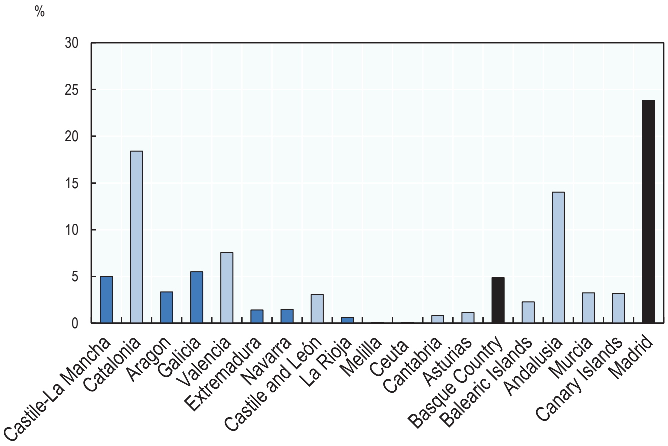
Good or bad productivity performance can be found all types of regions



Region's contributions to national growth vs. labour productivity growth: **Spain**

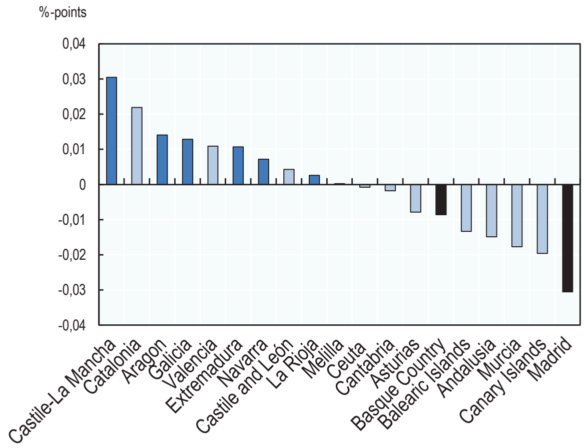
Frontier | Catching up | Keeping pace | Diverging

Percentage contribution to national GDP growth, 2000-13



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

Contribution to labour productivity growth, 2000-13

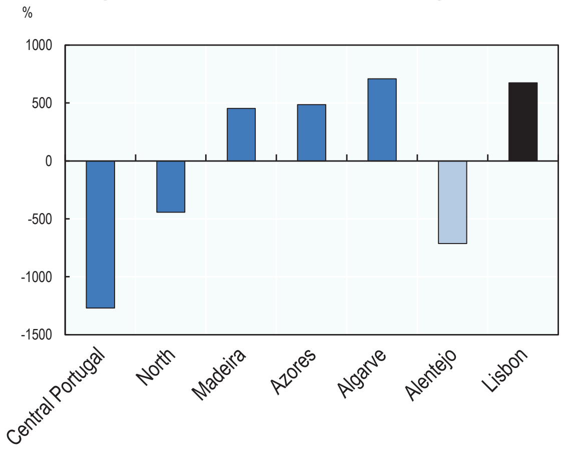


Notes: The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region.

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

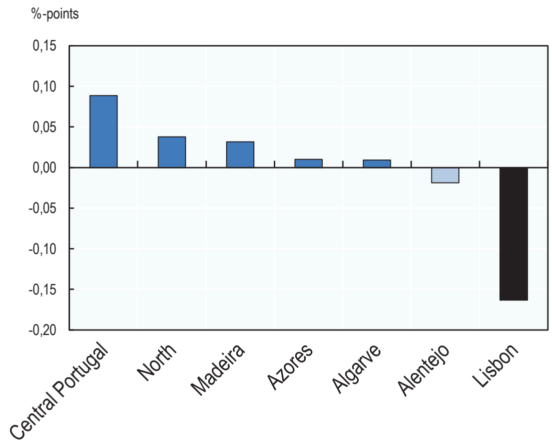
Frontier | Catching up | Keeping pace | Diverging

Percentage contribution to national GDP growth, 2000-13



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

Contribution to labour productivity growth, 2000-13

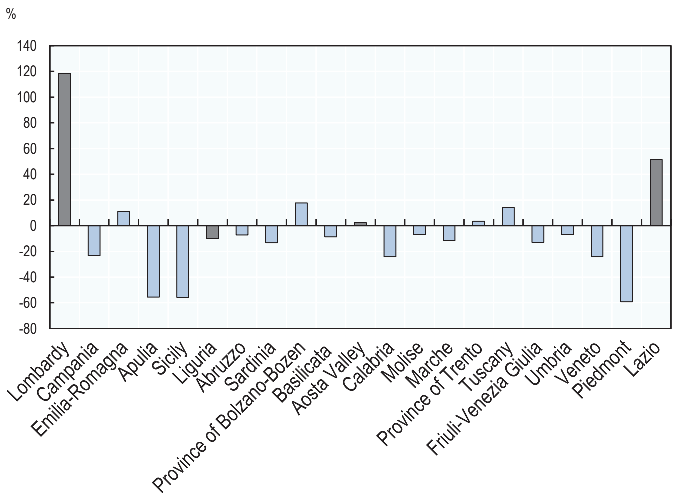


Notes: The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region.

