

# *Chapter 1*

## **Overall Growth Trends**

## Introduction

OECD regions vary more in their economic performance than do individual OECD countries (see Box 1.1 for a definition of regions). At the national level the main determinants of growth are macroeconomic factors, institutions and policies. The latter two factors have a strong regional dimension. OECD regions are very heterogeneous. Each is endowed with very different production capacities, comparative advantages, geographic characteristics, institutions, policies and assets. It is no surprise, therefore, that some regions are in a better position to reap the benefits of globalisation than others.

In this chapter we summarise general growth trends and variations among OECD regions in GDP, GDP per capita and GDP per worker. We compare these variations with national level variations; large differences imply inequality between well-performing and under-performing regions. We also analyse change in regional inequality over time – between 1995 and 2005 and between 1980 and 2005. We compare all OECD regions with each other (international comparison), as well as looking at changes over time for regions

### Box 1.1. The OECD's regional typology

In any analytical study conducted at sub-national levels, defining the territorial unit is of prime importance, as the word *region* can mean very different things both within and among countries. In this publication, *region* is used to mean a sub-unit within a country, rather than supra-national groupings of countries.

How does the OECD classify regions within each member country? Its classification is based on two territorial levels. The higher level (Territorial Level 2 – TL2) consists of 335 large regions, while the lower level (Territorial Level 3 – TL3) is composed of 1 679 small regions. All the regions are defined within national borders and in most cases correspond to administrative regions. Each TL3 region is contained within a TL2 region.

This classification – which, for European countries, is largely consistent with the Eurostat classification – helps us compare regions at the same territorial level. Indeed these two levels, which are officially established and relatively stable in all member countries, are used as a framework for implementing regional policies in most countries.

For more information please see: *OECD Regions at a Glance, 2009*. OECD, Paris.

within individual OECD countries (intra-national comparison). Finally, we examine whether the gap between predominantly urban and rural regions has widened or narrowed over time.

## Main findings

The main findings of Chapter 1 are as follows:

- **The economic performance of regions varies more than for countries.** GDP, GDP per capita and labour productivity vary more widely across OECD regions than across countries. The disparity in growth among OECD regions exceeded that among countries by almost three times between 1995 and 2005. These wide differences in economic performance highlight the great heterogeneity that exists in OECD regions as a result of differences in their comparative advantages, stages of development and public policies.
- **Predominantly rural, intermediate and predominantly urban regions vary significantly in their economic performance.** The majority of regions with above OECD average GDP per capita are urban regions, and the gap between urban and rural regions in terms of GDP per capita increased between 1995 and 2005. However, there is no single path to attaining sustainable growth rates: a significant number of urban regions grew faster than rural regions in terms of GDP per capita, but also a significant number of rural regions outperformed urban regions. Similarly, intermediate regions display performances both above and below the OECD average. This highlights that opportunities for growth exist in all types of regions.
- **Regional inequality increased between 1995 and 2005** in about 70% of OECD countries. Only eight OECD countries (Belgium, France, Germany, Italy, Japan, Mexico, Spain and Turkey) reduced disparities among TL2 regions and only seven (Austria, Germany, Italy, Japan, Mexico, Spain and Turkey) did so among TL3 regions (see Box 1.1 for definitions of TL2 and TL3 regions). **However, this result should be treated with caution.** A supplementary analysis (see background documents at [www.oecd.org/regional/min2009](http://www.oecd.org/regional/min2009)) which covers a longer time period, from 1980-2005 for most OECD countries, reveals that although regional inequalities declined in approximately one-third of OECD countries (i.e. Spain, Portugal, Norway, Italy, Korea, Austria, France, Germany, the Netherlands, Belgium and Turkey), in ten of them they increased (i.e. Slovak Republic, Hungary, the Czech Republic, Greece, Ireland, Finland, the United States, the United Kingdom, Poland and Australia). There is no clear trend for the remaining OECD countries.
- **There is no conclusive evidence that the average GDP per capita of OECD regions began to converge during 1995-2005.** Two complementary analyses reveal no absolute convergence in GDP per capita among TL2 regions between 1995 and 2005. There was some convergence among TL3 regions.

- **Regional convergence during 1995-2005 is only conditional on factors associated with growth.** Convergence among TL2 regions occurs when the analysis accounts for key determinants of regional growth such as innovation, infrastructure and human capital.
- **Convergence is associated with the level of development (i.e. GDP per capita).** Richer regions from the bottom quartile of the GDP per capita distribution are growing faster than their counterparts, while poorer regions from the top three quartiles of GDP per capita distribution are growing fastest within their group. Thus, there is some convergence within this subgroup. The analysis in this report cannot differentiate the effects that regional policies (or their absence) have on convergence.
- **Regions with a larger GDP have steadier growth rates than regions with a smaller GDP.** When measured by their GDP share in the OECD, only small OECD TL2 regions display annual growth rates above 4% and below 1%. Medium and large regions rarely display negative annual average growth rates.

