



GROWTH IN LOW DENSITY AND REMOTE ECONOMIES

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Presentation outline

1. Low density and remote economies
2. NSPA findings and recommendations
3. What it means for smart specialisation



Low density and remote economies



Low density and remote economies

Low density and remote economies face a number of common challenges...

- Relative smaller population and labour force (with less skills)
- Small local markets that offer a limited set of goods and services, vulnerability to shocks
- Weak connections to external markets, high transportation costs
- High dependence on primary sectors and first stage processing

...and these challenges can be amplified for island economies (e.g. in the Scottish case):

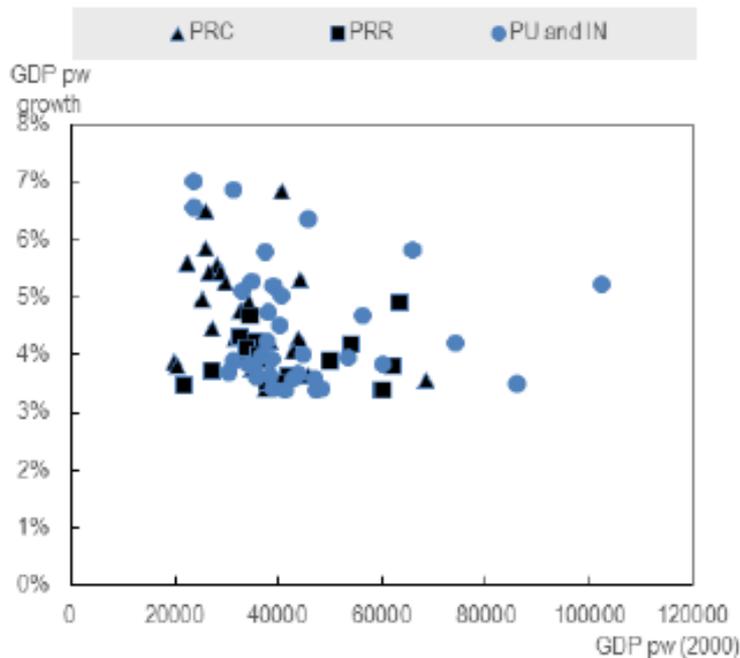
- Weak integration into national infrastructure networks
- Seasonality – business models, public infrastructure and services
- Narrow and thin markets – skills, housing, exports, and import suppliers
- Vulnerability to climate change – storm surges, coastal erosion and inundation
- Limited supply of land and land use conflicts
- Environmental sustainability challenges – water, sanitation, waste and energy



Who are the high performers amongst OECD regions?

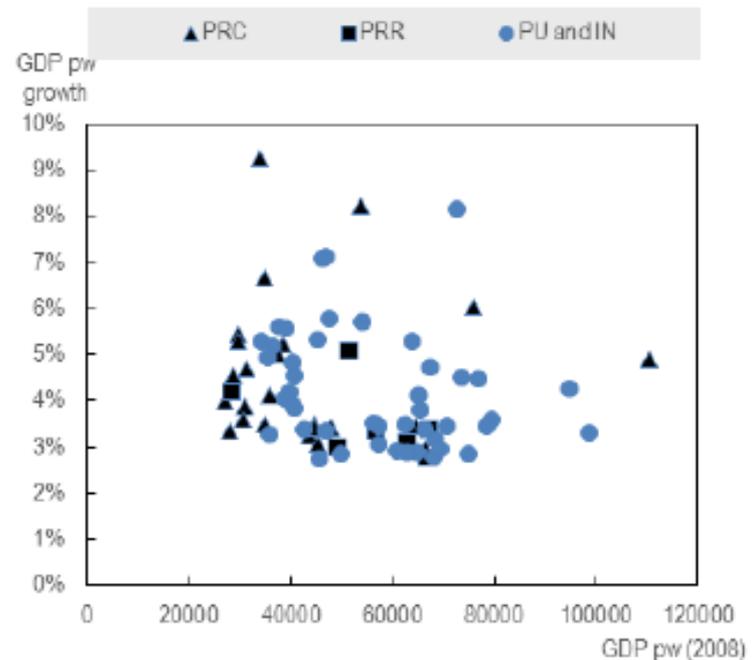
OECD TL3 regions within 10% top productivity growth, by typology

(pre-crisis 2000-2008)



Amongst top performers 54% were rural (pre-crisis):
→ 33% rural close to cities
→ 21% rural remote

(after crisis 2008-2012)