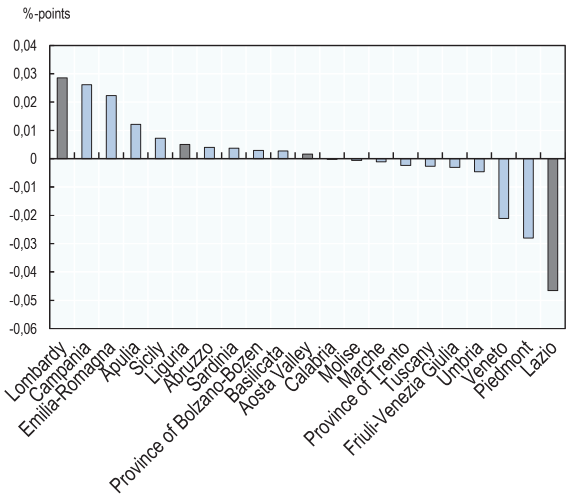
Region’s contributions to national growth vs. labour productivity growth: **Italy**

Frontier | Catching up | Keeping pace | Diverging

Percentage contribution to national GDP growth, 2000-13



Contribution to labour productivity growth, 2000-13



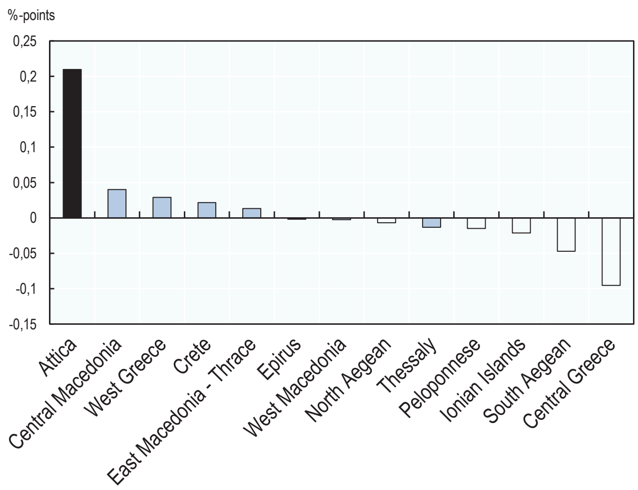
Notes: Percentage contribution shows the share of total GDP growth that was due to growth in the indicated region. Total contribution sums to 100%.

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.

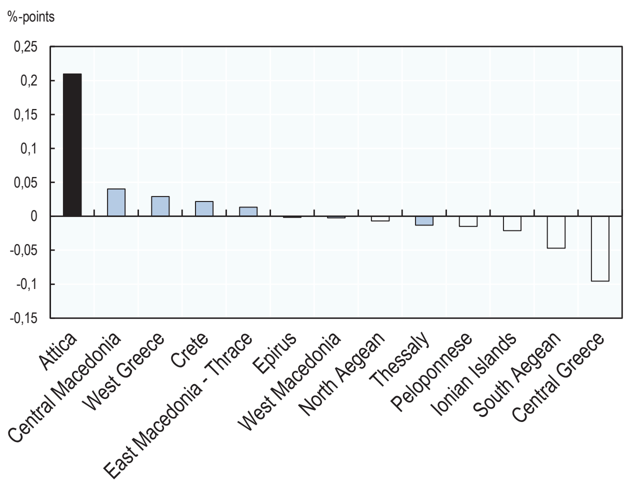
Region’s contributions to national growth vs. labour productivity growth: **Greece**

Frontier | Catching up | Keeping pace | Diverging

Percentage contribution to national GDP growth, 2000-13



Contribution to labour productivity growth, 2000-13



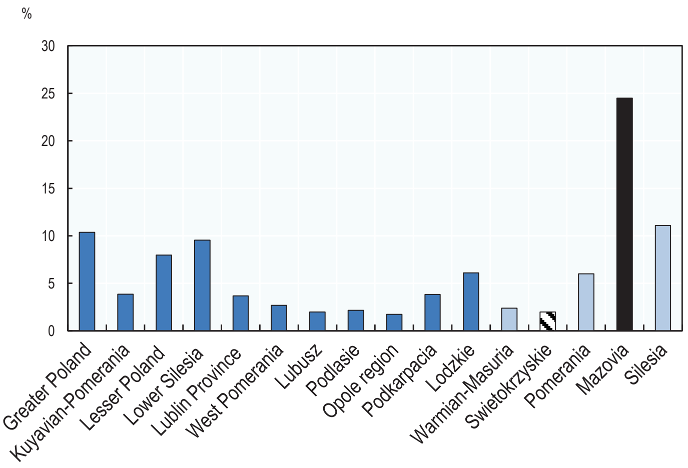
Notes: Percentage contribution shows the share of total GDP growth that was due to growth in the indicated region. Total contribution sums to 100%.

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.