## Trends in regional GDP, GDP per capita and productivity

**Economic performance between 1995 and 2005** varied much more markedly across OECD regions than across countries. For example, the average annual GDP growth rate in real terms at the national level varied from 1.1% in Japan to 7.5% in Ireland between 1995 and 2005. Over the same period annual average growth rates in real GDP across TL2 regions (see Box 1.1) ranged from -1.7% in Berlin (Germany) to 8.5% in the southern and eastern regions of Ireland. The variation was even larger across TL3 regions, from a low annual average growth rate of -7.8% in Kilis (Turkey) to a high of 9.4% in south-west Ireland, almost three times larger than the variation across countries. OECD regions also displayed similar variations in GDP per capita and productivity levels (Table 1.1).

The spread of growth over the last ten years varied more among regions (within countries) than among countries. Turkey recorded the largest spread of growth among regions at both territorial levels (TL2 and TL3) for both GDP and GDP per capita (Table 1.2). At TL3, the diversity of GDP growth rates within Turkey (15.4 percentage points) exceeded the diversity in growth rates between all OECD countries (6.3 change in pp) by almost three times. France displayed the largest spread of growth (11 pp) in change in labour productivity among TL2 regions, almost twice as large as the spread in productivity between OECD countries (5.2 pp). Among TL3 regions the spread of growth in productivity levels was the largest in Germany (12.5 pp), more than double the national spread for all OECD countries (5.2 pp).

Table 1.1. **Spread of growth in GDP, GDP per capita and productivity across OECD countries, TL2 and TL3 regions, 1995-2005**

		Change in real GDP	Change in real GDP per capita	Change in GDP per worker (labour productivity)
Countries	Min.	1.1% (Japan)	1.0% (Japan)	-0.4% (Spain)
	Max.	7.7% (Ireland)	6.0% (Ireland)	4.8% Poland)
	Range	6.3 pp	5.0 pp	5.2 pp
TL2	Min.	-1.7% (Berlin, DEU)	-1.8% (Adana, TUR)	-3.8% (Champagne-Ardenne, FRA)
	Max.	8.5% (Southern and Eastern, IRL)	7.1% (Southern and Eastern, IRL)	7.1% (Podlaskie, POL)
	Range	10.2 pp	8.9 pp	10.9 pp
TL3	Min.	-7.8% (Kilis)	-6.2% (Kilis)	-5.4% (L'Aquila)
	Max.	9.4% (South-West, IRL)	8.7% (South-West, IRL)	11.1% (Südthüringen, DEU)
	Range	17.2 pp	14.9 pp	16.5 pp

\* pp refers to percentage points.

Note: GDP data for Turkey are only available for 1995-2001, and for the United States for 1997-2005. TL3 data are not available for Australia, Canada, the United States and Mexico.

Source: OECD Stat and OECD Regional Database (2008).

Table 1.2. **Growth rate variations for GDP, GDP per capita and productivity within countries, TL2 and TL3 regions, 1995-2005**

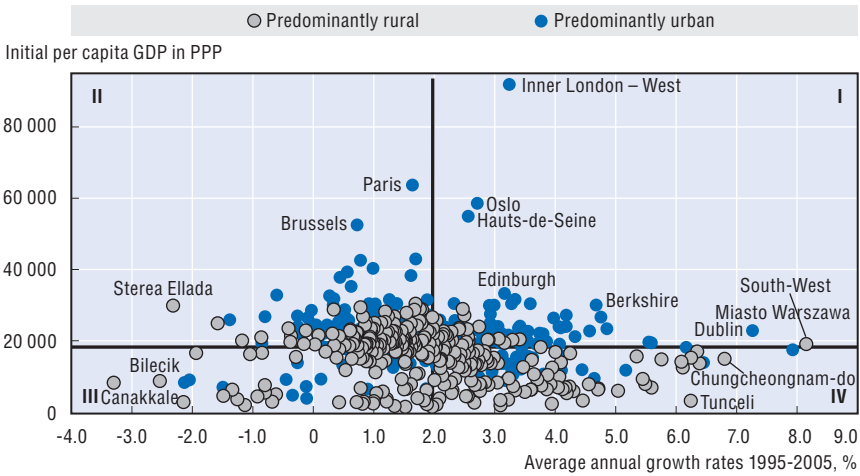
		Real GDP	Real GDP per capita	Productivity
TL2	Min.	-0.9% (Balikesir)	-1.8% (Adana)	-3.8% (Champagne-Ardenne)
	Max.	4.5% (Zonguldak)	5.6% (Zonguldak)	6.2% (Corse)
	Range	5.4 pp (Turkey)	7.4 pp (Turkey)	10 pp (France)
TL3	Min.	-7.8% (Kilis)	-6.2% (Kilis)	-1.4% (Südheide)
	Max.	7.6% (Batman)	6.7% (Tunceli)	11.1% (Südthüringen)
	Range	15.4 pp (Turkey)	12.9 pp (Turkey)	12.5 pp (Germany)

Source: OECD Regional Database (2008).

