Promoviendo el Crecimiento en Todas las Regiones en la OCDE y el Nuevo Paradigma Rural

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Summary of presentation

1. Trends in regional growth
   • OECD regions and rural regions

2. Regions and aggregate growth

3. Drivers of regional growth

4. Policy lessons
   • The New Rural Paradigm
   • Evidence from OECD rural policy reviews
Post-financial crisis paradigm in OECD

New approaches to economic challenges

“Stronger”

Efficiency

Regions

Inequality

Skills strategy

Jobs strategy

Role of space Geogrphay?

To complementarities

From tradeoffs…

“Cleaner”

Environment

“Fairer”

Equity

“Fairer”

Green growth

From tradeoffs…

“Stronger”
OECD Territorial Reviews: a series of case studies of regional policy

Among 34 member countries:

- 16 National Reviews (+2 ongoing)
- 20 Metropolitan Reviews (+1 ongoing)
- 1 National Urban Policy Review (+1 ongoing)
- 4 Regional Reviews (+2 ongoing)
- 5 Regional Innovation Reviews
- 14 Rural Reviews

Germany; Mexico (2006)
Finland; Netherlands; Scotland, UK (2007)
China; Italy; Spain (2008), Québec, Canada (2009), England, UK (2010); South Africa (2011)
Thematic projects

- Drivers of Regional and Rural Performance

(1) Empirical evidence
  - OECD database
  - Case studies

(2) Identifying the drivers:
  - Theory
  - Econometric modelling
  - Case studies

• Policy implications:

3) Implementation Governance

Linking Renewable Energy to Rural Development Project (15)

RURAL-URBAN PARTNERSHIPS PROJECT (16)
OECD Regional Data-Base (RDB)

- The RDB includes regional statistics on 5 major topics:
  - Demographic, Regional accounts, Labour, Social and environmental indicators, Innovation

- To facilitate comparability, regions are:
  - Classified in 2 Territorial Levels (TLs):
    - TL2 Territorial Level 2 (337 regions)
    - TL3 Territorial Level 3 (1708 regions)
  - Classified by regional type: (PU, IN, PR)

- Functional definition in 940 cities from 25 OECD countries
  - Small cities, population < 200,000 (347 -- 7.5% of population)
  - Medium size cities, population between 200,000-500,000 (344 -- 17.6% population)
  - City regions, population between 500,000 -- 1.5 million (176 -- 23.1% population)
  - Large metropolitan areas, population > 1.5 million (73 -- 51.8% population)

- Database can be directly accessed from the OECD
Trends in regional performance

Average annual growth rates in OECD TL3 1995-2007

- Opportunities for growth exist in all types of regions
- Rural is not synonymous with decline
Convergence forces in rural regions

- There is growth potential in rural regions...
- Convergence is not absolute but relative...
Convergence forces in intermediate regions

**Convergence patterns across intermediate regions**

Intermediate TL3 regions, 1995-2007

\[ y = -5 \times 10^{-7}x + 0.0266 \]

- Converging regions: intermediate remote
- Converging regions: intermediate close to a city

Initial GDP per capita in current PPP 1995
Convergence and divergence forces in urban regions

Agglomerations and sustainable development?

Diseconomies of scale and congestion costs can appear
The most dynamic OECD regions over 1995-2007.

Initial GDP per capita and annual average growth rates in GDP per capita
OECD TL3 regions, 1995-2007

<table>
<thead>
<tr>
<th>Type of OECD region</th>
<th>n</th>
<th>GDP per capita in PPP</th>
<th>Growth (1995-2007)</th>
<th>Initial level (1995)</th>
<th>% of OECD average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predominantly urban</td>
<td>233</td>
<td>1.93%</td>
<td>22,568</td>
<td>124%</td>
<td></td>
</tr>
<tr>
<td>Predominantly rural close to city</td>
<td>199</td>
<td>2.33%</td>
<td>14,324</td>
<td>79%</td>
<td></td>
</tr>
<tr>
<td>Predominantly rural remote</td>
<td>123</td>
<td>2.24%</td>
<td>16,234</td>
<td>89%</td>
<td></td>
</tr>
<tr>
<td>Intermediate</td>
<td>295</td>
<td>1.83%</td>
<td>17,855</td>
<td>98%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>850</td>
<td>2.06%</td>
<td>18,172</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Source: OECD Regional Database.

average rank (1== highest)
- population
- pop density
Rural performance driven by structural changes (1)
New Rural Paradigm (NRP)