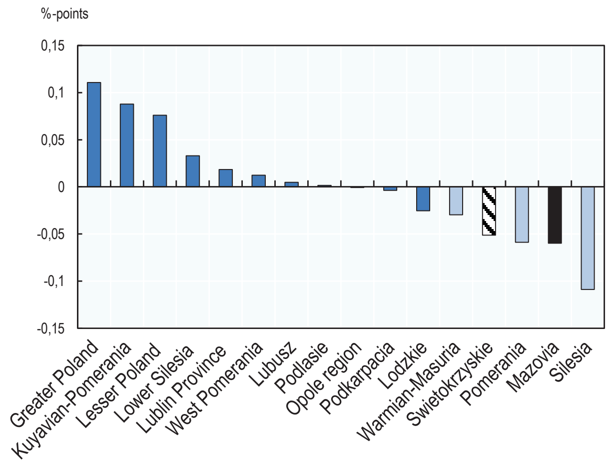
Region's contributions to national growth vs. labour productivity growth: **Poland**

Frontier | Catching up | Keeping pace | Diverging

Percentage contribution to national GDP growth, 2000-13



Contribution to labour productivity growth, 2000-13



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

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.

What are the main drivers of regional productivity catching-up?

(1) Rural regions *close to cities* display stronger productivity catching-up

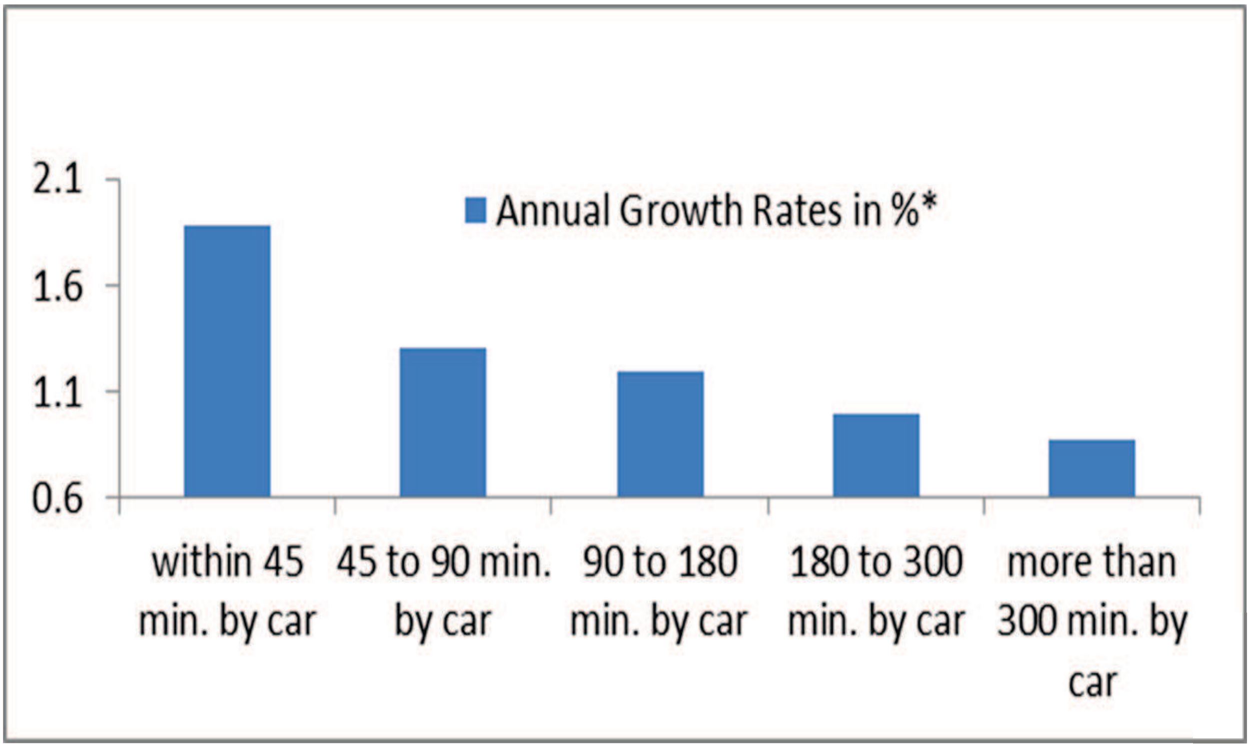
Rural remote regions present a higher variation in productivity growth rates than other types of regions

	Annual average labour productivity growth, 2000-12	Standard deviation	Coefficient of variation
Predominantly urban	1.01%	1.02%	1.019
Intermediate	1.07%	1.09%	1.024
Predominantly rural close to cities	1.36%	1.32%	0.972
Predominantly rural remote	0.70%	1.15%	1.641

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.