Declined to 41% (post crisis)
→ 31% rural close to cities
→ 9% rural remote



Island economies: potential for catching up

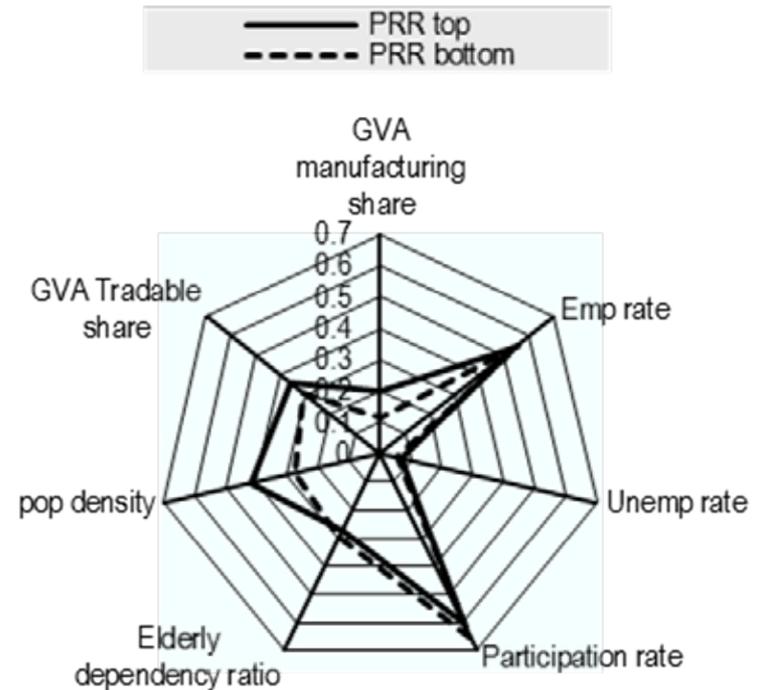
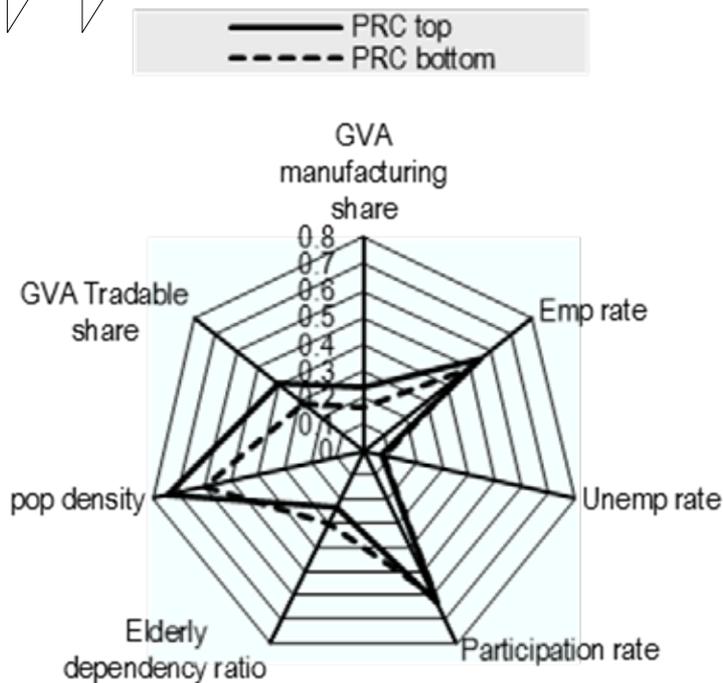
Gap in labour productivity between islands and the country (levels and growth rates)

	Labour productivity level gap (2013)	Gap in annual average growth labour productivity (2004-2013)
Balearic Islands (Spain)	-3.5	-0.3
Åland (Finland)	-6.3	+0.2
Shetland Islands (UK)	-11.9	-0.1
Ionian Islands (Greece)	-20.2	-1.8
Tasmania (Australia)	-22.6	-0.9
Crete (Greece)	-23.5	-0.7
Gotland (Sweden)	-26.6	-0.1
Orkney Islands (UK)	-29.4	-0.2
Outer Hebrides (UK)	-29.5	-1.4

Source: OECD Regional database.

What are the key drivers of rural productivity growth and catching up?

Determinants of productivity growth before the crisis (2000-2008)



- **Tradable activities** are key for rural close to cities and remote rural
- **Proximity to cities** - a minimum level of **density** is key for economies of scale/scope and delivery of goods and services.



What are the policy implications?

Dimension	Low density and remote economies...	...of which are Island economies
Identifying drivers for growth	<ul style="list-style-type: none">• Tradeables and finding the niche (smart specialisation)	<ul style="list-style-type: none">• Food production, visitor experiences, and renewable energy (smoothing seasonal fluctuations)• Leverage unique geographies and technological solutions
How to add value in these domains	<ul style="list-style-type: none">• Policy focus on enabling factors: skills, market intelligence, institutions, innovation	<ul style="list-style-type: none">• Building scale and external alliances to access capital, skills and expertise• 'Island proofing' of national policies and adaptation to specific assets
Improve access to markets	<ul style="list-style-type: none">• Infrastructure and connectivity• Urban-rural linkages	<ul style="list-style-type: none">• Integration with national energy and communication networks• Diversifying export markets and import suppliers
Demographic trends and forward looking policies	<ul style="list-style-type: none">• Address long term cost efficiency in service provision (planning, ICT)• Mitigation and adaptation to climate change	<ul style="list-style-type: none">• Enabling and testing service delivery innovations• Strengthening spatial planning frameworks and climate adaptation measures



