



# GROWTH IN LOW DENSITY AND REMOTE ECONOMIES

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# Presentation outline

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



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## *Low density and remote economies*



# Low density and remote economies

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## **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):**

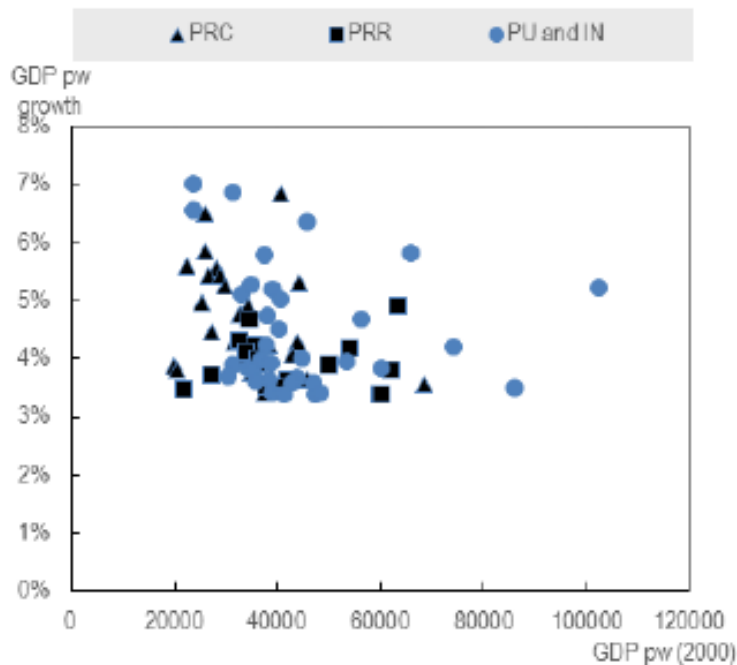
- Weak integration into national infrastructure networks
- Seasonality – business models, public infrastructure and services
- Narrow and thin markets – skills, housing, exports, and import suppliers
- Vulnerability to climate change – storm surges, coastal erosion and inundation
- Limited supply of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



# Who are the high performers amongst OECD regions?

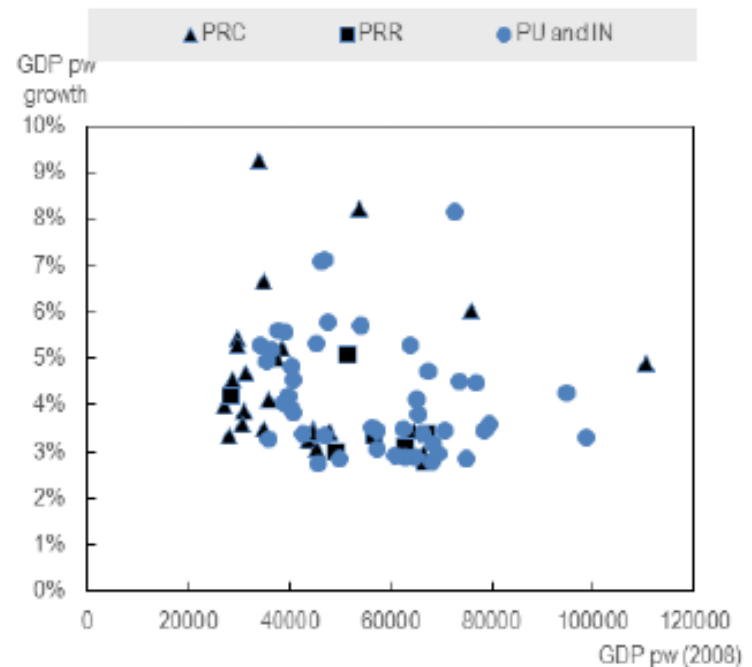
## OECD TL3 regions within 10% top productivity growth, by typology

