REGIONAL PRODUCTIVITY CATCHING-UP AND TRADABLE SECTORS IN SOUTHERN EUROPE

CONFERENCE ON ECONOMIC DEVELOPMENT IN SOUTHERN EUROPEAN REGIONS: POLICIES AND HIGHER EDUCATION
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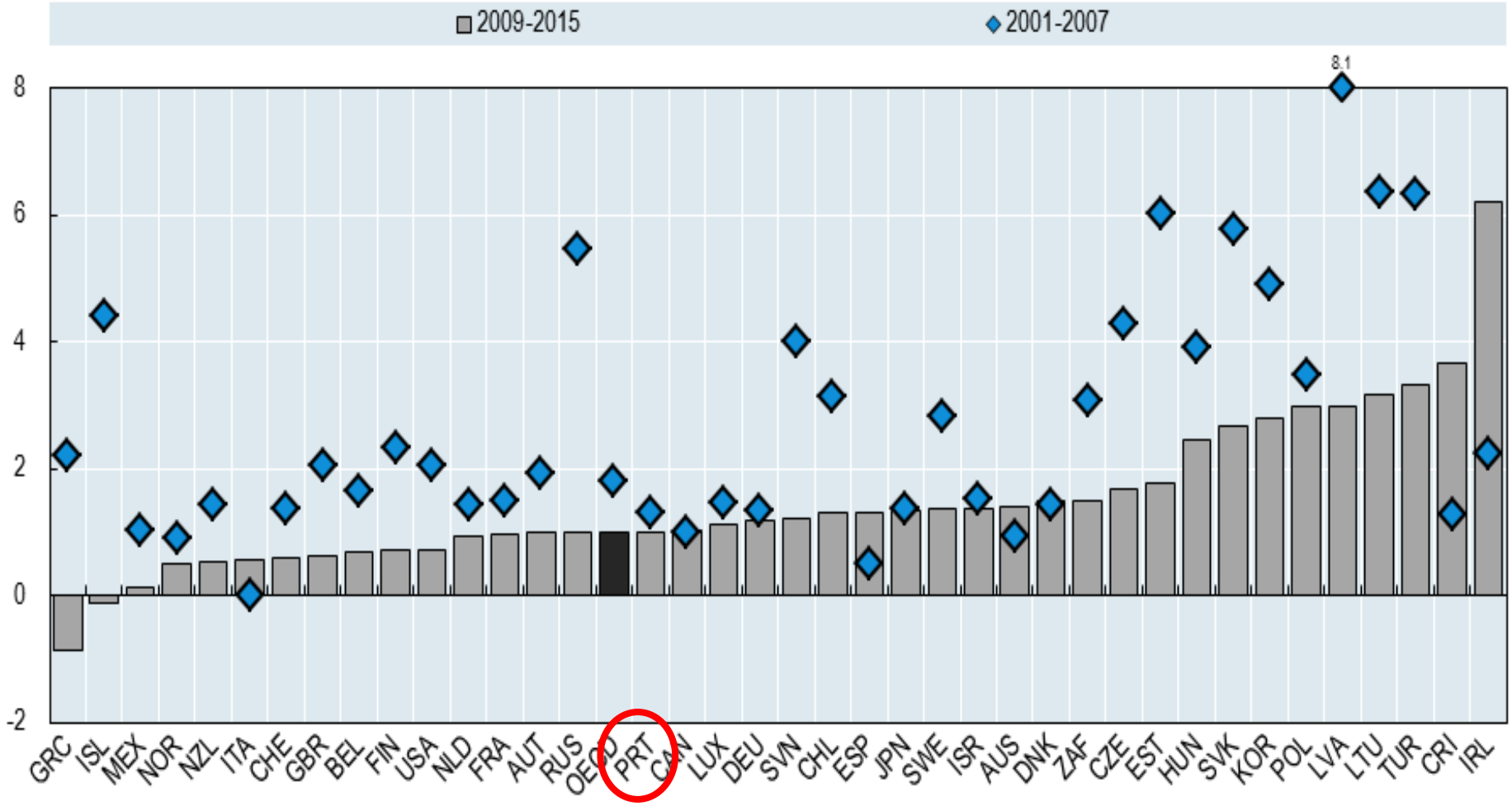
BETTER POLICIES FOR BETTER LIVES

OECD productivity trends and regional productivity performance

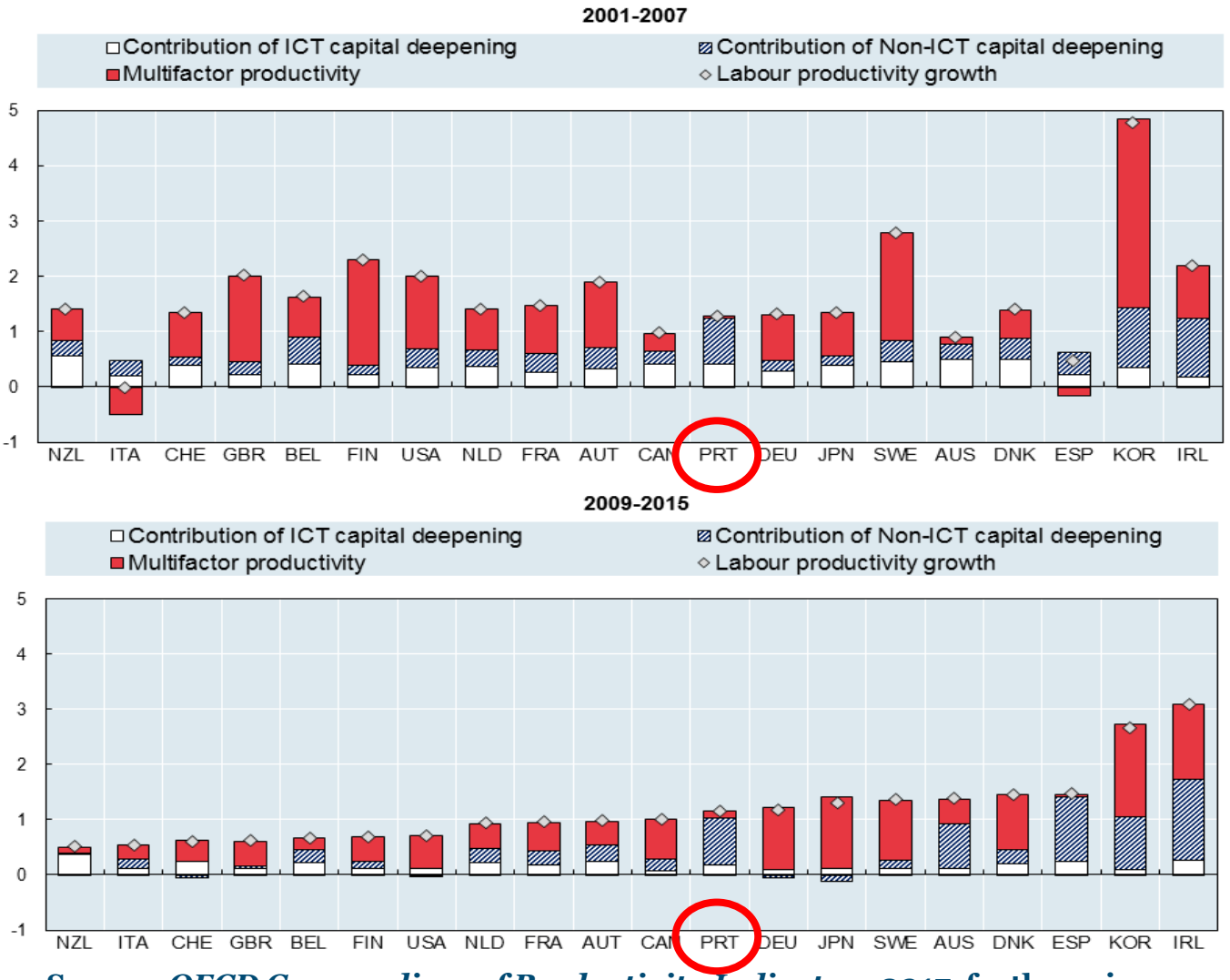
Labour productivity growth has decreased in most OECD countries

