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# Why Regions Matter...

for recovery, innovation and  
sustainable growth

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# The policy context: big challenges, small budgets

## OECD Secretary General:

“The financial storm has passed, but OECD countries are still leaning into the wind”

## Three key issues stand out:

- “each nations’ innovation capacity will determine the strength of their recovery”
- “tackling climate change requires urgent cross-government action”
- “with average deficits at 8% of GDP, fiscal consolidation is inevitable”

*Regions need to show that they are relevant*

# Do regions matter?

...a long history of unanswered questions

## Academic debates...

- Are inequalities an inevitable part of the development process?
- Does concentration = growth?
- Does proximity still matter in a global economy?

## Policy questions...

- How can we justify regional policy expenditures? What are the economic arguments for and against?
- Which investments give the best returns? Are regional actors better placed than the centre to identify opportunities?

*Political pressure from below: delocalisation, jobless growth...*

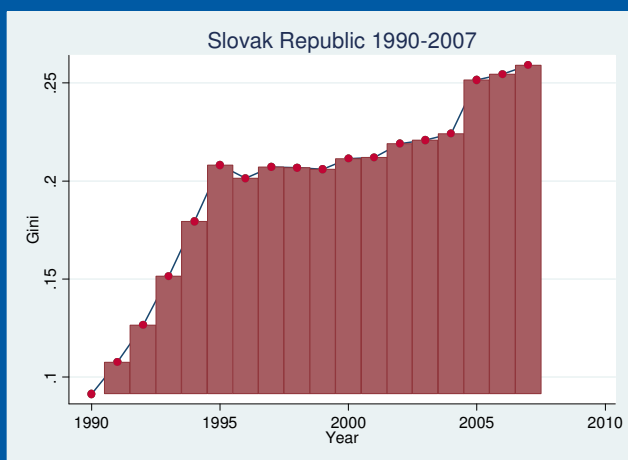


# Data shows no big theory, many exceptions = a policy headache

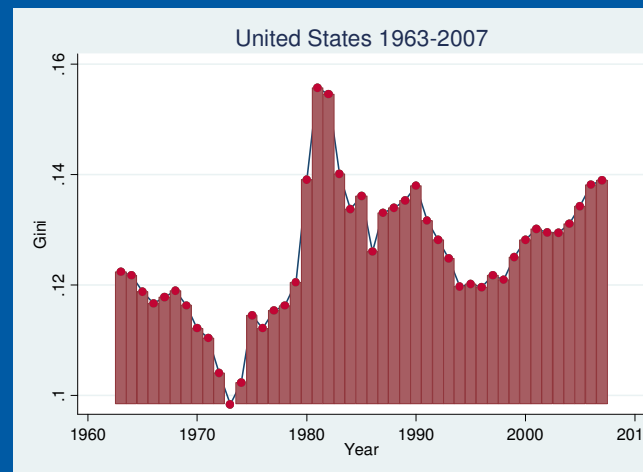
- Disparities are not a function of development phase, both convergence and divergence appear at all levels of GDP
- There are many paths to growth: concentration drives growth but other outcomes are common
- Supporting lagging regions is not just a “social” policy as they contribute a large share of national growth
- Many urban regions have low growth and problems
- Infrastructure alone has a limited impact on growth – leaking by linking?