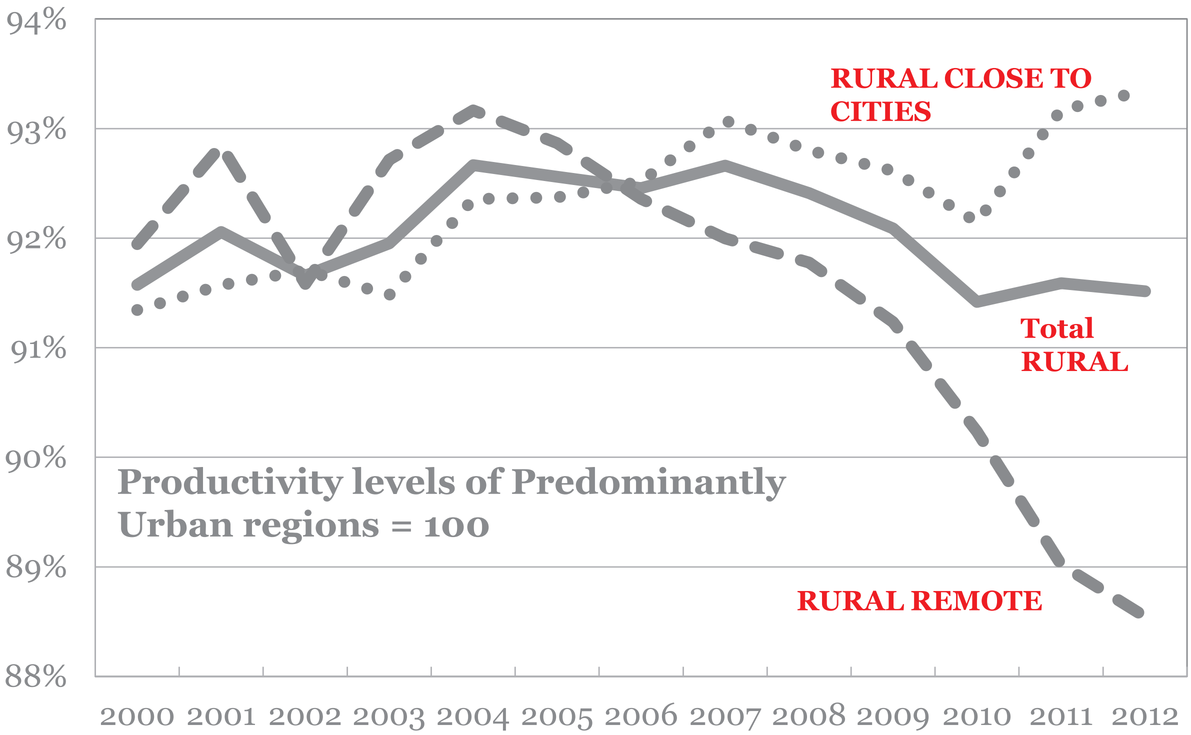
Source: OECD Regional Outlook 2016

There is growth gradient depending on the proximity to large cities



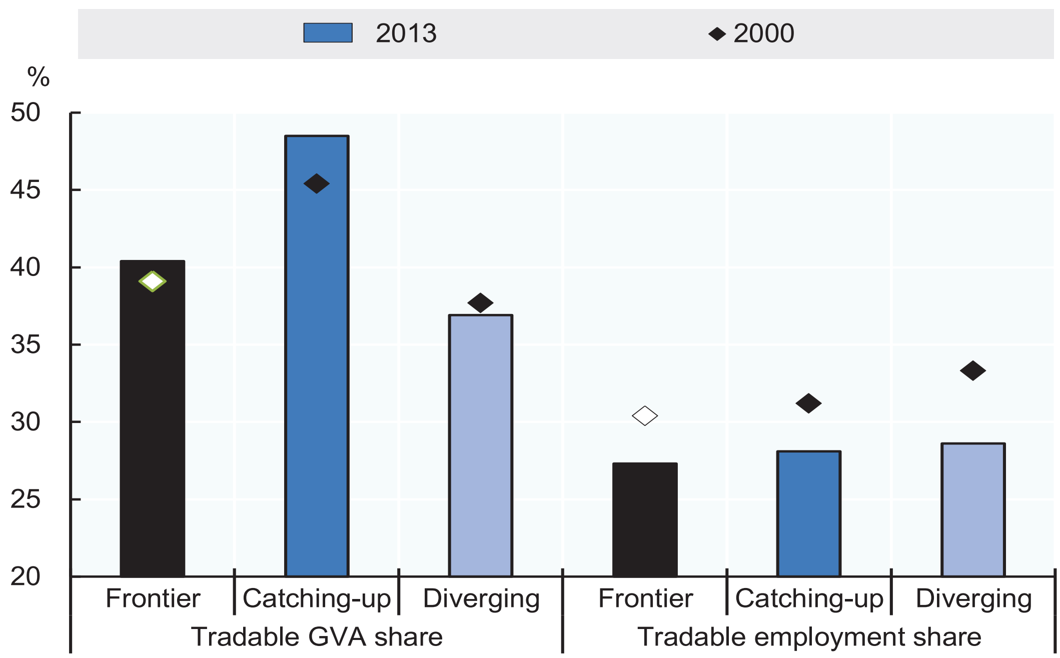
Source: Ahrend et al, 2014