GDP per hour worked, percentage change at annual rate



Source: ***OECD Compendium of Productivity Indicators 2017*****, forthcoming.**

Lower TFP growth and slower capital deepening in most OECD countries



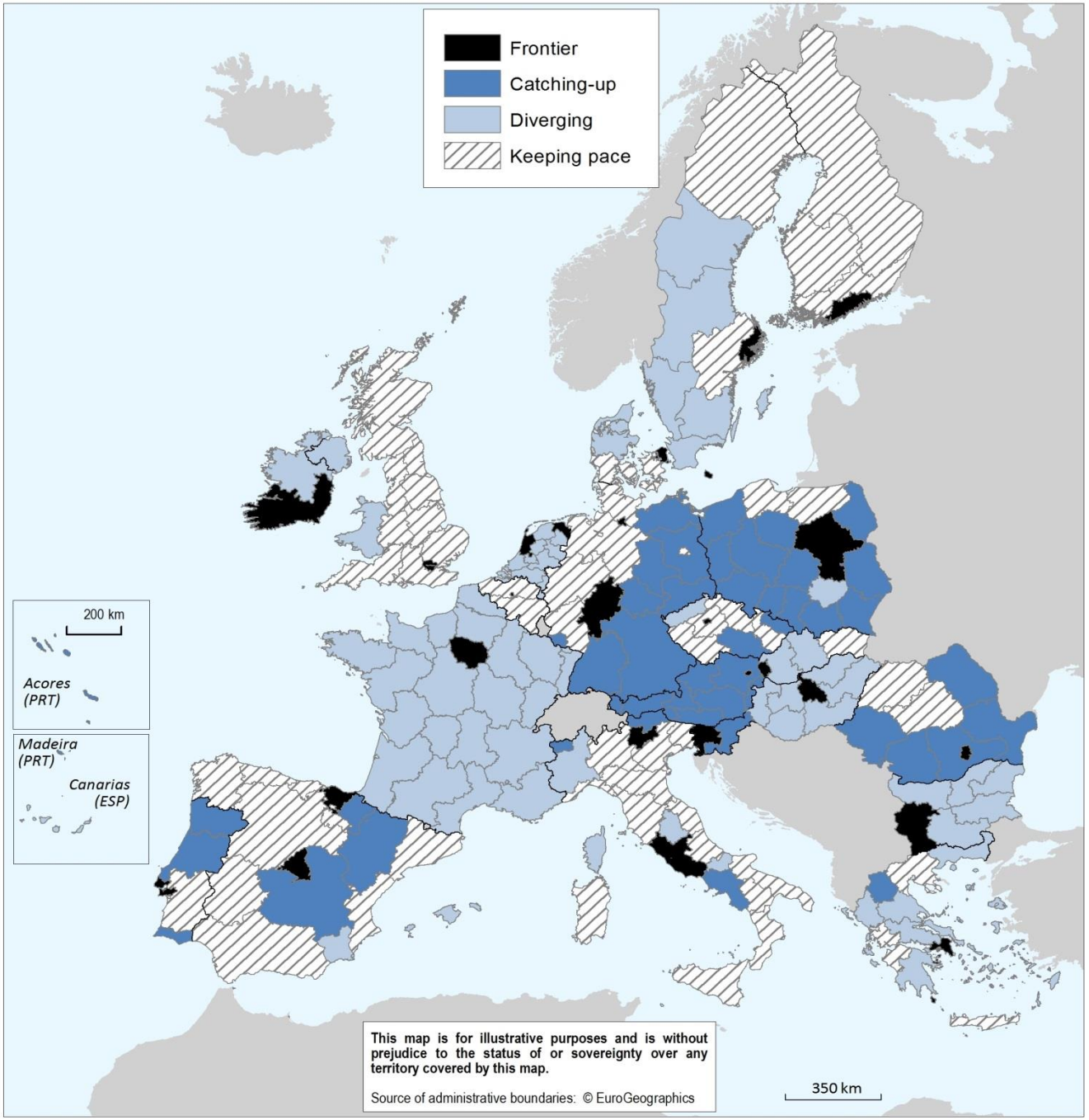
Source: ***OECD Compendium of Productivity Indicators 2017*****, forthcoming.**

A majority of regions have a flat or declining labour productivity catching-up

Type of regions	Employment share in 2000	GDP share in 2000	Annual avg. GDP growth, 2000-13	GDP growth contribution
Frontier	16.1%	20.1%	1.7%	**21.9%**
Catching up	20.3%	18.2%	2.2%	**25.3%**
Keeping pace	38.9%	39.1%	1.3%	**30.4%**
Diverging	24.6%	22.6%	1.6%	**22.4%**
OECD average			1.6%	

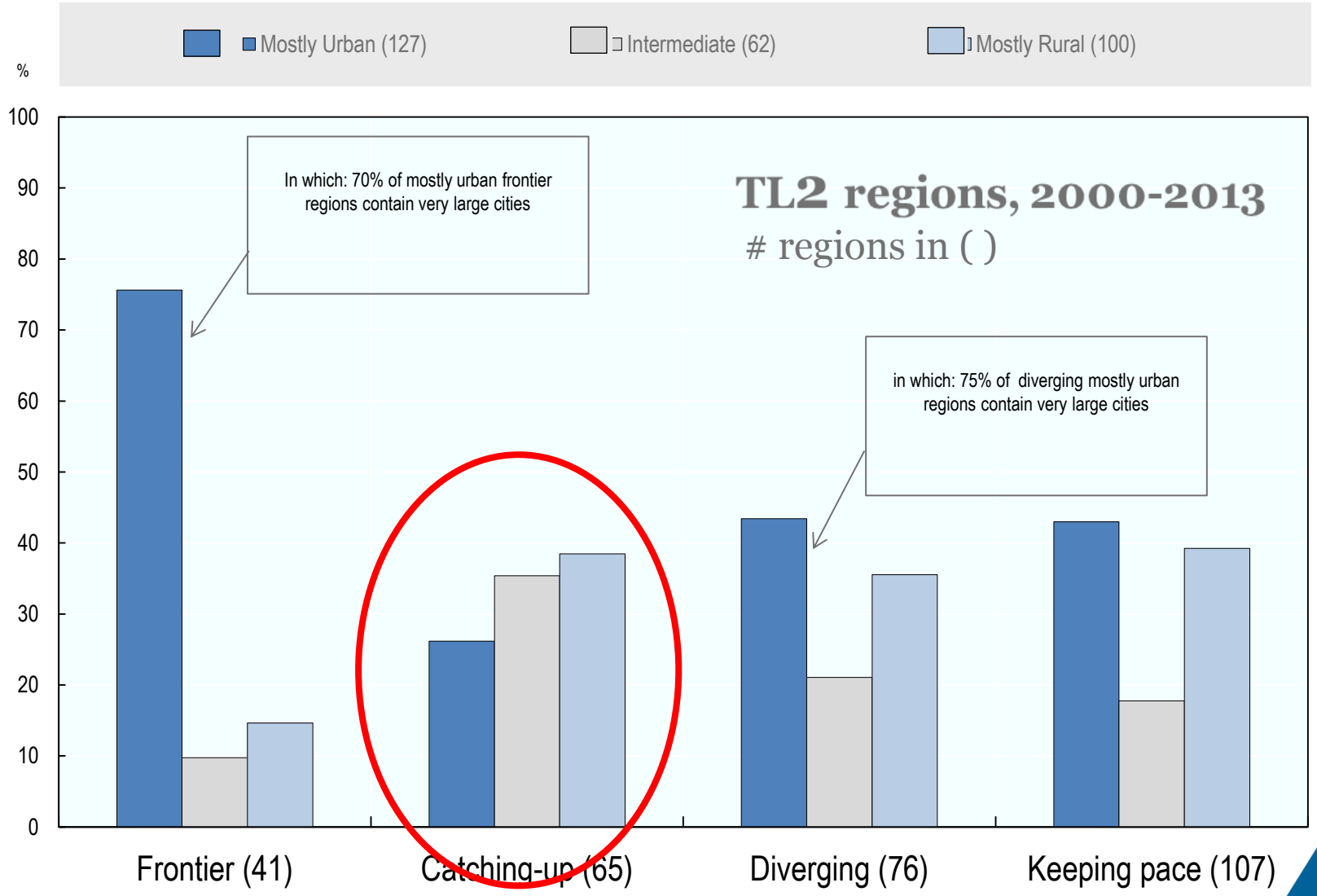
Note: Frontier regions are fixed for the 2000-13 period. In four countries the values for 2000 or 2013 were extrapolated from growth rates over a shorter time period as data for 2000 or 2013 were not available. The countries are FIN (2000-12), HUN (2000-12), NLD (2001-13) and KOR (2004-13).

➔ 62% of OECD GDP is generated in regions were productivity is *Keeping pace* or *Diverging*. They contributed to 53% of GDP growth

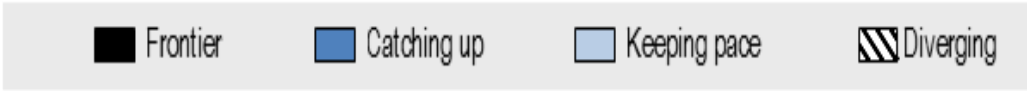


Geography of productivity convergence relative to national frontiers in European regions

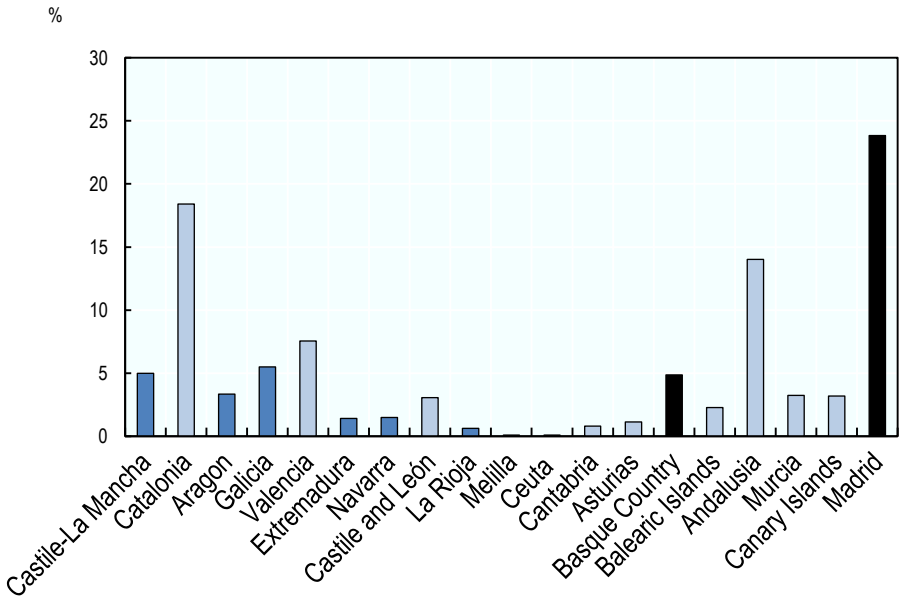
Good or bad productivity performance can be found all types of regions



Region's contributions to national growth vs. labour productivity growth: **Spain**

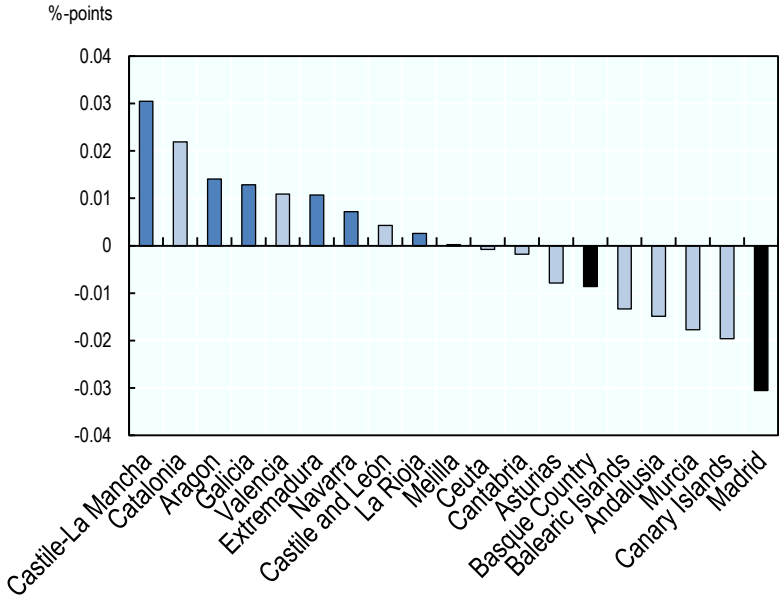


Percentage contribution to national GDP growth, 2000-13



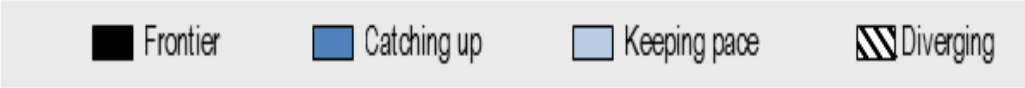
Notes: Percentage contribution shows the share of total GDP growth that was due to growth in the indicated region. Total contribution sums to 100%.