**But also an opportunity for policy makers:  
region level = flexibility, integration**

# But policy needs a new focus: less on disparities: more on (green) innovation



*No clear trends;  
policy objective less clear...*



*Rising disparities*



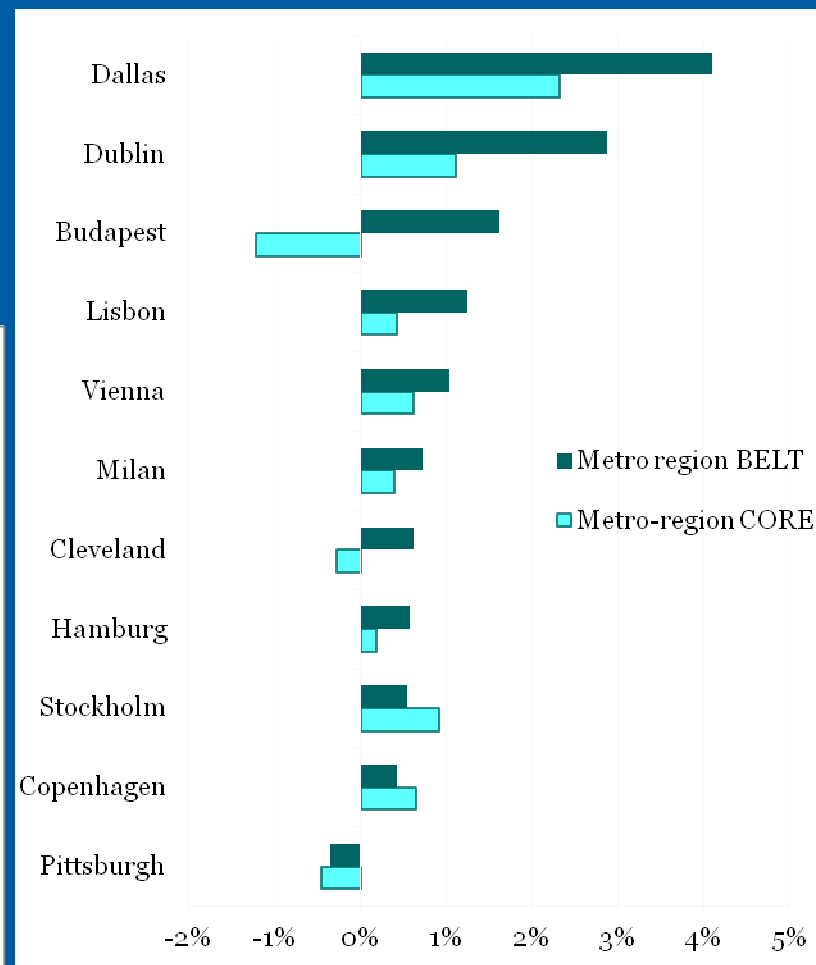
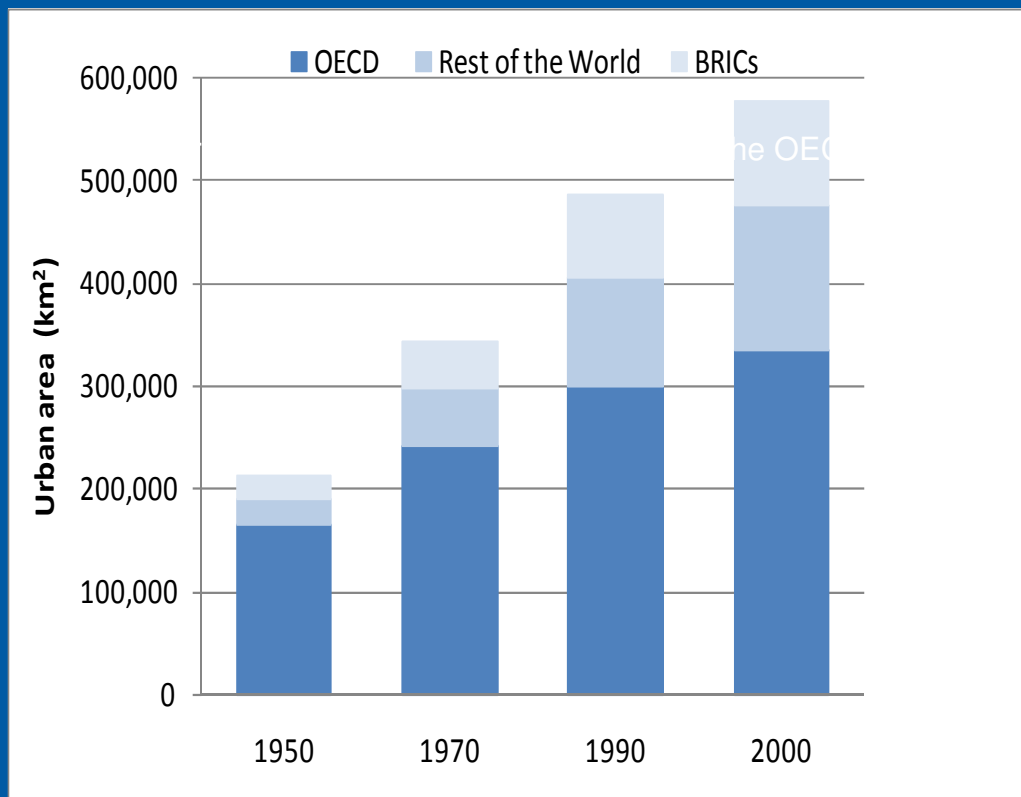
*« Accordion » no trend*