Mainly in rural remote regions productivity is diverging



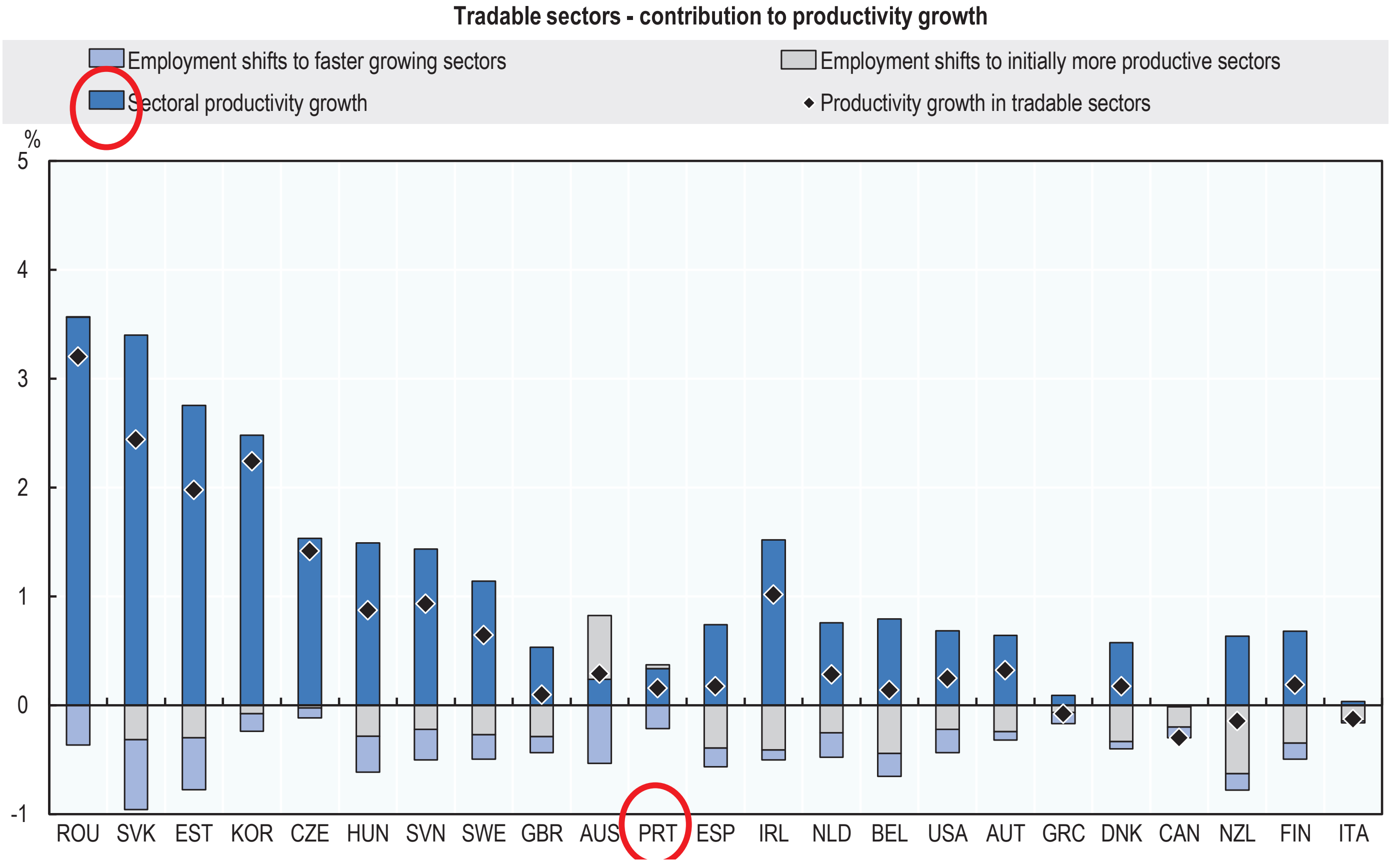
(2) Regional catching-up is characterised by a stronger intensity of the tradable sectors