Contribution to labour productivity growth, 2000-13

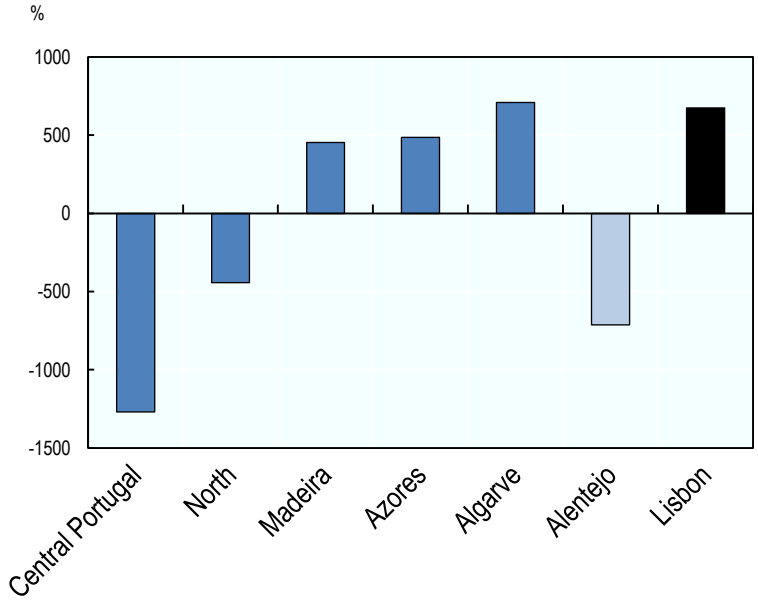


Notes: The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region.

Region's contributions to national growth vs. labour productivity growth: **Portugal**



Percentage contribution to national GDP growth, 2000-13



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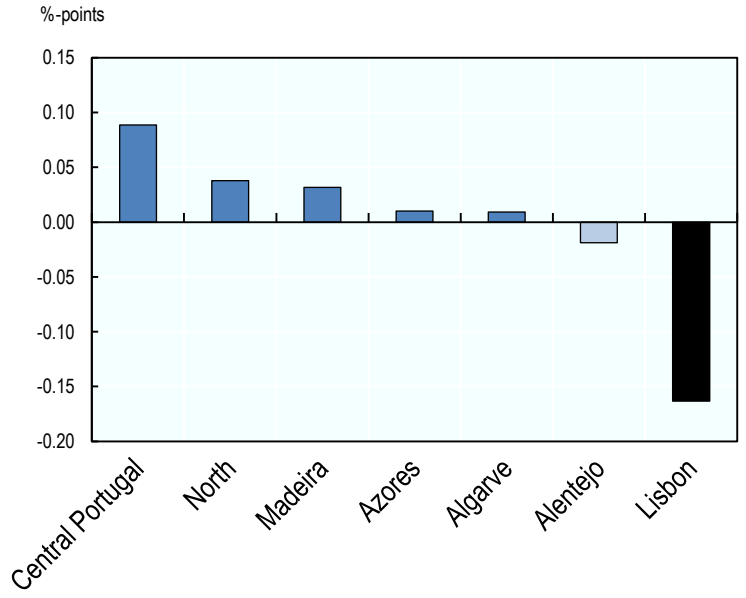
Contribution to labour productivity growth, 2000-13



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.

The drivers of regional productivity catching-up

(1) Rural regions *close to cities* display stronger productivity catching-up

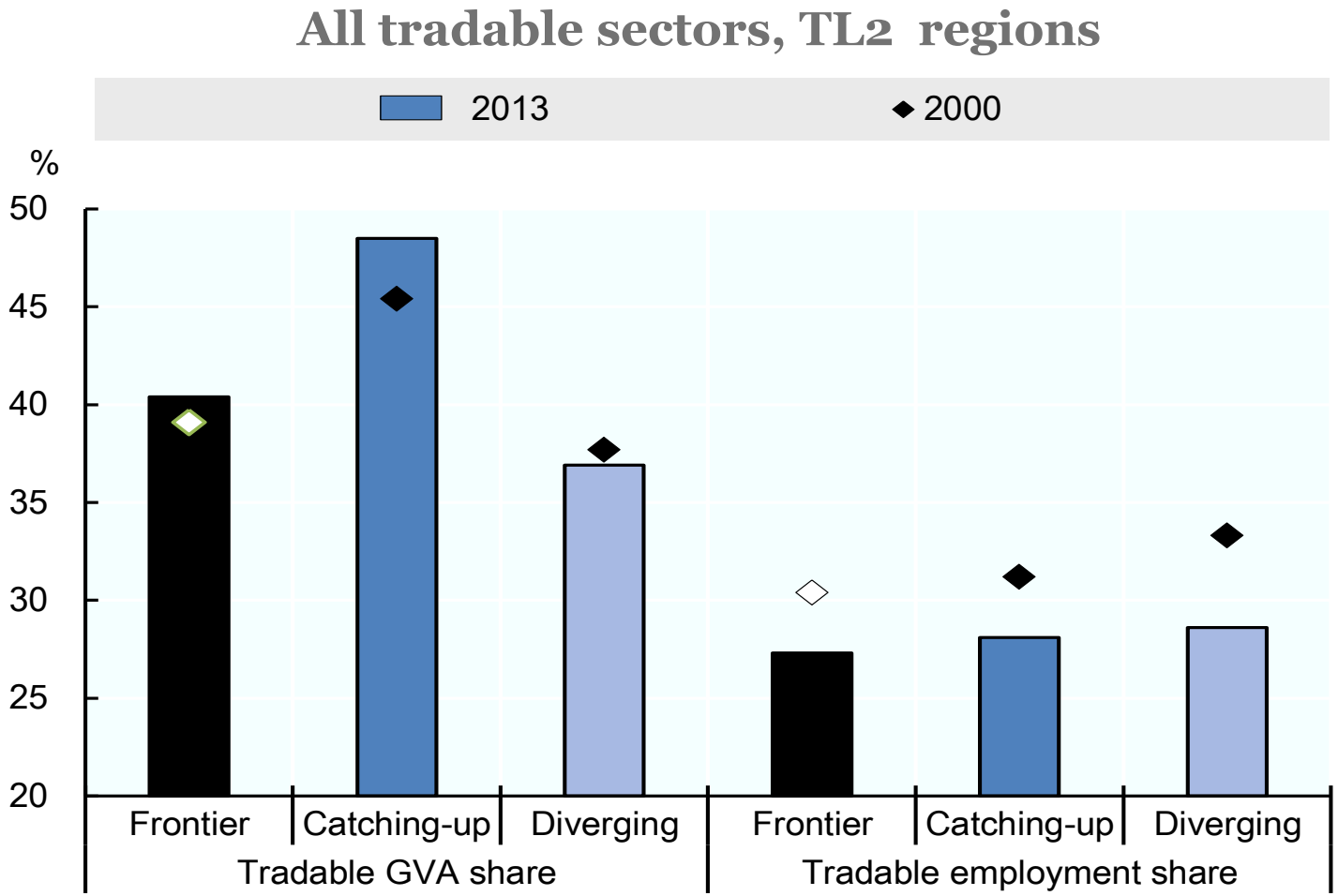
Rural remote regions present a higher variation in productivity growth rates than other types of regions

	Annual average labour productivity growth, 2000-12	Standard deviation	Coefficient of variation
Predominantly urban	1.01%	1.02%	1.019
Intermediate	1.07%	1.09%	1.024
Predominantly rural close to cities	1.36%	1.32%	0.972
Predominantly rural remote	0.70%	1.15%	1.641

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.