(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

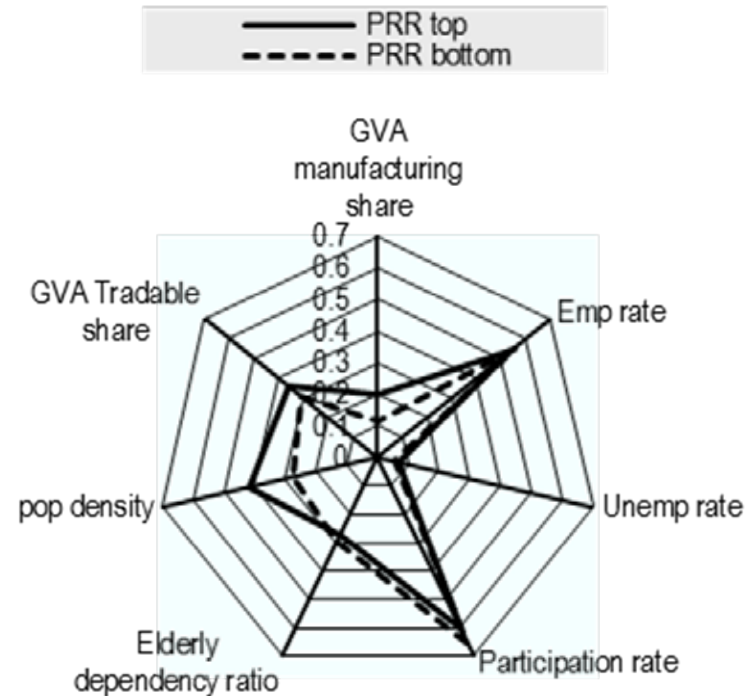
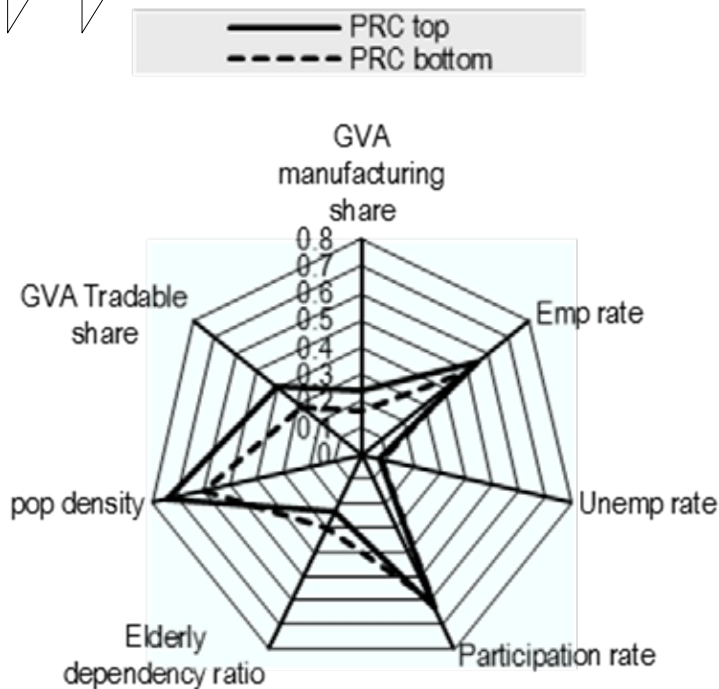
Gap in labour productivity between islands and the country (levels and growth rates)

	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
<b>Shetland Islands (UK)</b>	<b>-11.9</b>	<b>-0.1</b>
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
<b>Orkney Islands (UK)</b>	<b>-29.4</b>	<b>-0.2</b>
<b>Outer Hebrides (UK)</b>	<b>-29.5</b>	<b>-1.4</b>

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





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## ***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

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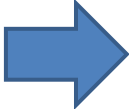
- **National factors** play a role e.g. sectoral specialisation at a national level, exchange rate flexibility
- **Tradeable sector – size and structure, sectoral specialisation** linked to natural resources and amenities (mining, fisheries and aquaculture, tourism, forestry), and **participation in 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
<b>Demographic change and labour markets</b>	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.
<b>Service delivery innovation</b>	Demographic change and fiscal consolidation continuing to place pressures on public infrastructure and services.
<b>Infrastructure and connectivity</b>	Remoteness from markets and long distances between urban settlements, which is compounded by an often challenging topography and harsh climate (e.g. maintenance costs).
<b>Increasing entrepreneurship</b>	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.
<b>Smart specialisation and low-density economies</b>	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.
<b>Linking indigenous communities with regional development</b>	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)**



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## *What it means for smart specialisation*



## Smart specialisation

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- 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

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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

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- 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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