REGIONS BRIDGING THE DIVIDE: THE ROLE OF TRADABLE SECTORS AND WELL FUNCTIONING CITIES

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Roadmap for the presentation

• Productivity and jobs: the regional diffusion challenge
• What supports “catching up”?
• What can policy do to leverage the potential of all regions?
PRODUCTIVITY AND JOBS: THE REGIONAL DIFFUSION CHALLENGE
Convergence in per capita GDP and labour productivity in the OECD/EU

Frontier regions
- most productive regions accounting for 10% of total employment

Catching up/Diverging
- Productivity growth is 5% higher/lower than in the frontier over a 13 year period

Productivity gaps have narrowed in the EU and the OECD since 2000

But gaps within some countries are widening

Countries follow two growth models

**Distributed growth** model: *Catching up* supports productivity growth
- AUT, CZE, DEU, ESP, ITA, POL, PRT, ROU

**Concentrated growth** model: The “frontier” dominates growth
- BGR, DNK, FIN, FRA, GBR, GRC, HUN, NLD, SVK, SWE
WHAT SUPPORTS “CATCHING UP”?

WELL-FUNCTIONING CITIES
What supports catching up?

• **Well-functioning cities**
  – Home to *knowledge-intensive* (traded) sectors
  – Larger markets can support *economic diversity and dynamism*
  – *Agglomeration economies* (beyond borders) through urban-rural linkages
Traded clusters: Contrast between urban and rural regions

Space matters: proximity to cities benefits surrounding rural & intermediate regions

Economic growth increases with nearness to large cities
Yearly growth rates of GDP per head (1995-2010) and driving time to the closest large metropolitan area of 2 million or more inhabitants in OECD countries

More than 300 minutes (MN): 0.87%
1.19%
1.31%
1.88%

Source: Ahrend and Schumann (2014) “Does regional economic growth depend on proximity to urban centres?”
WHAT SUPPORTS CATCHING UP?

TRADABLE SECTORS
What supports catching up?

- ** Tradable sectors** (that could be traded)
  - Face *competition* even if they are not traded
  - Might *overcome* market size and institutional *constraints*
  - *Avoid economic imbalances* from excessive expansion of non-tradables
The nature of tradable sectors is changing … but not in all parts of Europe

Low-income: <50% of EU-average per capita GDP; low-growth: <90% per capita GDP and below average growth

Regions with strong pre-crisis increases in non-tradable sectors lost more jobs

Calculations based on 208 OECD TL2 regions. Those regions with the largest shifts towards non-tradable sectors suffered higher employment losses, on average, following the 2007-08 crisis.
WHAT CAN POLICY DO TO LEVERAGE THE POTENTIAL OF ALL REGIONS?
Broad policy responses

- Reigniting (public) investment
- Structural reforms (accompanied by complementary policies at the local level)
- Multi-level governance and territorial reforms
Strategies to promote catching up and employment growth

• **Strategically diversifying** regional economies
  – Specialised regions more productive, diversified ones grow faster
  – Manufacturing important, but tradable services are gaining

• Identifying and building on **local strengths**
  – Linking investment in skills, FDI, and knowledge from the supply chain
  – Taking advantage of opportunities for territorial branding

• **Integration across** actors and policies
  – Skills development for place-based needs is a shared responsibility
  – But skills policies might not be enough: trade shocks vs automation
Thank you

OECD (2018)
Productivity and Jobs in a Globalised World: (How) Can All Regions Benefit

OECD (2016)
OECD Regional Outlook 2016: Productive Regions for Inclusive Societies
The distinguishing feature of “tradable” sectors is that they are exposed to international competition.

Delineating tradable and non-tradable sectors is not straightforward in practice.

As sectors are highly aggregated in regional data the aim is to find a classification that captures mostly tradable/non-tradable activities.

The OECD Regional Outlook 2016 classifies sectors as:

<table>
<thead>
<tr>
<th>Tradable sectors</th>
<th>Non-tradable sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>A: agriculture, forestry and fishing</td>
<td>F: construction</td>
</tr>
<tr>
<td>B-E: industry (manufacturing, mining and quarrying, supply of utilities: electricity, gas water, etc.) excluding construction</td>
<td>G-I: wholesale and retail trade, transport, accommodation and food service activities</td>
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<tr>
<td>J: information and communication</td>
<td>L: real estate activities*</td>
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<tr>
<td>K: financial and insurance activities</td>
<td>M-N: professional, scientific and technical activities, administrative and support service activities</td>
</tr>
<tr>
<td>R-U: arts, entertainment and recreation, other service activities, activities of household and extra-territorial organisations and bodies</td>
<td>O-Q: public administration, defence, education, human health and social work activities</td>
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* excluded in parts of the analysis