These wide ranges in economic performance highlight the **great heterogeneity that exists in the performance of OECD regions**. They are the result of differences in their comparative advantages, stages of development and public policies.

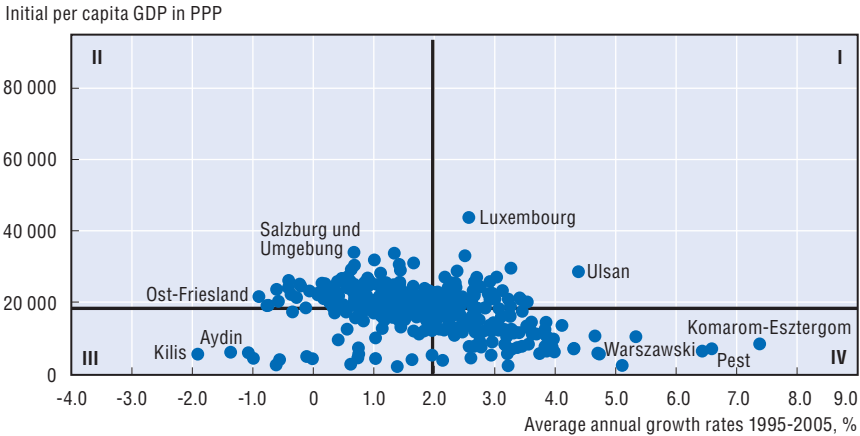
This significant heterogeneity reveals that there is no single path to attaining sustainable growth rates. Comparing performances between types of OECD regions (*i.e.* predominately urban and rural regions) reveals that not only is there a significant number of urban regions growing faster than rural regions, but also a significant number of rural regions out-performing urban regions in terms of GDP per capita growth rates over the past decade (Figure 1.1). Similarly intermediate regions vary significantly (Figure 1.2). This means there are **opportunities for growth** in all OECD regions.

**Figure 1.1. Initial GDP per capita and annual average growth rates in GDP per capita among predominantly urban and rural OECD TL3 regions, 1995-2005**



Source: Calculations based on OECD Regional Database (2008).

**Figure 1.2. Initial GDP per capita and annual average growth rates in GDP per capita among intermediate OECD TL3 regions, 1995-2005**



Source: Calculations based on OECD Regional Database (2008).

## International comparison of regional growth rates: convergence or divergence?

An econometric analysis considering all regions allows us to explore two different (yet complementary) questions: i) Do lagging regions grow in general faster than richer ones, thus getting closer over time in terms of income per capita (this type of analysis is technically labelled *beta convergence*)? ii) Do

disparities in GDP per capita among a group of regions diminish when comparing two points over time (technically known as *sigma convergence*)?

1. The analysis of beta convergence measures the relationship between the initial GDP of regions and their GDP per capita growth rates. A negative coefficient implies convergence, thus indicating that lower income regions on average grow faster and higher income regions on average grow more slowly. A positive coefficient implies divergence, indicating that richer regions grow even faster while poorer regions grow relatively more slowly.
2. The analysis of sigma convergence measures the change over time in the cross-sectional distribution (measured by the coefficient of variation) of GDP per capita (in logs). A decline in the coefficient of variation (less dispersion) over time implies convergence and an increase (more dispersion) implies divergence.

Beta convergence analysis yields very mixed results. While the larger unit of analysis (TL2) shows no sign of convergence at all, the finer level (TL3) of analysis evidences that convergence is taking place across OECD regions albeit at a very slow pace. Both beta and sigma analyses (Table 1.3 and Figure 1.3) find a mild rate of convergence in TL3 regions and no convergence in TL2 regions. However, further analysis is needed to investigate what factors are driving convergence and can explain growth. Although absolute convergence analysis (both sigma and beta) are most useful to establish trends, they are not intended to explain growth. Therefore, Chapter 3 will expand the analysis to conditional convergence and control for a series of factors and will include long-rung determinants of growth.

Despite no evidence of absolute convergence, Chapter 3 finds evidence of *conditional* convergence during the same period. This means that convergence

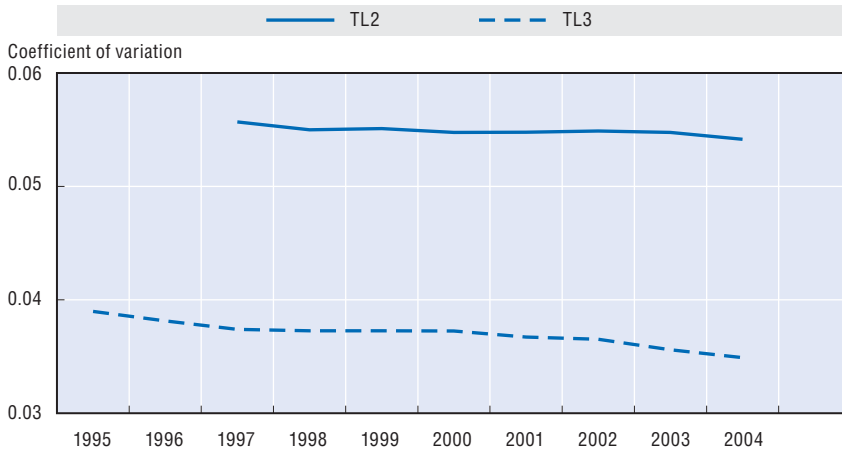
Table 1.3. **Beta convergence in TL2 and TL3 regions, 1995-2005**