All tradable sectors, TL2 regions

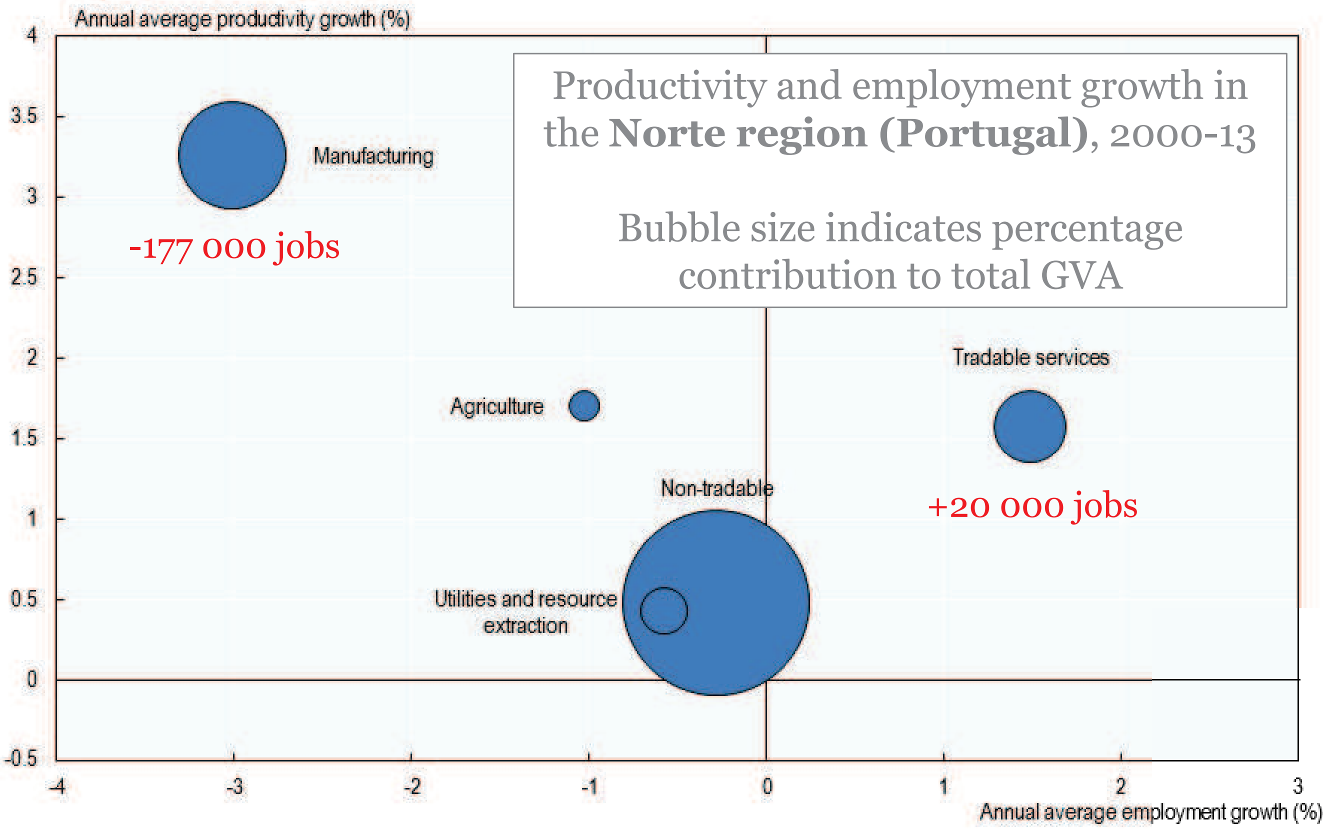


Notes: Tradable sectors are defined by a selection of the 10 industries defined in the SNA 2008. They include: agriculture (A), industry (BCDE), information and communication (J), financial and insurance activities (K), and other services (R to U). Non tradable sectors are composed of construction, distributive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

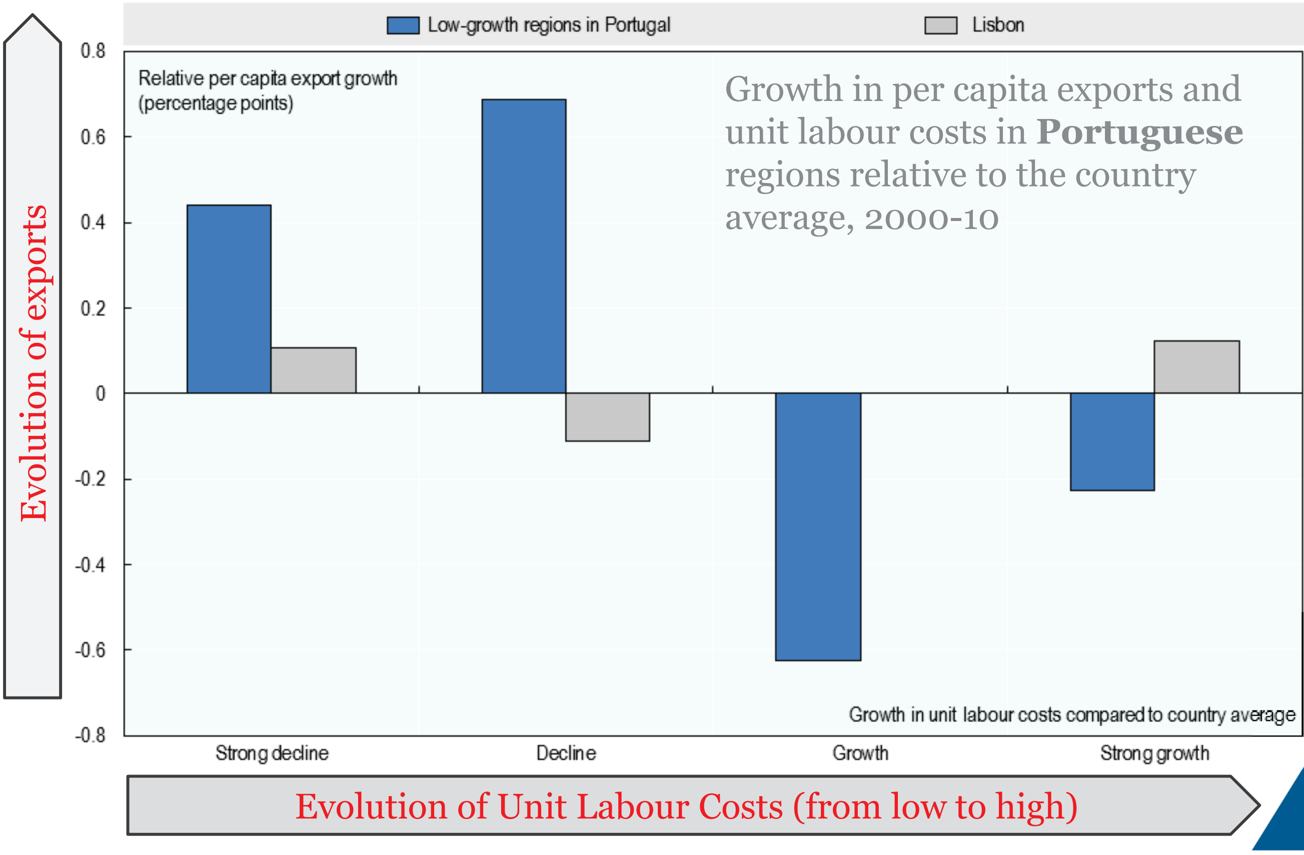
The contribution of tradables is mainly within sectors