*Declining disparities*



# Can regional policy do better to support this new "sustainable growth" agenda?

- Expansion of urban land use: since 1950 urban area has doubled in OECD and by 5x in the rest of the world



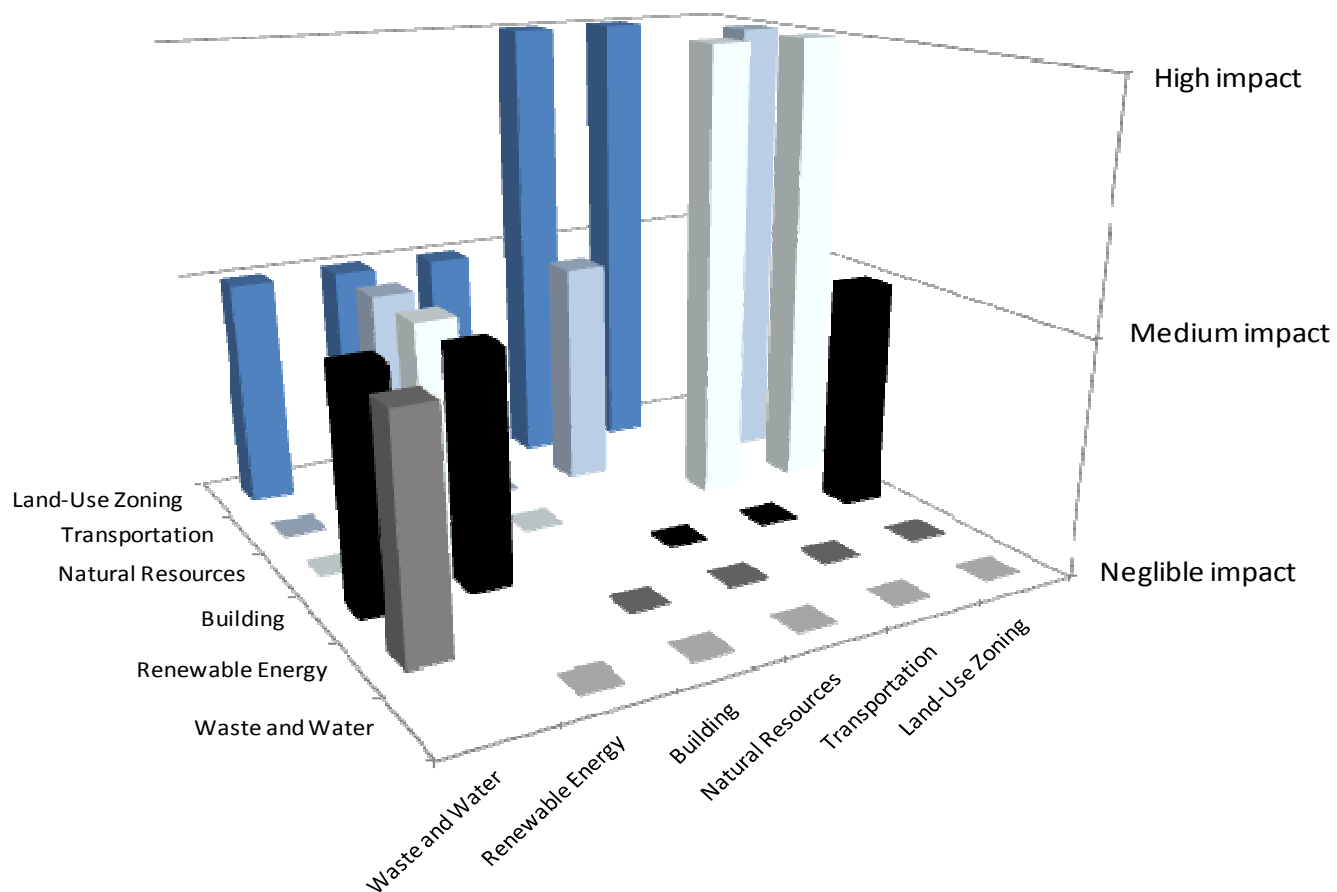
- In 66 of the 78 OECD metro-regions, suburban populations grow faster than the core