Regions	TL2	TL2	TL3	TL3
GDP per capita 1995	-0.001 (-1.30)	-0.001 (-1.42)	-0.003 (-3.89)**	-0.004 (-5.62)**
Annual national growth	-	0.707 (12.15)**	-	0.644 (16.79)**
Constant	0.035 (-3.17)**	0.018 (1.97)*	0.052 (6.08)**	0.048 (6.42)**
F-value	1.7	75.0	15.1	150.9
R <sup>2</sup>	0.005	0.319	0.017	0.253
n	324	324	896	896

\* Significant at 95%.

\*\* Significant at 99%.

Source: Calculations based on OECD Regional Database (2008).

Figure 1.3. **Sigma convergence in TL2 and TL3 regions, 1995-2004**

Note: The coefficient of variation is computed over the same set of regions where data are available. Therefore Turkish regions are not included in the sample as data are available only from 1995-2001, and the years 1995, 1996 for TL2 are excluded since TL2 GDP data are not available for the United States.

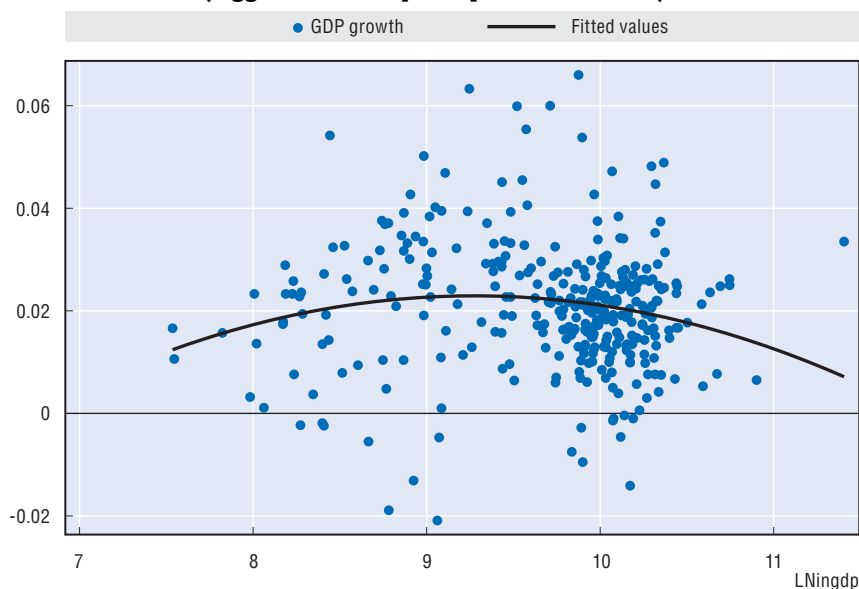
Source: Calculations based on *OECD Regional Database (2008)*.

is indeed occurring when accounting for other factors influencing regional growth rates such as innovation, human capital and infrastructure. In addition the process of convergence can be associated with the level of development – in our case the level of GDP per capita – of countries and subsequently regions. Williamson (1965), applying Kuznets' famous inverted U-curve to analyse regional disparities, suggested that regional disparities decline once a certain level of development has been achieved.

We applied this hypothesis to OECD regions for the period 1995-2005 and found some, albeit limited, evidence of this trend. Regions in the bottom quartile of the GDP per capita distribution show a positive relationship between initial levels of GDP per capita and annual average growth rates, whereas the rest of the OECD regions – those belonging to the top three quartiles of GDP per capita – seems to be converging. In other words, the relatively richer regions from the bottom quartile of the GDP per capita distribution grow fastest within in this quartile, while the relatively poorer regions within the top three quartiles of GDP per capita distribution are the fastest growing regions, meaning that convergence is occurring within this sub-group. Visually (Figure 1.4), our TL2 sample of 335 regions seems to be in reality two samples – one sample in the bottom quartile of the GDP per capita distribution and the other made up of the remaining regions. Taken as a whole, a smooth inverted U-curve of the Kuznets type seems to appear. Our analysis cannot differentiate the effects that regional policies (or their absence) have on convergence.



Figure 1.4. **Scatterplot of average annual growth rates for TL2 regions (1995-2005) and initial levels of income (logged values of per capita GDP in 1995)**



Source: Calculations based on OECD Regional Database (2008).