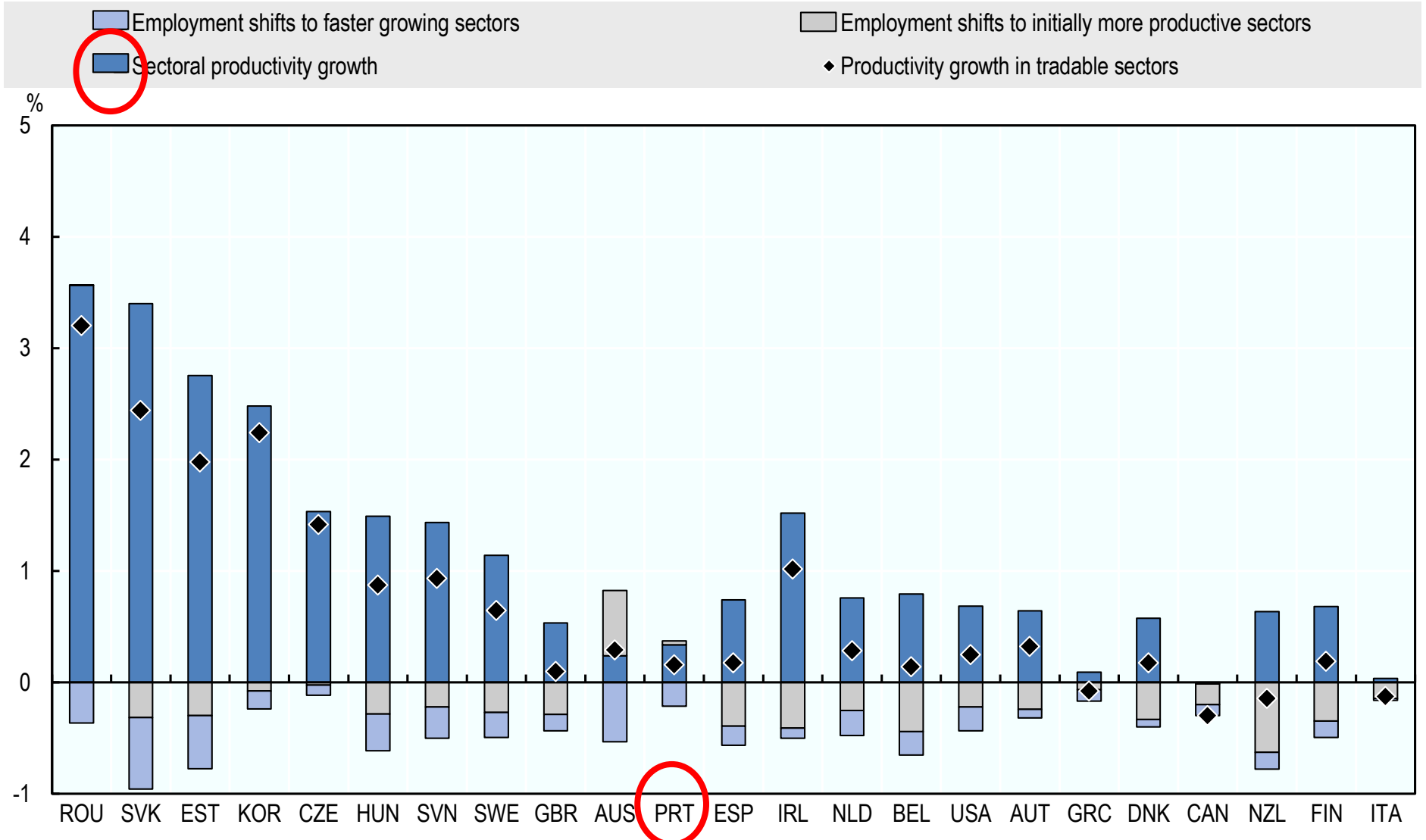
Source: OECD Regional Outlook 2016

(2) Stronger intensity of tradable sectors is associated with productivity catching-up

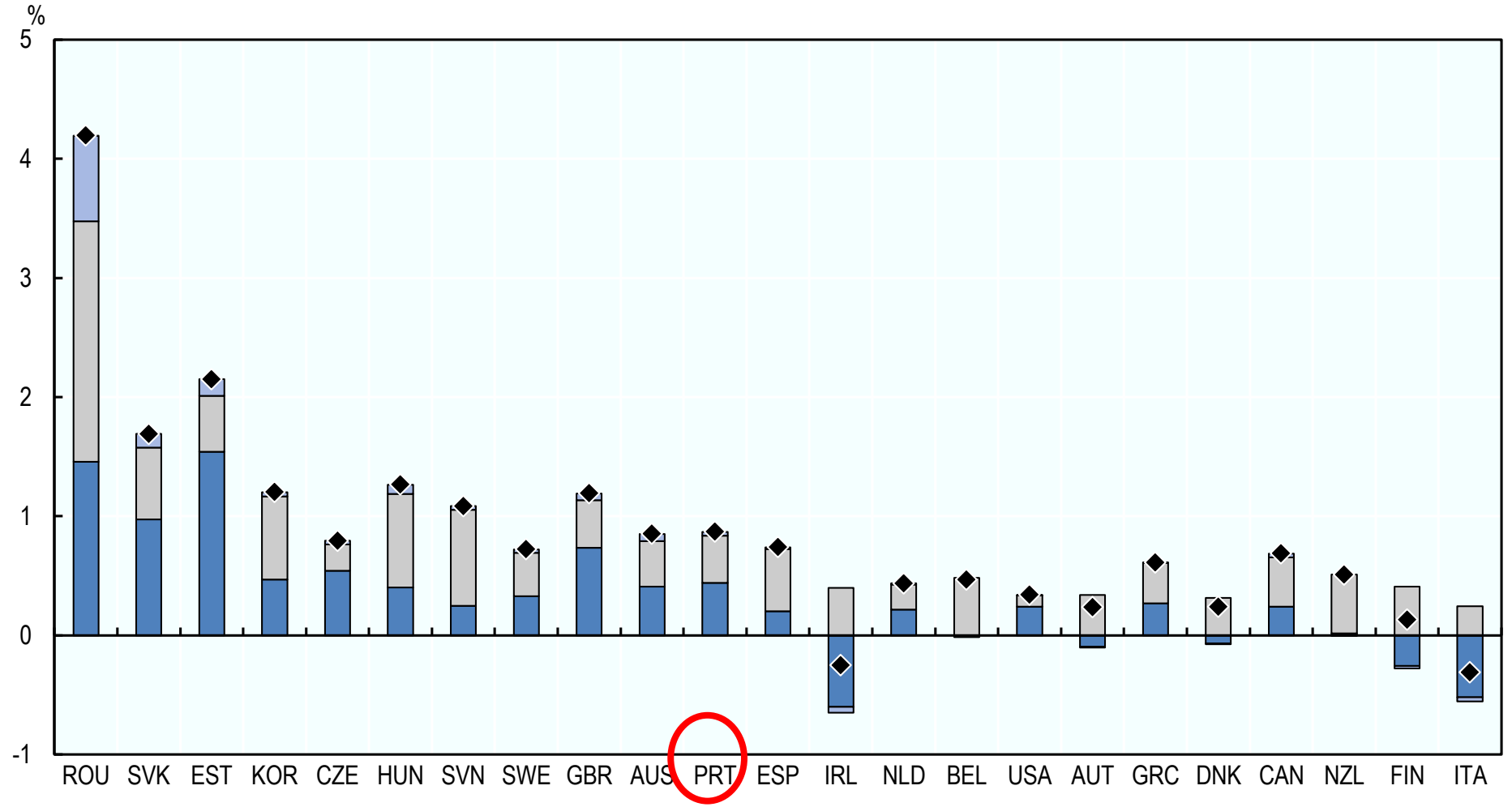


Notes: Tradable sectors are defined by a selection of the 10 industries defined in the SNA 2008. They include: agriculture (A), industry (BCDE), information and communication (J), financial and insurance activities (K), and other services (R to U). Non tradable sectors are composed of construction, distributive trade, repairs, transport, accommodation, food services activities (GHI), real estate activities (L), business services (MN), and public administration (OPQ).