NSPA findings and recommendations



Productivity and workforce activation important to future growth

Decomposing GDP growth in NSPA regions (1999-2012)

	Productivity	Population	Employment	Activity rate	
Sweden	Västernorrland	0.5%	-0.9%	-0.5%	-0.1%
	Jämtland Härjedalen	-0.1%	-0.9%	0.1%	0.1%
	Västerbotten	0.2%	-0.5%	0.2%	0.1%
	Norrbottn	0.6%	-0.9%	1.1%	-0.1%
Norway	Nordland	-0.1%	-0.9%	0.0%	0.0%
	Troms	-0.8%	-0.5%	0.1%	-0.1%
	Finmark	-0.7%	-0.9%	0.6%	-0.1%
Finland	South Savo	0.7%	-1.1%	0.4%	-0.2%
	Pohjois-Savo	0.1%	-0.6%	0.4%	0.0%
	Northern Karelia	0.5%	-0.7%	0.1%	0.1%
	Kainuu	0.0%	-1.3%	0.4%	-0.1%
	Central Ostrobothnia	1.6%	-0.4%	0.1%	-0.1%
	Northern Ostrobothnia	-0.3%	0.3%	0.0%	0.0%
	Lapland	0.8%	-0.9%	0.2%	0.0%

Source: Own calculation based on OECD (2016), *OECD Regional Statistics* (database)

Only one of the NSPA regions has been affected by the so-called 'rural paradox' whereby productivity growth is generated by shedding labour.



Factors influencing the productivity performance of NSPA regions

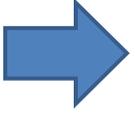
- **National factors** play a role e.g. sectoral specialisation at a national level, exchange rate flexibility
- **Tradeable sector – size and structure, sectoral specialisation** linked to natural resources and amenities (mining, fisheries and aquaculture, tourism, forestry), and **participation in global value chains** (first stage processing, value-adding services, research and development)
- **Proportion of the public sector in the regional economy** – symptom of a weak private sector economy
- **Enabling factors** – human capital, and the quality of transport and digital infrastructure
- **Population size and density** – necessary for economies of scale and scope (concentrated v. dispersed settlement patterns)



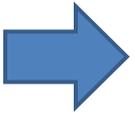
Developing an integrated strategy for the NSPA

Summary of shared policy themes and challenges for NSPA regions

Policy themes	Key challenge
Demographic change and labour markets	Population ageing which will reduce the size of the future labour force, and there are structural problems in local labour markets including higher levels of youth unemployment and welfare dependence.
Service delivery innovation	Demographic change and fiscal consolidation continuing to place pressures on public infrastructure and services.
Infrastructure and connectivity	Remoteness from markets and long distances between urban settlements, which is compounded by an often challenging topography and harsh climate (e.g. maintenance costs).
Increasing entrepreneurship	The sustainable development of the NSPA is dependent upon facilitating new local businesses in areas such as ICT related services, tourism, niche manufacturing, and food production.
Smart specialisation and low-density economies	Research and innovation resources are limited across the NSPA and high technology sectors constitute a small part of these economies. Because home markets are small growth will come from developing the tradeable sector.
Linking indigenous communities with regional development	The Sami have an important role in regional economies; however, the connections with regional and rural development strategies are often inconsistent and weak.



Re-focus existing cross border collaborations and formalise a work programme which is better linked to national decision making (e.g. through Nordic Council of Ministers)



Continue and refine EU and national support for low density regions (e.g. infrastructure for connectivity, investing in tradeable sectors, access to finance, higher unit costs of public services)



What it means for smart specialisation



Smart specialisation

- Regions have the ability to identify sectors where they either currently have a **comparative advantage**, or they could have a comparative advantage in the future
- These sectors are responsive to **additional expenditures on research and innovation**
- Implicit sense that this approach is suited to **larger more urbanized regions with complex economies and significant formal research capacity**
- Research shows a certain level of **institutional capacity** is required to develop smart specialisation strategies, which may disadvantage rural remote areas (noting that rural remote areas in Nordic countries are not disadvantaged in this sense)



Smart specialisation in remote areas

Rural remote areas are **disadvantaged** because they:

- **are small and open to trade effects** (limited in terms of endogenous growth processes)
- **Generally lack formal research capability** in the form of large universities, government research facilities and corporate research centres
- **Lack dense networks** of firms, organizations and other institutions that are thought to be central to innovation

These disadvantages can be overcome by:

- **Broad view of innovation** (formal R&D, diffusion, local)
- Focusing on areas of **absolute advantage**
- **Combining related competencies and technologies** to build scale and discover new niche activities
- **Improving access to external markets**
- Developing **partnerships outside the region**



Further information

- NSPA Policy Highlights - <http://www.oecd.org/gov/regional-policy/northernsparselypopulatedareaspolicyhighlights.htm>
- OECD Rural Development - <http://www.oecd.org/governance/regional-policy/oecdworkonruraldevelopment.htm>
- 2016 Regional Outlook - <http://www.oecd.org/regional/oecd-regional-outlook-2016-9789264260245-en.htm>



THANK YOU FOR YOUR
ATTENTION

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