These results are confirmed in Table 1.4, where we apply a beta analysis to the two samples. The regression for the bottom quartile of regions (Model 1) – in terms of per capita GDP – shows a positive and statistically significant coefficient for initial level of income. That is, richer regions within that group of 82 regions are growing faster than lagging ones, a result that will lead to wider disparities over time within this subgroup. Conversely, a regression using the larger sample containing the top three quartiles (Model 2) shows that the rest of the OECD is converging. While the results for both processes of divergence and

Table 1.4. **Beta convergence in OECD regions: split sample (TL2 regions, 1995-2005)**

	Model 1 bottom quartile "lagging regions"	Model 2 upper three quartiles "rest of OECD regions"
Initial GDP per capita	0.0099 (2.48)**	-0.0062 (-2.67)**
F-value	6.13	7.15
R <sup>2</sup>	0.059	0.028
n	83	249

\* Significant at 95%.

\*\* Significant at 99%.

Source: Calculations based on OECD Regional Database (2008).

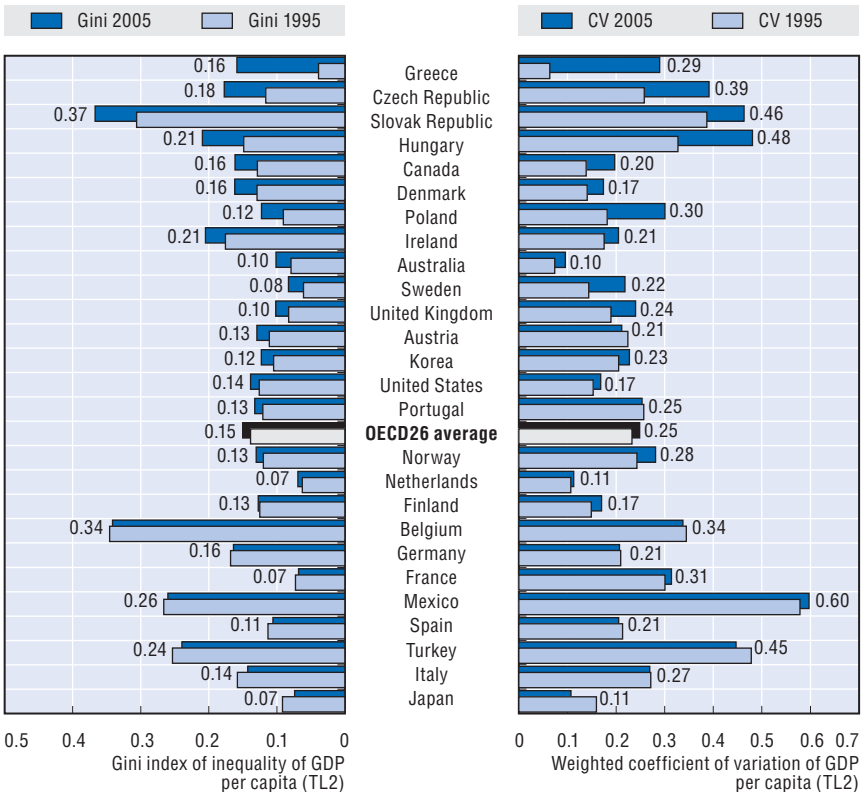
convergence are statistically significant, the sizes of coefficients in both regressions – which show the speed of convergence – are rather small.

### Intra-national comparison of regional growth rates

**Inequities within OECD countries (i.e. intra-national disparities) persisted and amplified between 1995 and 2005 in the majority of OECD countries.** According to the Gini coefficient and the weighted coefficient of variation, disparities in GDP per capita among regions (within countries) persisted and amplified in most OECD countries at both levels (TL2 and TL3):