Productivity gains in tradables are mainly within sectors

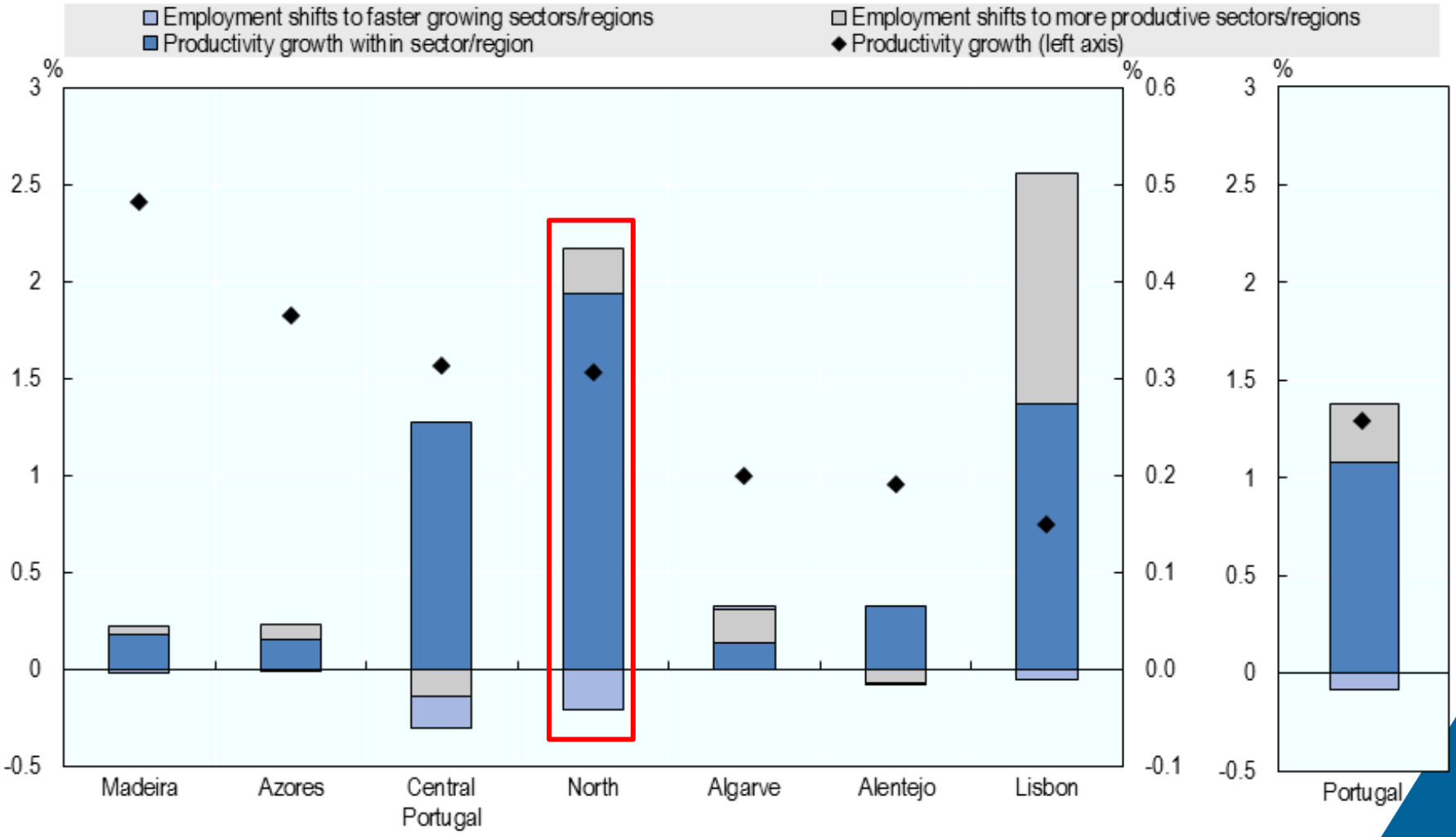


Productivity gains in non tradables are associated with sectoral shifts

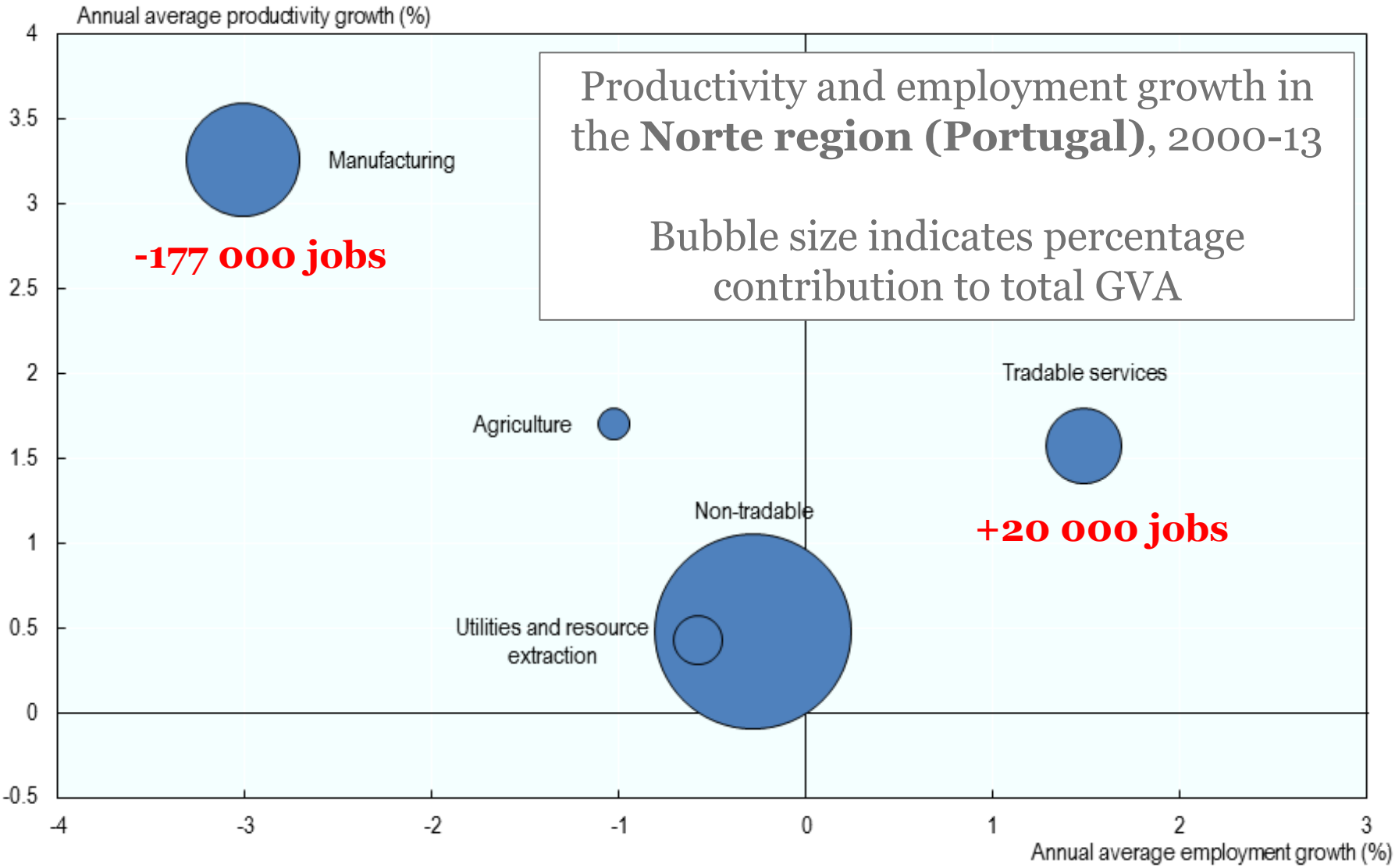


Most of productivity adjustment in Portugal was done within sectors

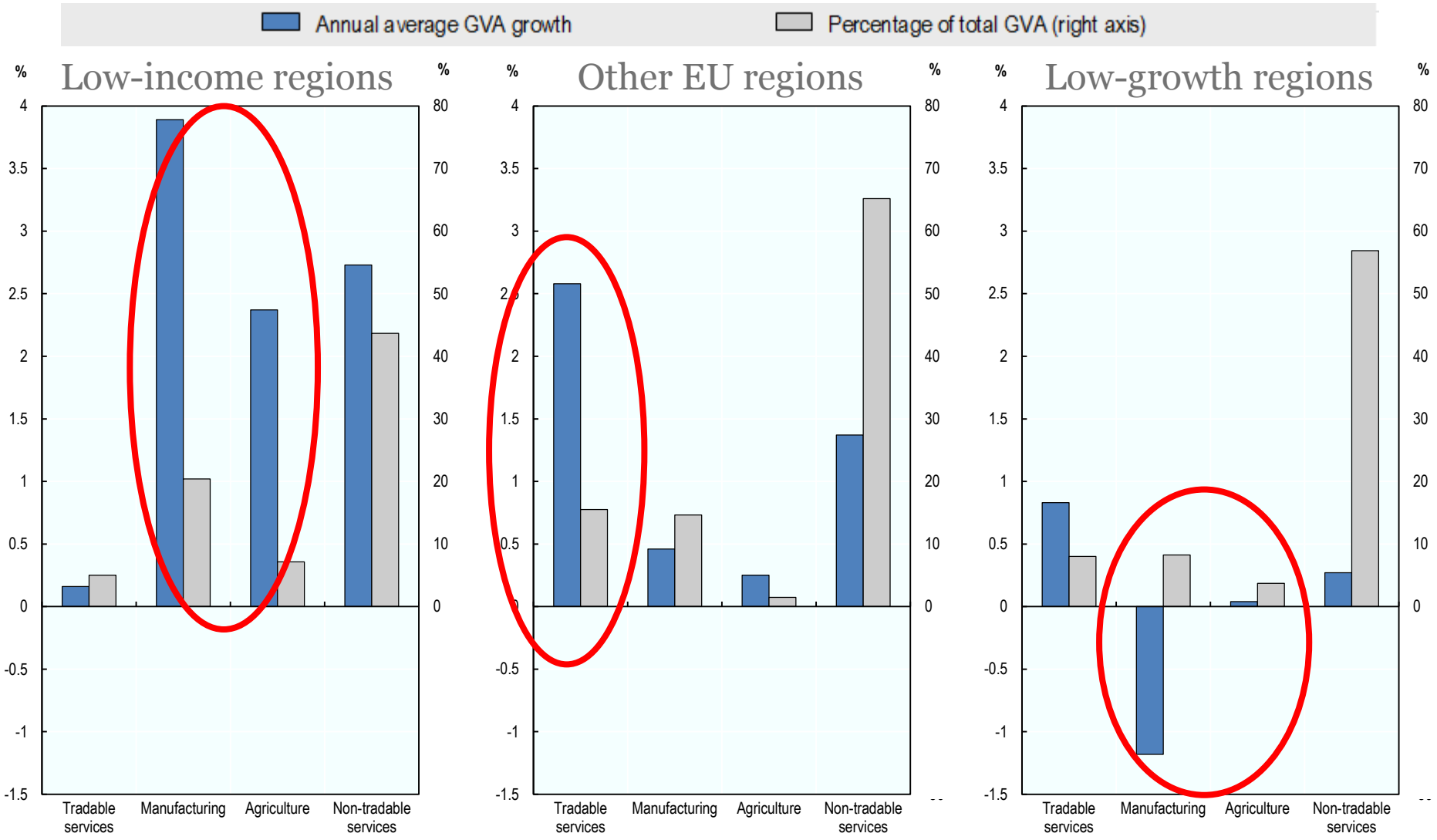
Drivers of labour productivity growth, 2000-13