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



In tradable sectors competitiveness of labour costs is key



Role of policies & Governance

OECD regional development policy paradigm

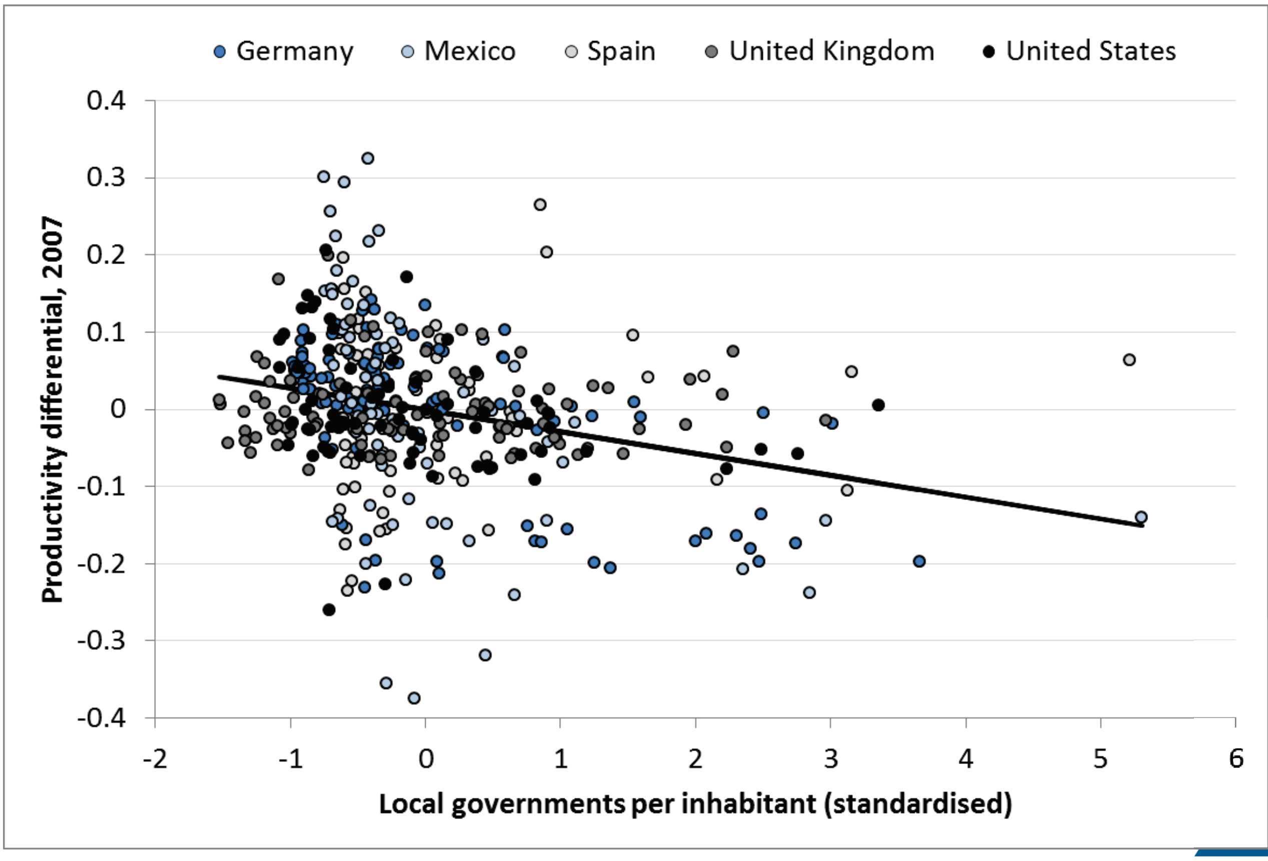
The OECD regional policy paradigm is basically made of good structural economic policy with two main differences:

- 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	Implicit rurban partnerships
• Rennes (France) • Geelong (Australia) • Nuremberg (Germany) • Central Zone of West Pomeranian Voivodeship (Poland • BrabantStad (Netherlands)	• Forlì-Cesena (Italy) • Extremadura (Spain) • Castelo Branco (Portugal) • Central Finland (Jyväskylä and Saarijärvi-Viitasaari) (Finland) • Lexington (United States) • Prague/Central Bohemia (Czech Republic)

Model 1	Model 2	Model 3	Model 4
Delegated functions	No delegated functions	Delegated functions	No delegated functions
• Rennes (France)	• Geelong (Australia) • Nuremberg (Germany) • Central Zone of West Pomerania Voivodeship (Poland) • BrabantStad (Netherlands)	• Extremadura (Spain) • Forlì-Cesena (Italy)	• Lexington (United States) • Prague (Czech Republic) • Central Finland (Jyväskylä and Saarijärvi-Viitasaari) (Finland) • Castelo Branco (Portugal)

OECD (2013), *Rural-Urban Partnerships: An Integrated Approach to Economic Development*, OECD Publishing.