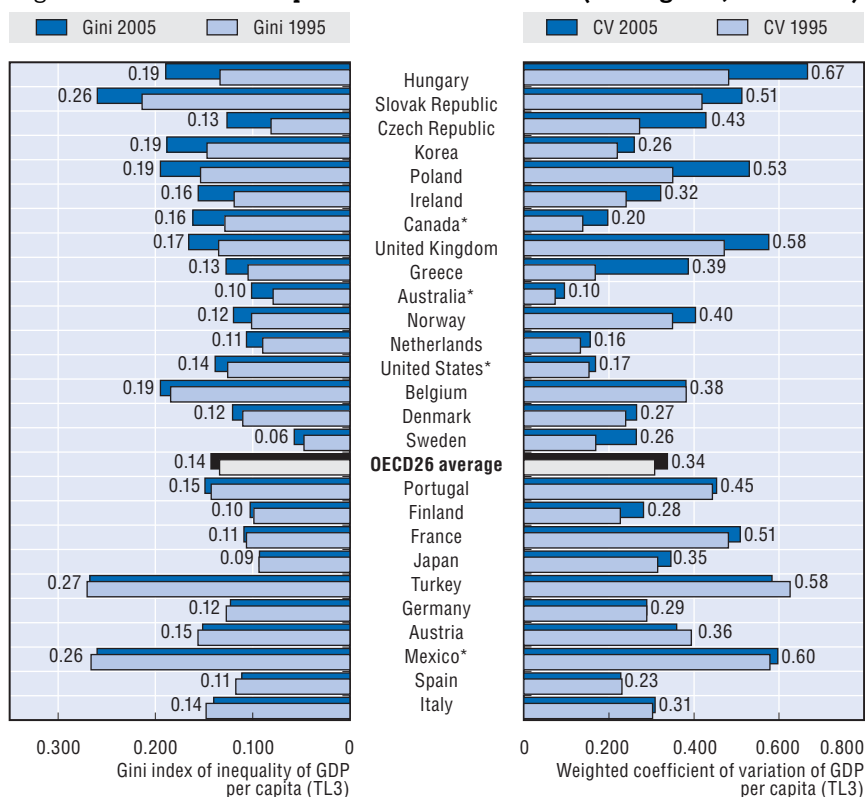
- The Gini coefficient reveals an increase in territorial disparities in 70% (or 18 out of 26) of OECD countries among TL2 regions. The exceptions were Belgium, France, Germany, Italy, Japan, Mexico, Spain and Turkey (Figure 1.5). At a finer regional grid (TL3), 73% of countries (or 19 out of 26) showed increases in regional imbalances (Figure 1.6). Only in Austria, Germany, Italy, Japan, Mexico, Spain and Turkey did inequalities decline.

Figure 1.5. **Territorial disparities within countries (TL2 regions, 1995-2005)**



Source: Calculations based on OECD Regional Database (2008).

Figure 1.6. Territorial disparities within countries (TL3 regions, 1995-2005)



\* at TL2.

Source: Calculations based on OECD Regional Database (2008).

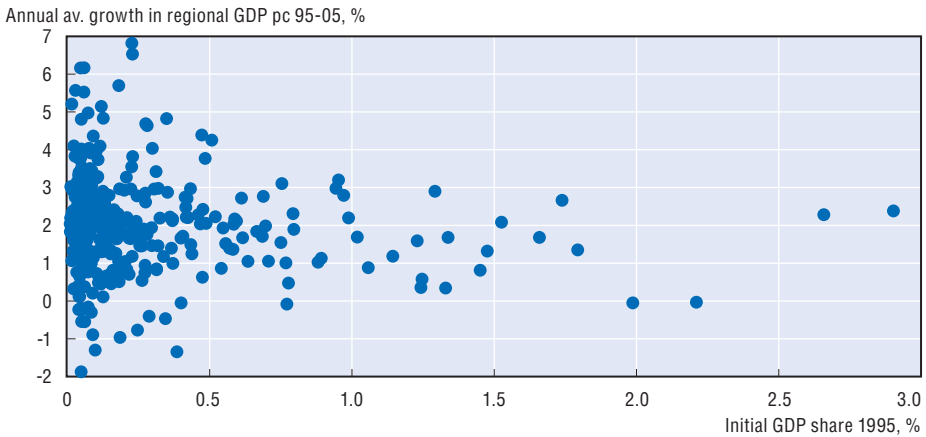
- The weighted coefficient of variation was used as a complementary indicator to assess intra-national disparities and to look at their change over time. This indicator takes into account the overall size of regions by assigning more weight to larger regions (in terms of population) and less weight to smaller ones. For TL2 regions, the index revealed increasing regional imbalances in 70% of countries (exceptions being Belgium, Canada, Germany, Italy, Japan, Portugal, Spain and Turkey), and in 84% of countries for TL3 regions (except for Austria, Belgium, Spain and Turkey), see Figure 1.6.

A supplementary analysis (see background documents at [www.oecd.org/regional/min2009](http://www.oecd.org/regional/min2009)) covering a longer time period, from 1980-2005 for most OECD countries,<sup>1</sup> reveals that regional inequalities declined in approximately one-third of OECD countries (i.e. Spain, Portugal, Norway, Italy, Korea, Austria, France, Germany, the Netherlands, Belgium and Turkey), while they increased in 10 of them (i.e. Slovak Republic, Hungary, the Czech Republic, Greece, Ireland, Finland, the United States, the United Kingdom, Poland and Australia). There is no clear trend for the remaining countries.

**There is greater diversity in regional growth rates among smaller OECD TL2 and TL3 regional economies than among medium and larger ones.**

Regions with a larger GDP exhibit more uniform growth rates than regions with a smaller GDP. When measured by their GDP share in the OECD, only small OECD TL2 regions (with a total GDP share below 0.5%) display annual growth rates that range from above 4% to below 1% (Figure 1.7). Similarly, the annual average growth rates of TL3 regions with a total OECD GDP share below 0.25% (Figure 1.8) range from above 5% to below -1% (with the exception of Berlin).