# Local integration of policies seems crucial to sustainable development

Effective climate policy packages should seek policy complementarities -- most sectors depend on local investment and management

(>60% of all capital investment made by subnational levels...)



Land-use zoning has the widest influence on other sectors

# Local knowledge, motivation and experimentation also seem to be important

and

**Cities and regions are laboratories of innovative policies – which can be scaled up to national programmes...**

- Road tolls and charges: CO2 emissions from transport in **Seoul and London** reduced by 10 to 20%.
- Adoption of stricter building efficiency standards: CO2 emissions from buildings in **Tokyo** reduced by 30%.
- District heating and cooling in **Stockholm and Copenhagen**: CO2 emissions per capita in Stockholm reduced by 25% since 1990.
- Methane capture for electricity production in **Toronto and Monterrey**.
- Solar energy development in **Freiburg** (10 000 jobs created).
- Development of a large-scale recycling services cluster in **Kitakyushu**, including cars and appliances (jobs creation and emissions reduction).





# Similar dynamic in innovation policy: Policy streams converging -- regional level is where innovation happens

Policy	Old	New
Regional	Redistribution to lagging regions; exogenous drivers	Building competitiveness through innovation strategies
Science and Technology	Narrow definition of innovation; single sector projects in basic research	Collaborative and multi-sectoral research; focus on business applications
Industry and Enterprise	Subsidies to firms; national champions	New or hard to reach innovation – eco-inno and global challenges

**And now Environment/Energy – role of regions as hubs of eco-innovation**

# Regional policies can help broaden innovation policy: beyond R&D enclave to the other innovators

Patents per million, class	As % of all regions
0-10	33.43 (of which 46% are rural regions)
10-50	15.5
50-250	25.4
250 +	25.7

## In these regions:

- Public R&D as a percentage of regional GDP is low
- Firms engage less in R&D (less than 50% of innovative firms engage in R&D)
- Few firms access formal S&T policies

**But regional innovation strategies unproven, and difficult to evaluate; indicators are absent...**

# The scope for regional intervention is becoming clearer...

Category	National policy	Regional policies
Area of specialisation	“anonymous” framework of regulations and institutions	collaboration among identifiable actors; importance of proximity relationships
Types of innovation support	basic research, applied research	close to the market, assisting firms; aim to modernise and upgrade economic base
Strategic approach	overall policy focus for national innovation system	building regional consensus around transition; addressing specific obstacles (e.g., alternative institutions)
Rationale for intervention	market failure	market “opportunities”; building resilience; <b>need to solve (local) eco problems</b>



# OECD research in this field

## **Regional innovation (regional innovation unit)**

- How to support the process of “greening” innovation strategies
- How to assess the real impact of regional innovation policies on economic outcomes
  - A series of **Regional Innovation Reviews**
  - Contributing to the **OECD Innovation Strategy** – the regional dimension

## **Climate change and regions (urban development programme)**

- How to develop city level strategies that link city performance with adoption of green agenda
  - Next OECD Roundtable of Mayors and Ministers on “Cities and Green Growth” (June 2010)