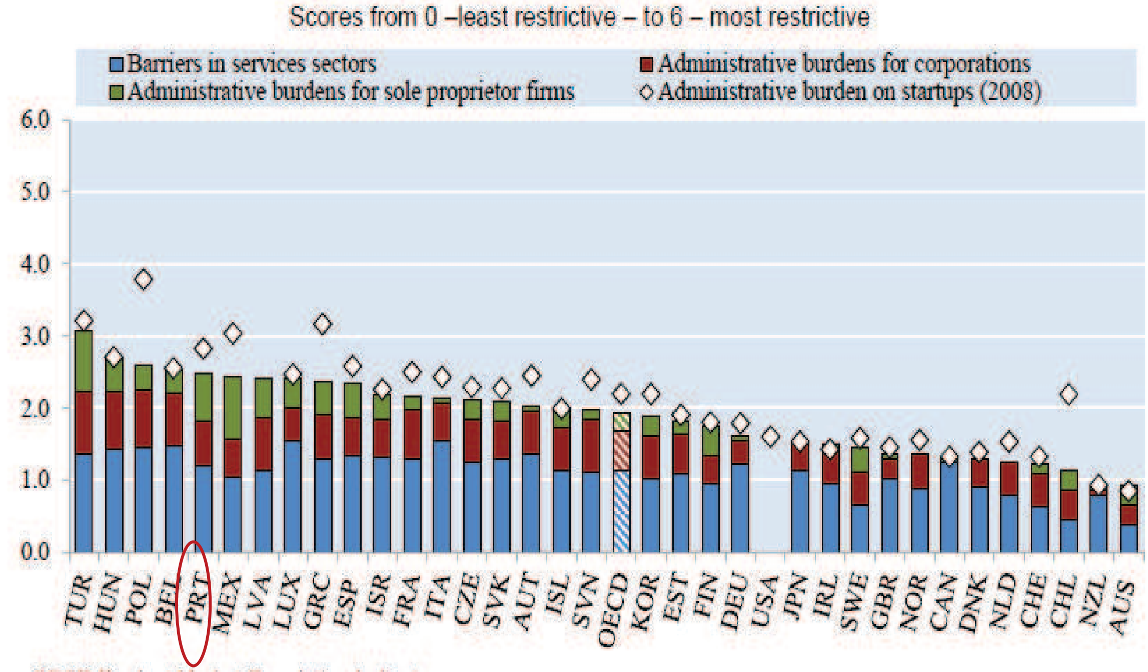
(2) Strategies for developing tradable sectors

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

Figure 3.3. Administrative burdens on startups, 2008 and 2013

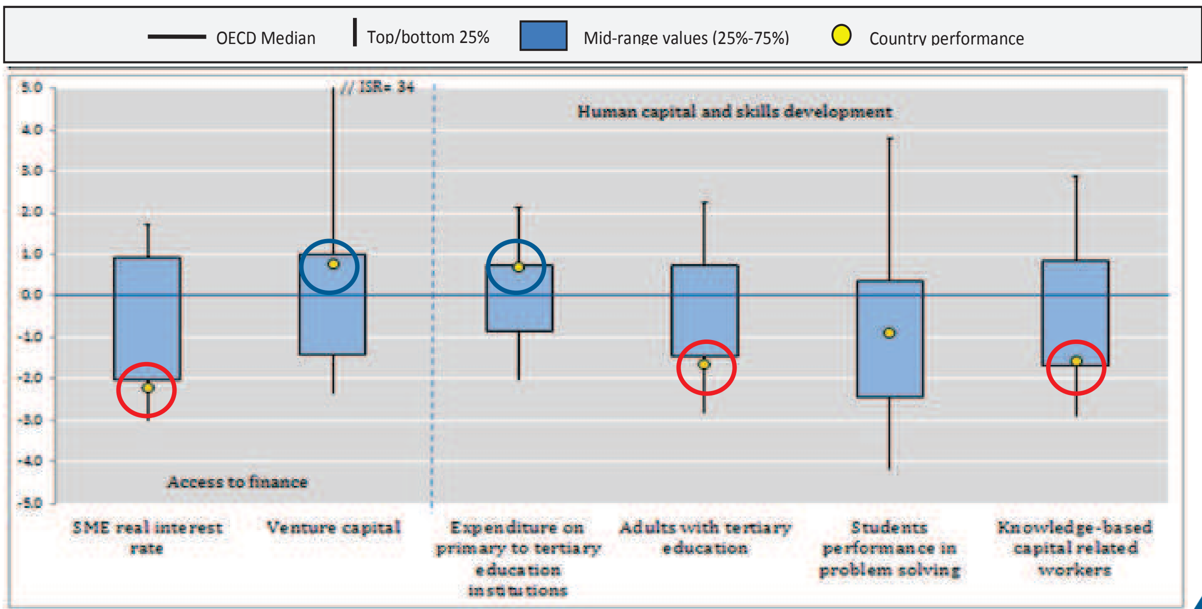


Source: OECD Product Market Regulation Indicators

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



Bottom-line

- 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