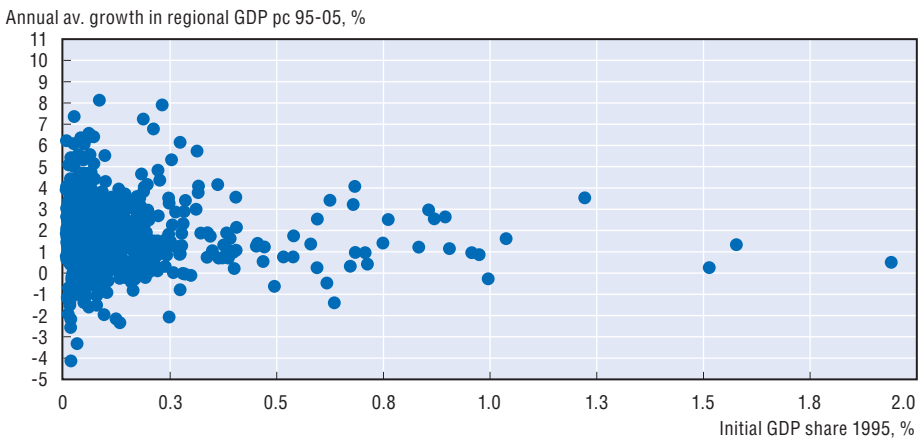
**Figure 1.7. Changes in GDP per capita and initial share of GDP across TL2 regions, 1995-2005**



Note: The outlier regions Kanto and California are not included.

Source: Calculations based on OECD Regional Database (2008).

**Figure 1.8. Changes in GDP per capita and initial share of GDP across TL3 regions, 1995-2005**



Note: The outlier regions Zonguldak, Bolu and Tokyo are not included.

Source: Calculations based on OECD Regional Database (2008).

The greater disparity in growth rates across smaller OECD regions could be explained by a number of factors: i) a statistical attribute (i.e. small numbers typically have more variability over time); ii) measurement errors (i.e. the measurement of GDP per capita in smaller regions may suffer from under and over-estimations when commuting trends amplify or change over time); iii) more vulnerability to external shocks (i.e. small regions are less diversified in their productive base and thus cannot trade-off changes across sectors to stabilise unexpected shocks); or iv) a catching-up process (i.e. the convergence process revealed in the beta analysis of TL3 regions). More work is needed to determine the influence of each of these factors on the greater diversity of growth rates among smaller regions.

**OECD regions with middle to high GDP rarely display negative annual average growth rates.** Out of the 19 TL2 regions with negative average growth rates, only two (Nordrhein-Westfalen and Niedersachsen in Germany) are medium or large TL2 regions (i.e. with a share above 5% of the OECD GDP). Similarly, of the 66 TL3 regions with negative average growth rates, only 8 (Berlin, Köln, Bielefeld, Hannover and Bochum in Germany; Kentriki and Makedonia in Greece; Hyogo in Japan; Istanbul in Turkey) are considered medium or large regions (i.e. with an OECD GDP share larger than 0.25%).

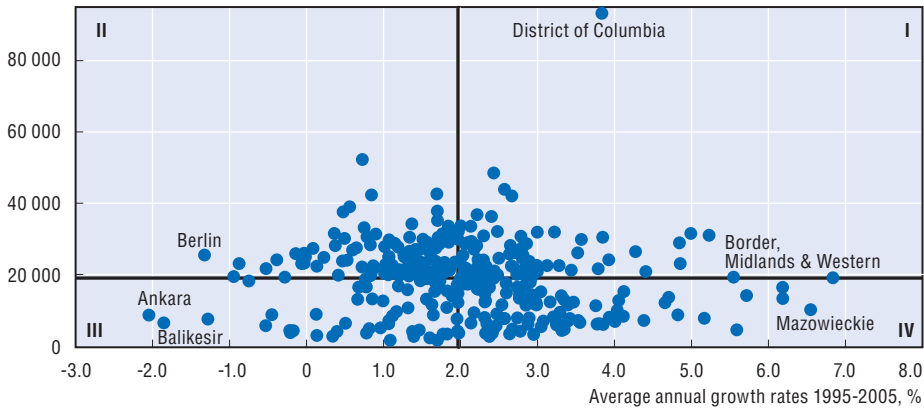
### **A typology of regions**

The relationship between GDP magnitude and growth across regions allows us to delineate a **typology of regions** in the OECD involving four categories:

- **QI:** regions with higher per capita GDP and growth than the OECD average (Quadrant I in Figures 1.9 and 1.10). These regions represent 23% and 20% of all TL2 and TL3 regions respectively. Ireland's Southern and Eastern (6.82%) regions, Bratislav Krajn (5.53%) in the Slovak Republic, and Northwest Territories and Nunavut (5.21%) in Canada recorded the highest annual growth rates in this category for the TL2 regions. Ireland's South-West (8.13%) and Dublin (7.24%) regions were the highest among the TL3 regions.
- **QII:** regions with higher per capita GDP but lower per capita GDP growth than the OECD average (Quadrant II in Figures 1.9 and 1.10). Regions in this quadrant represent the majority of TL2 and TL3 regions (33% and 35% respectively). Amongst the TL2 regions, Berlin (-1.35%) in Germany and Kentriki Ellada (-0.97%) in Greece recorded the lowest growth rates. Lowest amongst the TL3 regions were Sterea Ellada (-2.34%) in Greece and Südhüringen (-1.60%) in Germany.
- **QIII:** regions with both lower GDP and growth per capita than the OECD average (Quadrant III in Figures 1.9 and 1.10). This category represents the minority (18% and 17% respectively) of TL2 and TL3 regions. Of these,