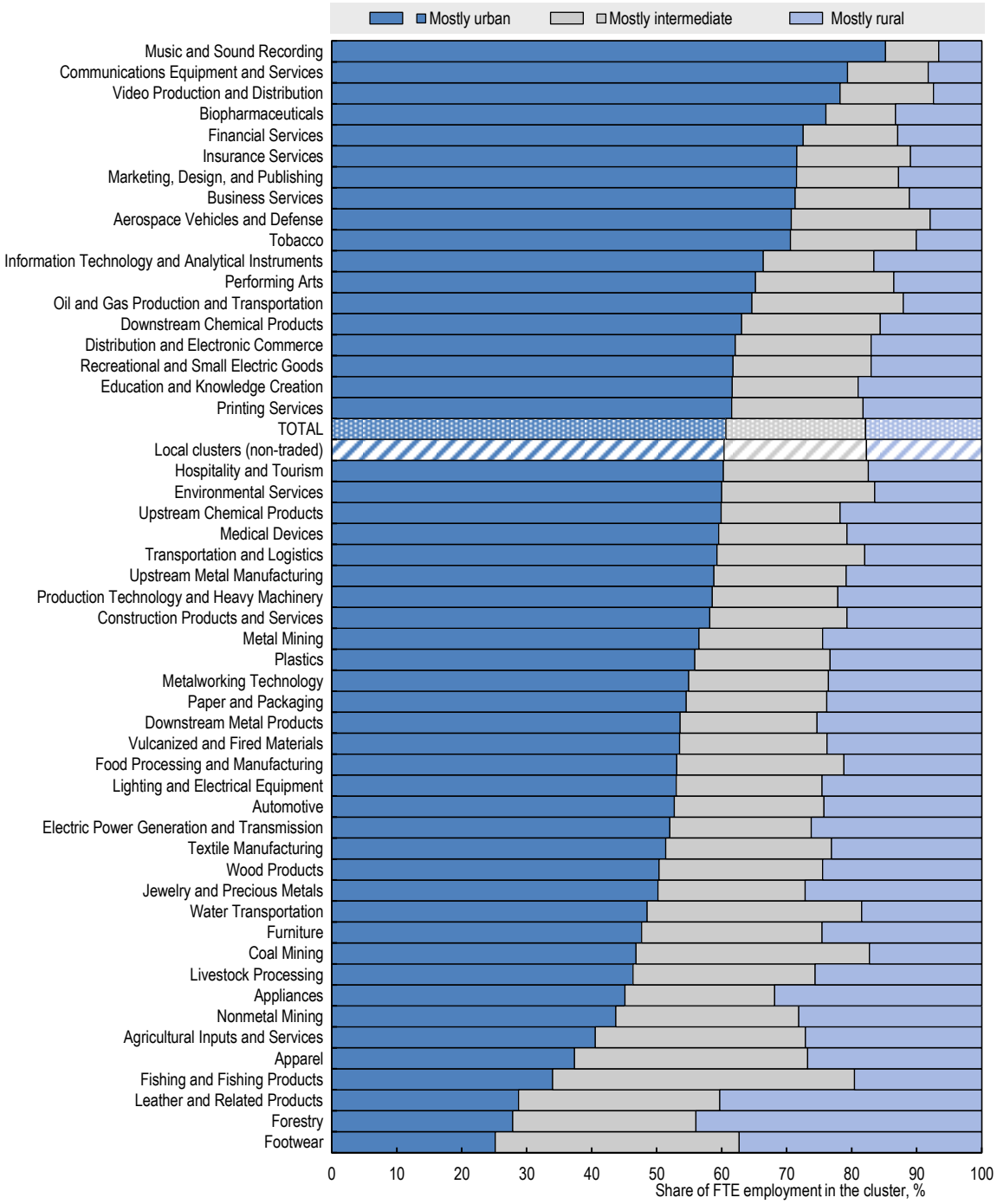
Structural change creates productivity growth, but the adjustment is painful



Tradable sectors have promoted aggregate growth in some EU regions



Territorial aspects of the tradable sectors



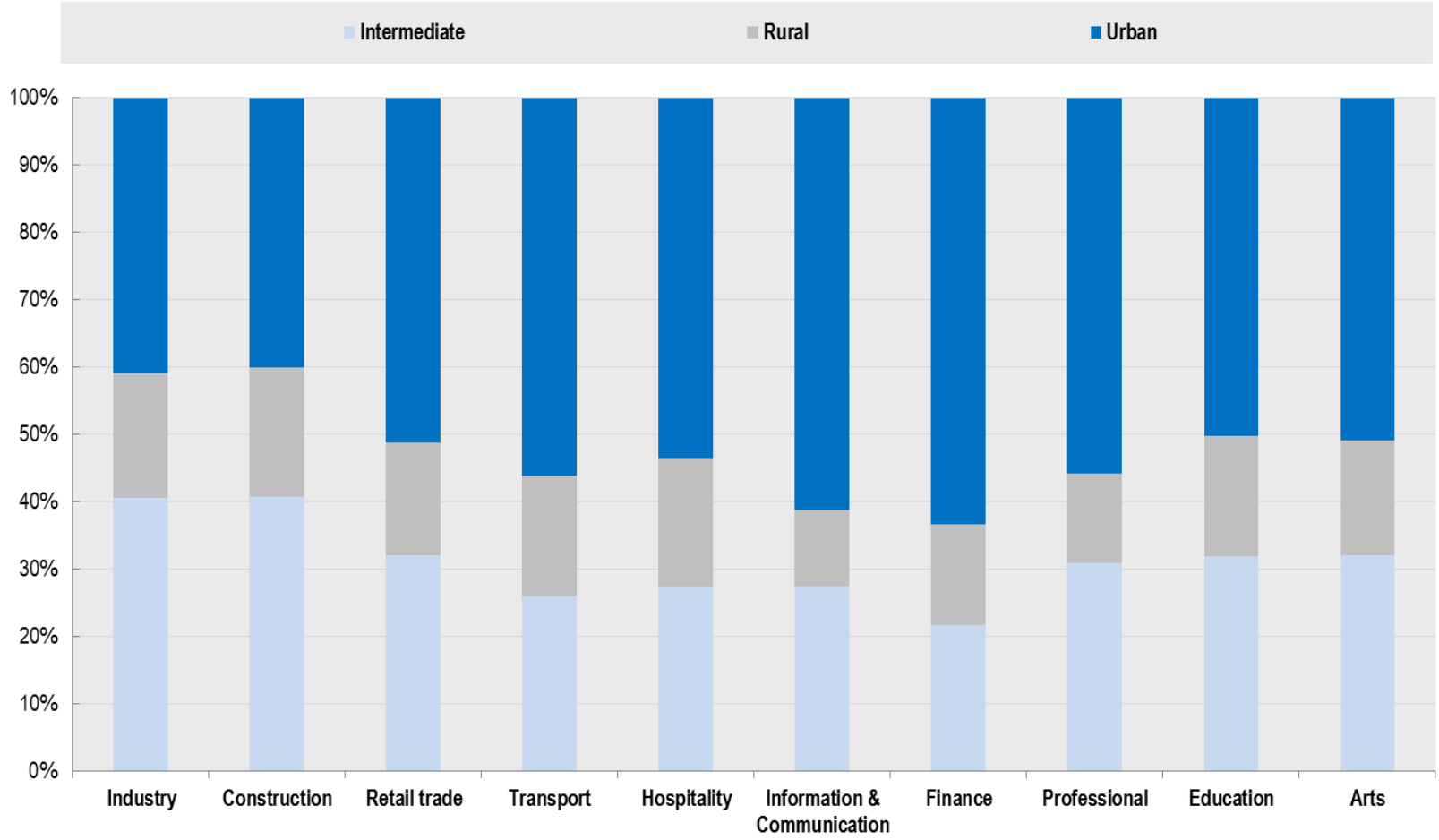
Share of total employment in clusters by type of TL2 region

Mostly urban regions are those with at least 70% of its population living in Functional Urban Areas or part of its population living in a large metro area with at least 1.5 million inhabitants. Mostly rural regions have less than 50% of their population living in FUAs

Source: OECD Regional Statistics and Ketels and Protsiv (2016)

Urban areas attract more knowledge-intensive firms

Birth shares by sector (births by sector/total regional births) TL3 regions (15 OECD countries) 2014

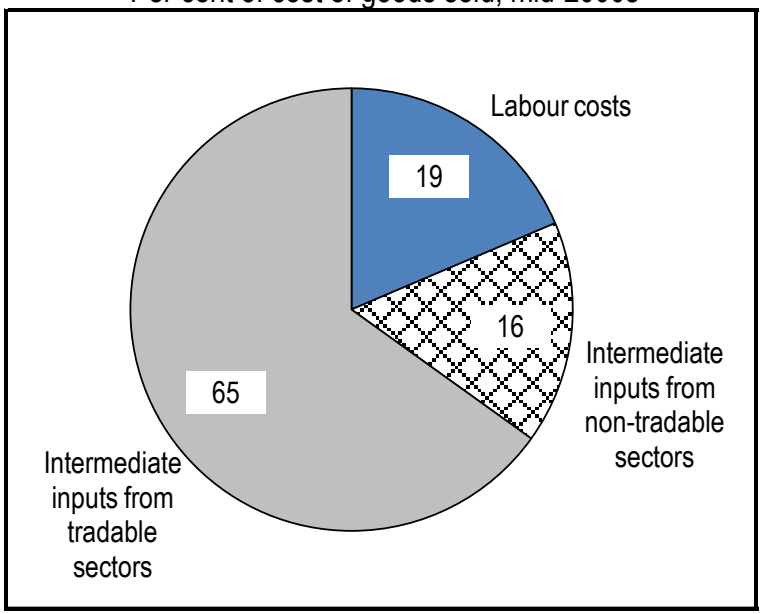


Policies & Tradable sectors

Macro conditions: relative prices of non-tradable goods in Portugal, 2000-2013

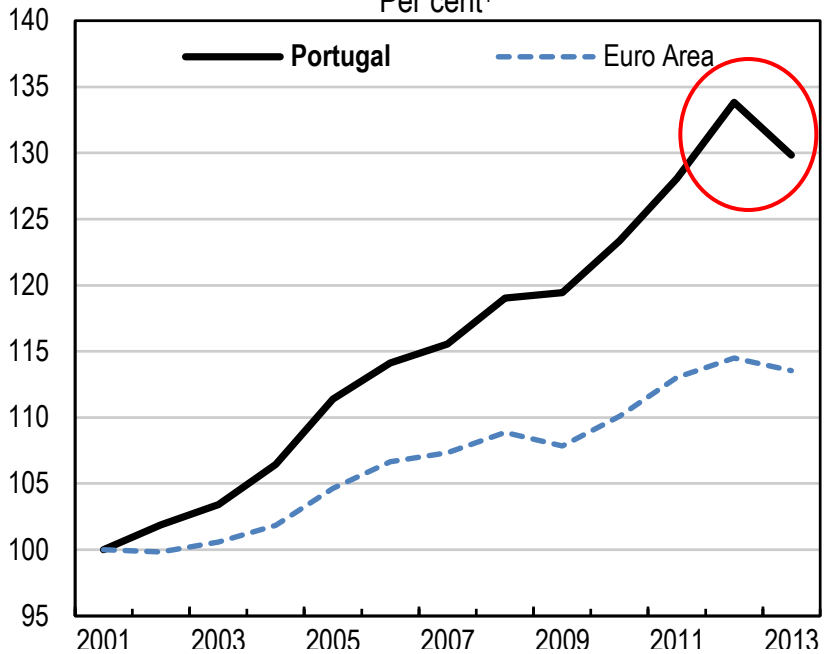
A. Simplified cost breakdown in tradable sectors

