Economic development in rural and remote areas

NPA Annual Conference 2016 – Arctic Boost

Akureyri, Iceland 28th September, 2016
Outline

1. Rural and remote regions
2. Growth performance and key factors
3. What it means for policy
Four Types of Rural Areas

- Rural inside the functional urban area (FUA)
- Rural outside, but in close proximity to the FUA
- Rural remote
- Remote and largely uninhabited
### Four Types of Rural Areas

<table>
<thead>
<tr>
<th>Type</th>
<th>Challenges</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural inside functional urban area (FUA)</td>
<td>-loss of control of future</td>
<td>-more stable future</td>
</tr>
<tr>
<td></td>
<td>-activities concentrate in core</td>
<td>-potential to capture benefits of urban, and avoid negatives</td>
</tr>
<tr>
<td></td>
<td>-loss of rural identity</td>
<td></td>
</tr>
<tr>
<td>Rural outside, but in close proximity to, FUA</td>
<td>-conflicts between new residents and locals</td>
<td>-potential to attract high income households seeking a high quality of life</td>
</tr>
<tr>
<td></td>
<td>-may be too far away for some firms, but too close for others</td>
<td>-relatively easy access to advanced services and urban culture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-good access to transport</td>
</tr>
<tr>
<td>Rural remote</td>
<td>-highly specialised economies subject to booms and busts</td>
<td>-absolute advantage in production of natural resource-based outputs</td>
</tr>
<tr>
<td></td>
<td>-limited connectivity</td>
<td>-attractive for firms that need access to an urban area, but not on a daily basis</td>
</tr>
<tr>
<td>Rural and largely uninhabited</td>
<td>-highly specialised economies subject to booms and busts</td>
<td>-can offer unique environments that can be attractive to firms and individuals</td>
</tr>
<tr>
<td></td>
<td>-limited connectivity</td>
<td>-can be very prosperous under the right circumstances</td>
</tr>
<tr>
<td></td>
<td>-large distances between settlements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-very high per capita costs of services</td>
<td></td>
</tr>
</tbody>
</table>

- Face different challenges, opportunities and policy responses
- Countries advancing on defining different types of rural regions, mixed regions (urban/rural)
- Context matters: different countries have different definitions
Convergence forces in rural regions...
Who are the Frontier Regions?

- Frontier regions are urban
  - Due to agglomeration benefits
  - Spillover effects to neighbouring regions

- But a number of frontier regions are rural
  - Antofagasta and Tarapaca (Chile) in mining activities
  - Campeche (Mexico) specialised in oil and gas
  - North. Territory and Western Australia (Australia) in extractive
  - Alberta and Newfoundland and Labrador (Canada) in extractive

- Contaminates the economy, contributes to national prosperity and its export basket
Who are the high performers – growth?

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

Declined to 41% (post crisis)
→ 31% rural close to cities
→ 9% rural remote
The majority of rural regions close to cities and rural remote are not driven by the paradox: **69% of rural close to cities and 58% of rural remote experienced both employment and productivity growth**
What are the key drivers of productivity growth?

- ** Tradable activities** are key for rural close to cities and remote rural.
- A minimum level of **density** is key for economies of scale/scope and delivery of goods and services.
I. Use of regional *specific assets* and smart specialisation (or to create absolute advantages to stimulate competition & experimentation across regions) $\rightarrow$ tradables

II. Create *complementarities* among sectoral policies at the regional (or local) level

III. Use of *multi-level governance* mechanisms for aligning objectives & implementation
# An Evolving OECD Rural Paradigm

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Equalization and a focus on farm income</td>
<td>Competitiveness of rural areas and expanding opportunities</td>
<td>Increase rural competitiveness and productivity in order to enhance the social, economic and environmental well-being of rural areas</td>
</tr>
<tr>
<td><strong>Key target sectors</strong></td>
<td>Sector based</td>
<td>Holistic approach to include various sectors of rural economies</td>
<td>Low density economies with a focus on comparative and absolute advantages</td>
</tr>
<tr>
<td><strong>Main tools</strong></td>
<td>Subsidies for firms</td>
<td>Investments</td>
<td>Integrated investments and delivery of services that are adapted to the needs of rural areas and benefit from potential complementarities</td>
</tr>
<tr>
<td><strong>Key actors</strong></td>
<td>National governments, farmers’ organisations</td>
<td>Multilevel-governance—horizontal and vertical coordination</td>
<td>Encourage vertical and horizontal coordination among governments (rural-urban and rural-rural partnerships) and bring new stakeholders into decision making (indigenous people, third sector, firms)</td>
</tr>
<tr>
<td><strong>Approach</strong></td>
<td>Top down</td>
<td>Bottom-up</td>
<td>Building capacity at the local level to encourage participation and bottom up development</td>
</tr>
</tbody>
</table>
thank you

Chris.McDonald@oecd.org