UNLEASHING THE POTENTIAL OF RURAL ECONOMIES

CANBERRA, AUSTRALIA 20 MARCH 2017

Joaquim Oliveira Martins
Regional Development Policy Division, OECD
A geography of discontent?

National share of employment (place of residence) in predominantly rural regions in Australia (TL3) 2000-2016

Source: OECD Regional Database
OECD regional development policy paradigm

Compensating lagging regions does not work:
• Creates dependency, not development
• Wealthier regions may become reluctant to support lagging regions

OECD promotes ‘place-based’ policies focusing on:
• Use of regional specific assets (or create absolute advantages to stimulate competition & experimentation across regions)
• Create complementarities among sector policies at the regional (or local) level
• Use of multi-level governance mechanisms for aligning objectives & implementation
National productivity performance needs the contribution of all regions
Convergence of countries vs. divergence of regions in the OECD

GDP per capita dispersion is now greater *within* countries than *between* countries.
The productivity gap between frontier and lagging regions has increased.

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.
## Contribution of the different regional productivity patterns to OECD growth

<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>Stable productivity gap</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><strong>OECD average</strong></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).
Where are located the Frontier, Catching-up and Diverging regions?

70% of mostly urban frontier regions contain very large cities.

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

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.

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: **New Zealand**

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.

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?
Productivity trends by type of region

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><strong>1.36%</strong></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
Labour productivity of remote rural areas has recently declined
Catching-up regions are characterised by a stronger intensity of the tradable sectors.

All tradable sectors, TL2 regions

![Bar chart showing tradable GVA share and tradable employment share for Frontier, Catching-up, and Diverging regions for 2013 and 2000.]

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).
Role of policies & Governance
## Evolving OECD Rural Policy Paradigm

### Rural Policy 3.0

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Equalisation</td>
<td>Competitiveness</td>
<td>Well-being considering multiple dimensions of: i) the economy, ii) society and iii) the environment</td>
</tr>
<tr>
<td><strong>Policy focus</strong></td>
<td>Support for a single dominant resource sector</td>
<td>Support for multiple sectors based on their competitiveness</td>
<td>Low-density economies differentiated by type of rural area</td>
</tr>
<tr>
<td><strong>Tools</strong></td>
<td>Subsidies for firms</td>
<td>Investments in qualified firms and communities</td>
<td>Integrated rural development approach – spectrum of support to public sector, firms and third sector</td>
</tr>
<tr>
<td><strong>Key actors &amp; stakeholders</strong></td>
<td>Farm organisations and national governments</td>
<td>All levels of government and all relevant departments plus local stakeholders</td>
<td>Involvement of: i) public sector – multi-level governance, ii) private sector – for-profit firms and social enterprise, and iii) third sector – non-governmental organisations and civil society</td>
</tr>
<tr>
<td><strong>Policy approach</strong></td>
<td>Uniformly applied top down policy</td>
<td>Bottom-up policy, local strategies</td>
<td>Integrated approach with multiple policy domains</td>
</tr>
<tr>
<td><strong>Rural definition</strong></td>
<td>Not urban</td>
<td>Rural as a variety of distinct types of place</td>
<td>Three types of rural: i) within a functional urban area, ii) close to a functional urban area, and iii) far from a functional urban area</td>
</tr>
</tbody>
</table>
Strategies for rural growth and development

1. Identifying drivers of growth in rural areas
   - Tradables (manufacturing), renewable energy, natural resources, services, fisheries, forestry, agriculture, tourism, natural amenities
   - Finding the niche (smart specialisation)

2. Adding value in these domains
   - Policy focus on enabling factors: skills, accessibility, market intelligence, institutions, innovation

3. Enhancing urban – rural linkages
   - Infrastructure and connectivity
   - Shared governance and policies

4. Addressing demographic trends and forward looking policies
   - Address long term cost enhancing efficiency in service provision (planning, ICT)
   - Mitigation and adaptation to climate change
Regional and rural development policies are important for national productivity growth. Policies should enable the use of specific regional assets, create complementarities across sectoral policies, and make use of multi-level governance mechanisms. They have to be properly integrated in the structural policy package for inclusive growth.
THANK YOU!