Per cent of cost of goods sold, mid-2000s



B. Prices of non-tradables relative to tradables

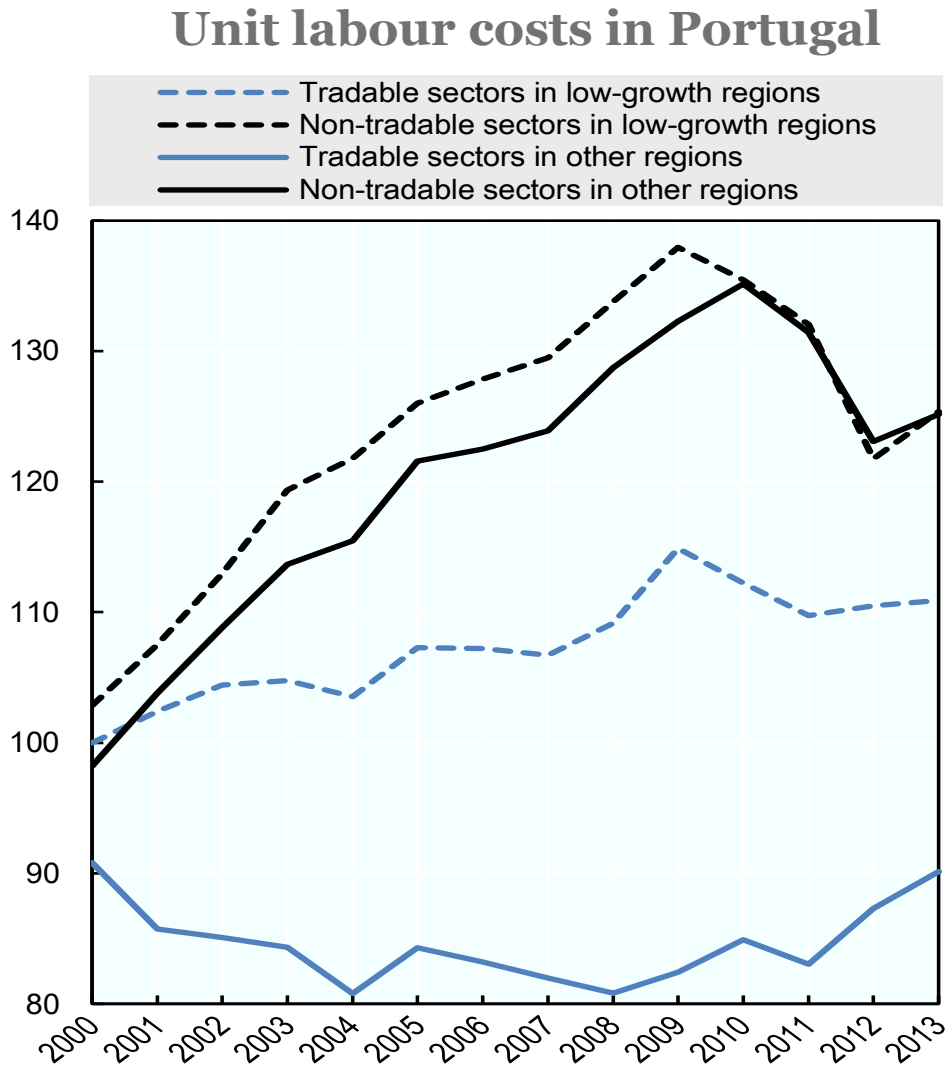
Per cent[1]



Ratio of harmonised index of consumer prices (HJune2014ICP) (2001=100) of non-tradable sectors to HICP (2001=100) of tradable sectors; OECD (2014), "STAN Input-Output: Input Output Database", *STAN: OECD Structural Analysis Statistics* (database), June and Eurostat (2014), *Harmonised Indices of Consumer Prices (HICP)* (database), May.

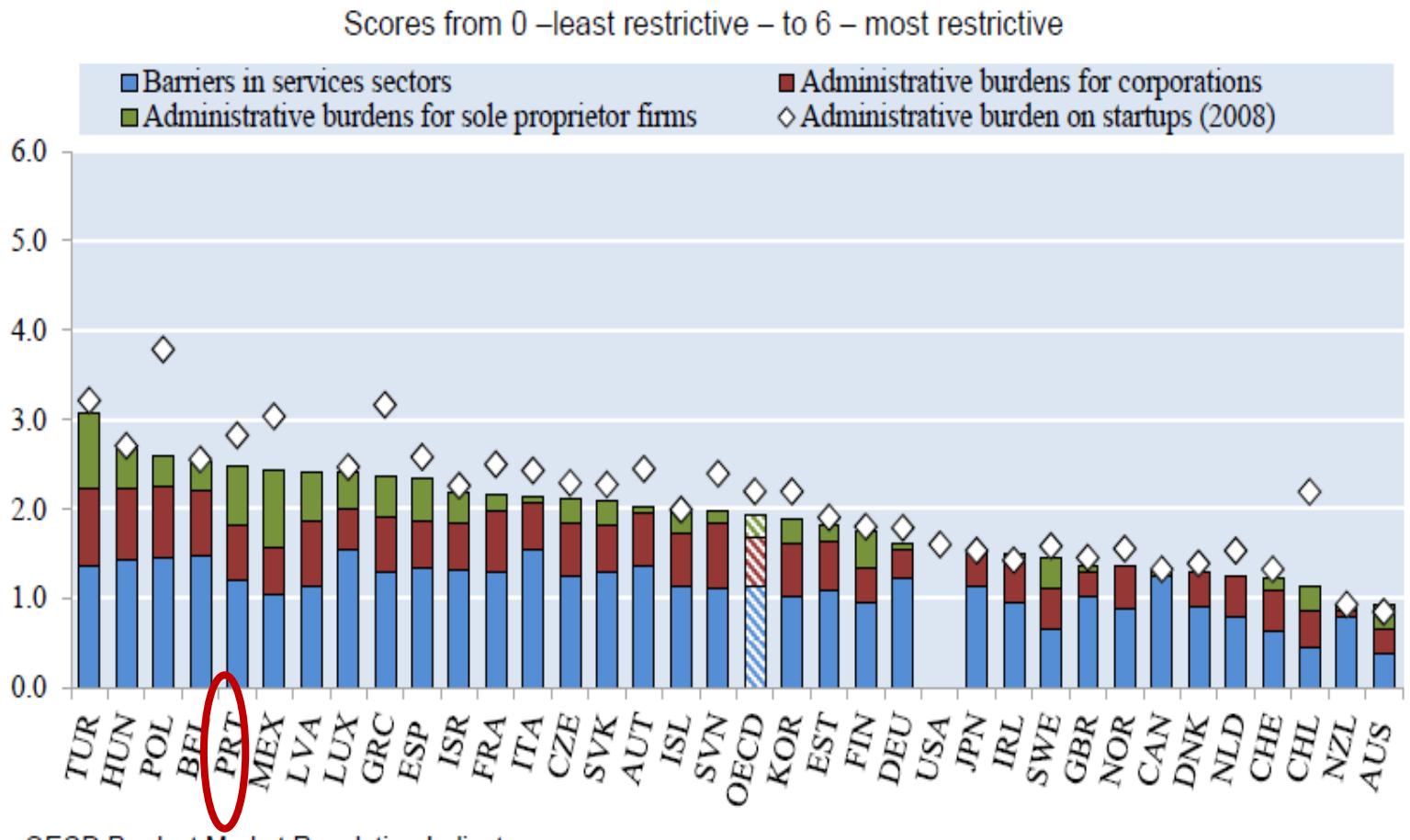
Source: OECD Economic Survey of Portugal, 2014.

Unit Labour costs have increased in the non-tradable sectors



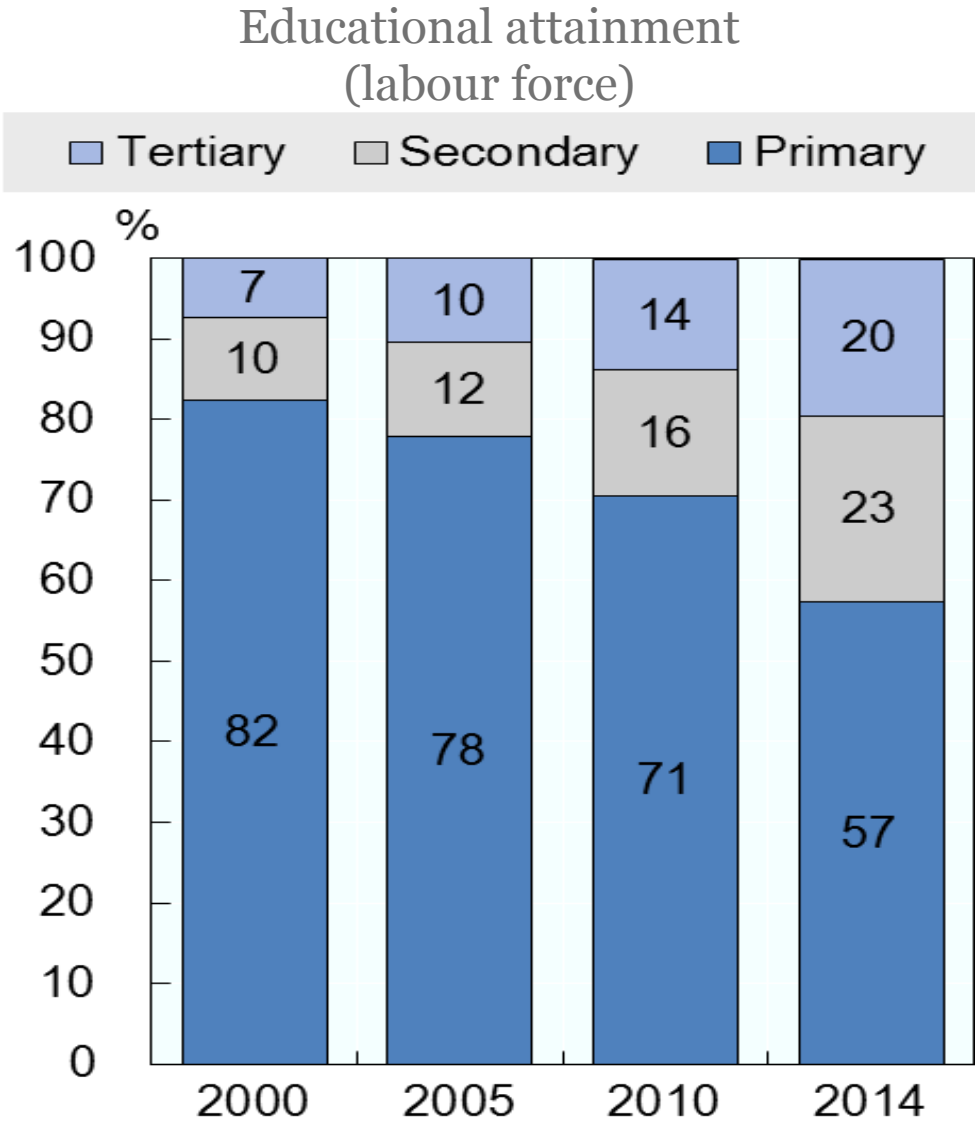
Economy-wide structural policies (or ex-ante conditions) also play a role