- **Structural decline in agriculture and public sector**
  - 96% of rural land is agriculture employing less than 10% of the rural workforce and adding around 2% of GVA
  - Agriculture is more **productive** and continues to have an important influence on the rural economy, farm related and business services
  - Rural economies have **diversified**, fostering public-private partnerships and new stakeholder and resources into the development process

- **Rural amenities attract investment and workers**
  - Quality of life and environment, natural heritage and other amenities

- **Stronger urban-rural linkages**
  - **Population Flows**: commuting (both directions), retirement, second homes
  - **Economic Linkages**: commodity input and output connections, logistics, finance
  - **Environmental Linkages**: flows of water, sewage, solid waste, green space
  - **Public Service Linkages**: higher education, cultural and sport opportunities, health
  - **Multi Level Governance**: public administration
Links between regional and aggregate

- Where growth actually occurs is also critical:
  - Contributions to growth
  - Implications for national policy makers

- Contribution to growth over the given period (n, n+t):
  - Initial **size** of a given territory → GDP share (n)
  - Its **growth rate** between (n, n+t)
Contributions to aggregate growth depend on few hub regions…

...the fat tail is equally important -- if not more -- to aggregate growth...
Contributions to aggregate growth by less developed regions

Overall, they contributed to 44% of aggregate OECD growth in 1995-2007.

In ten OECD countries lagging regions contributed more to national growth than leading regions.

Predominantly rural and intermediate rural contributed to 42% of aggregate OECD growth in 1995-2007.

Bottom line: support for lagging regions and rural regions need not be merely a “social” policy. They contribute a large share of national growth.
Stylized facts – growth

- Growth Patterns are very Heterogeneous
  - Possibilities for growth exist in all types of regions
  - Convergence and agglomeration forces at play

- Concentration and Growth
  - Concentration not a sufficient nor necessary condition
  - Benefits of concentration not linear nor infinite
  - Diseconomies of scale and congestion costs can hinder growth in agglomerations

What are the main factors of growth at the regional level?
Econometric models
Unit of analysis: OECD TL2 Regions, 1995-2007

Cross-Sectional Model

\[
\ln \left( \frac{GPD_{i,t}}{GDP_{i,t-1}} \right) = \alpha + \beta_1 \ln GDP_{i,t-1} + \beta_2 \ln Inf_{i,t-1} + \beta_3 \Pr_\text{Ed_att}_{i,t-1} + \beta_4 \ln Ti_\text{Ed_att}_{i,t-1} + \\
+ \beta_5 ER_t - 1 + \beta_6 \ln Pat_{i,t-1} + \beta_7 \ln GDE_{i,t-1} + \beta_8 \ln GDExp_{G,i,t-1} + \beta_9 \ln Spec_{Ag,i,t-1} + \\
+ \beta_{10} \ln Spec_{Man,i,t-1} + \beta_{11} \ln (Market_{Dist,i,t-1}) + \beta_{12} \ln \text{Accessability}_{i,t-1} + \delta CD_j + \phi TD_t + u_i + e_{i,t}
\]

Panel and Pooled Model

\[
\frac{1}{T} \ln \left( \frac{GPD_{i+t}}{GDP_{i}} \right) = \alpha + \beta_1 \ln GDP_{i} + \beta_2 \ln Inf_{i} + \beta_3 \Pr_\text{Ed_att}_{i} + \beta_4 \ln Ti_\text{Ed_att}_{i} + \\
+ \beta_5 ER_t + \beta_6 \ln Pat_{i} + \beta_7 \ln GDE_{i} + \beta_8 \ln GDExp_{G,i} + \beta_9 \ln Spec_{Ag,i} + \\
+ \beta_{10} \ln Spec_{Man,i} + \beta_{11} \ln (Market_{Dist,i}) + \beta_{12} \ln \text{Accessability}_i
\]

Error Correction Model

\[
\Delta \ln y(t) = -\lambda \left( \ln y(t-1) - \frac{a}{1-a} \ln s_K(t) - \frac{b}{1-a} \ln h(t) + \frac{a}{1-a} \ln g(t) + n(t) + d - \sum_j z_j \ln X_{i,j} + g t \right) \\
+ a_0 + a_1 \Delta \ln s_K(t) + a_2 \Delta \ln h(t) + a_3 \Delta \ln g(t) + n(t) + d + \sum_j b_j \Delta \ln X_{i,j} + \epsilon_t.
\]
First key finding: The most important growth drivers are *endogenous* to the region.