Figure 3.3. Administrative burdens on startups, 2008 and 2013



Source: OECD Product Market Regulation Indicators

Improvement of Human Capital Northern region Portugal

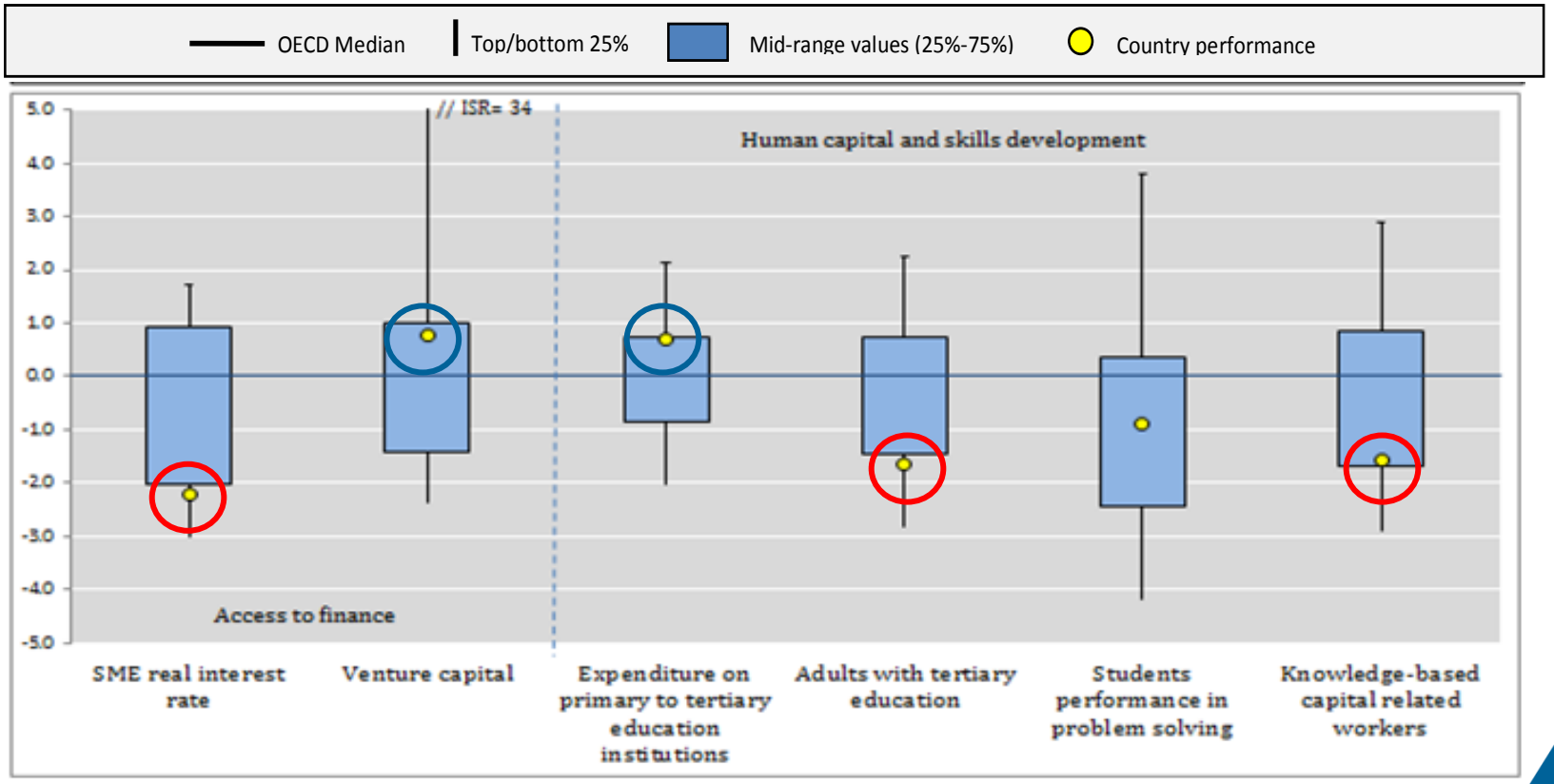


- The share of workers with low levels of education has declined in last few years
- Partly driven by:
  - generational change
  - decrease in opportunities for workers with low levels of formal education

There is scope to coordinate better SME and regional policy

- Uneven recovery in SME access to finance, with persistent differences in real cost of credit and diversification of SME financing sources
- Large differences in investments in knowledge assets, training and lifelong learning

Pilot country: Portugal

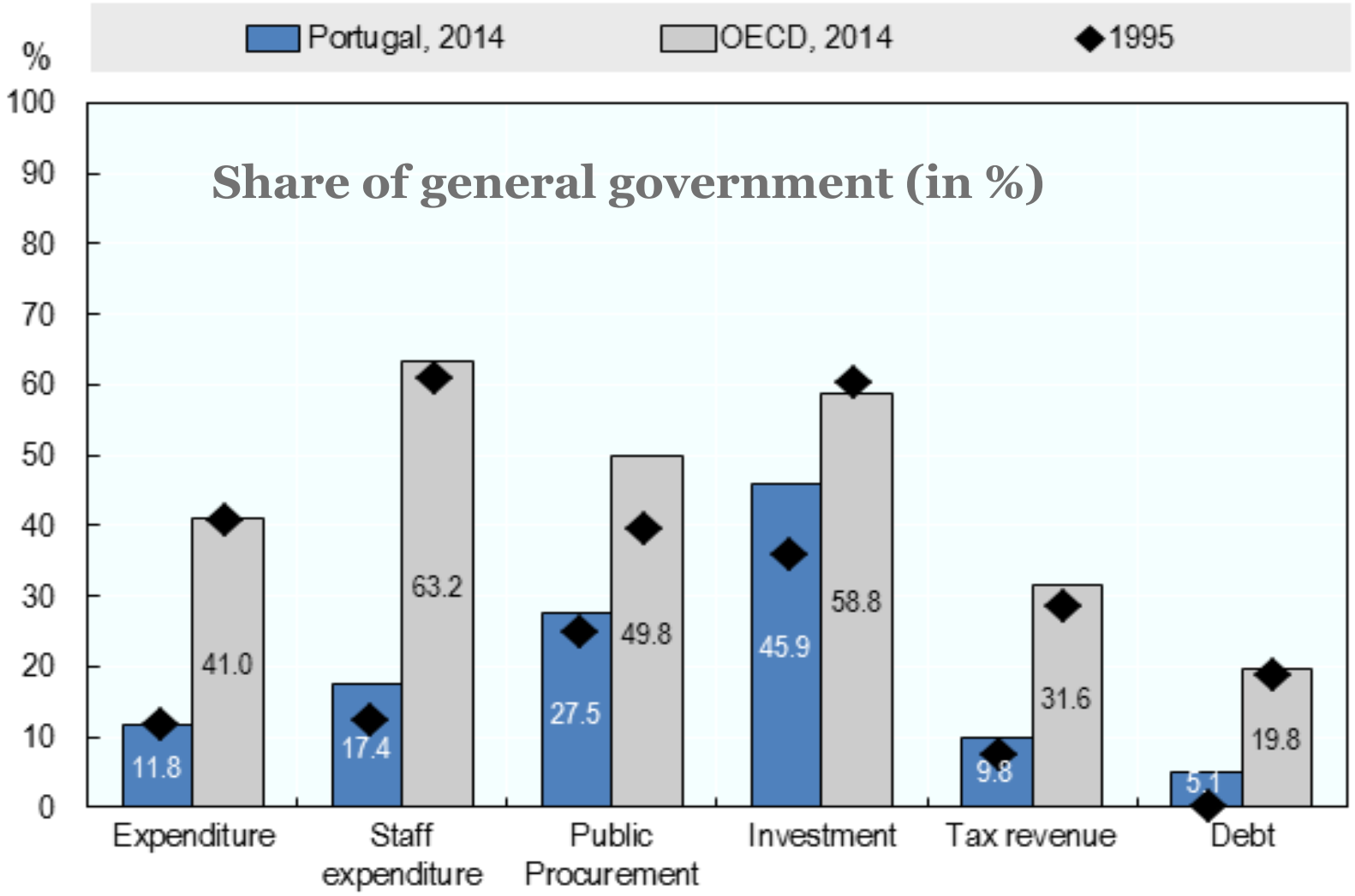


Strategies for developing tradable sectors

To remain competitive in Tradable sectors there are mainly three main options:

1. Continued specialisation in ***Natural resources***. This is typically an option for remote rural regions
2. Be integrated in ***Global Value Chains***. Integration between manufacturing and service sectors is needed. Connectivity and proximity may favour low-density areas close to cities. Without a territorial strategy it may be difficult to benefit from GVCs for regional development. Forward and backward linkages (*re-bundling*) are critical to maximize value-added of FDI and creation of a network of local suppliers.
3. Develop ***Territorially differentiated products & services*** through mobilisation of local assets. Consumers may express preferences for local or traceable products, without subsidies or some form of protection.

Portugal remains a relatively centralised country compared with OECD average





Obrigado
Thank you

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