- **Human capital** positively influence regional growth
  - The effects are larger addressing bottlenecks of low skilled workers when high skilled workers are present

- **Innovation** also has a positive effect (S&T biased -- R&D and patents)
  - Effects tend to be in the long term
  - Critical for advanced regions

- **Infrastructure** influences growth
  - Only when human capital and innovation are present -- by itself it does not impact growth.
  - Diminishing returns: in regions closer to the frontier effects are larger

- **Agglomeration** influences growth but is not necessary or sufficient.
  - Effects of **distance to markets** and **accessibility** are not very robust
  - Possible measurement bias: (i) No travel time and transportation networks

Second key finding: the *relative weight* of different factors depends, *inter alia*, on the level of development of the region.

These findings, in turn, have implications for governance.
Persistence of inequality

The policy headache: isolated sectoral action may have unintended outcomes.

Problem: lack of connectivity

Leaking by linking

Infrastructure provision

Persistence of inequality
The policy headache: isolated targeting of investments may have unintended outcomes.

- Brain drain
- with labour mobility
- Human capital formation
- Policy responses
- Persistence of inequality
Towards a Multidimensional Response

At the regional scale

Many countries are reforming in this direction, but implementation is still difficult.
A complex policy setting in rural regions

- There is growth potential in rural regions
- Rural residents demand the same services as urban areas
- Complex setting not a coherent set of policies and programmes – independent policies evolved
  - **Narrow Rural Policy** – those policies that are designed to explicitly affect rural areas – agriculture, rural broadband, rural doctors
  - **Broad Rural Policy** – those policies that have no specific geographic focus, but have major rural impacts – national health insurance, education policy, investment policy
- Need to coordinate rural and regional development policies
- In virtually all countries rural and urban policy are disconnected. Urban policy focuses on the very largest cities and rural policy focuses on remote territory, especially where farming is dominant
## The New Rural Paradigm (NRP)

<table>
<thead>
<tr>
<th></th>
<th>Old Paradigm</th>
<th>New Paradigm</th>
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<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Equalisation, focusing on farm income</td>
<td>Competitiveness of rural areas</td>
</tr>
<tr>
<td></td>
<td></td>
<td>valorisation of local assets, exploitation of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>unused resources</td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td>Sector based in agriculture</td>
<td>Holistic approach to include all sorts of rural</td>
</tr>
<tr>
<td></td>
<td></td>
<td>economies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(manufacturing, tourism ICT)</td>
</tr>
<tr>
<td><strong>Tools</strong></td>
<td><strong>Subsidies</strong> focused on a small segment of rural</td>
<td><strong>Investments</strong></td>
</tr>
<tr>
<td></td>
<td>population</td>
<td></td>
</tr>
<tr>
<td><strong>Actors</strong></td>
<td>Central government</td>
<td>Different levels of government</td>
</tr>
<tr>
<td><strong>Unit of analysis</strong></td>
<td>Administrative regions</td>
<td>Functional regions</td>
</tr>
</tbody>
</table>
Three key governance dimensions for NRP

• **Horizontal coordination at the central level:**
  - Overcoming sectoral silos requires clarification of roles and responsibilities of ministries and agencies in field of rural development to ensure coherent strategy
  - *e.g.* special high level units, integrated ministries, inter-ministerial co-ordination

• **Coordination at the local level**
  - For integrating sectoral approaches need to involve stakeholders (private)
  - Administrative boundaries do not always correspond to functional needs
  - The bottom-up approach recommended in NRP is difficult when there are weak local institutions
  - **Capacity building, leadership**
  - *e.g.* areas of cooperation, associations of municipalities, inter-municipal cooperative authorities: provision of joint public services and enhance strategic

• **Vertical coordination central and sub-national actors**
  - Participation in decision making developing a **true partnership**
  - Effective knowledge sharing and competences on part of local representatives
  - Incentives for rural communities to reward initiatives and experimentation and ensure consistency in public policy
Key emerging rural development strategies

- Nature and culture based tourism
- High value agriculture (local food)
- Elderly care (silver economy)
- Innovation in rural regions
  - Entrepreneurship and self employment
  - OECD rural conference “Innovation and Modernising the Rural Economy”, Russia, Krasnoyarsk 3-5\textsuperscript{th} October, 2012
- Renewable energy
  - Focuses on the effects of RE on rural development
    - Employment
    - Innovation
    - Governance
Conclusions

- The rural context is important
  - There is growth potential in forces of convergence
  - Many reports only focus on agglomeration forces
  - Need for a focus on intermediate regions and urban-rural linkages

- Commonly desired outcomes in context specific.
  - No one size fits all approach – context specific

- Effective tool for poverty reduction

- Place-based evaluation can play a key role examining performance of projects & programmes.
  - Evaluations and cost benefit analysis should take a broad approach

- There is scope for mutual learning for policy dialogue. Emerging economies – OECD.
Thanks for your attention!

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