Figure 1.9. **Level and growth of GDP per capita in TL2 OECD regions, 1995-2005**

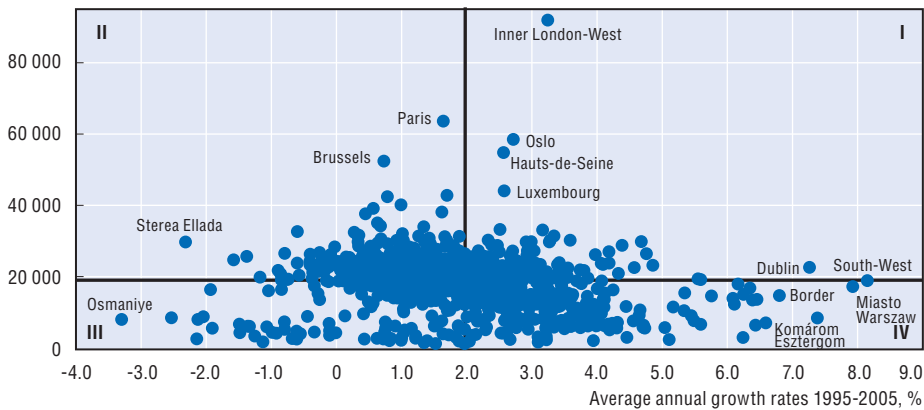
Initial per capita GDP in PPP



Source: Calculations based on OECD Regional Database (2008).

Figure 1.10. **Level and growth of GDP per capita in TL3 OECD regions, 1995-2005**

Initial per capita GDP in PPP



Note: The outlier regions Zonguldak and Bolu are not included.

Source: Calculations based on OECD Regional Database (2008).

Ankara (−2.07%) and Balikesir (−1.88%) in Turkey recorded the lowest growth rates for TL2 regions and Düzce (−13.79%), Osmaniye (−4.14%) and Çanakkale (−3.32%), also from Turkey, had the lowest growth rates in TL3.

- **QIV:** regions with lower GDP per capita but higher GDP per capita growth than the OECD average (Quadrant IV in Figures 1.9 and 1.10). These types of regions represent 27% and 28% of the TL2 and TL3 regions respectively. Mazowieckie (6.53%) in Poland and Ireland’s Border, Midlands and Western regions (with a total growth rate of 6.17%) recorded the highest growth rates

of the TL2 regions; Miasto Warszawa (7.90%) in Poland and Komárom-Esztergom (7.36%) in Hungary were highest for TL3.

Most regions with above average levels of GDP per capita displayed lower than average growth rates in GDP per capita (Table 1.5). Among regions with below average GDP per capita there were more (27% for TL2 and 28% for TL3) displaying higher than average OECD growth rates. In contrast the majority of regions (32% for TL2 and 35% for TL3) with higher than average GDP per capita exhibited growth rates lower than the OECD average.

Table 1.5. **Average annual growth rate and income levels of regions by four categories, 1995-2005**

	Percentage			
	higher GDP/capita and higher growth in GDP/capita (QI)	higher GDP/capita and lower growth in GDP/capita (QII)	lower GDP/capita and lower growth in GDP/capita (QIII)	lower GDP/capita and higher growth in GDP/capita (QIV)
average annual growth rate (TL2)	2.89	1.12	0.99	3.20
share of regions (TL2)	23	32	18	27
average annual growth rate (TL3)	2.80	0.87	0.65	3.23
share of regions (TL3)	20	35	17	28

Source: Calculations based on OECD Regional Database (2008).

### Urban and rural differences

**Economic performance varies significantly according to whether the region is predominantly rural or urban.** According to the OECD regional typology in 2005 (OECD Regions at a Glance, 2009), 27% of TL3 regions were classified as predominantly urban (PU), 38% as intermediate (IN) and 35% as predominantly rural (PR). The distribution of regions with GDP per capita above the OECD average reveals a larger share (34%) of urban regions. Likewise rural regions are more heavily represented in the group of regions with below average income per capita (Table 1.6).

Table 1.6. **Distribution of GDP growth per capita by regional type, TL3 2005**

	Percentage			
	PU	IN	PR	all regions
All TL3 regions	27	38	35	100
Regions with GDP per capita above the OECD average	34	39	27	100
Regions with GDP per capita below the OECD average	17	38	45	100

Note: PU = predominantly urban, IN = intermediate and PR = predominantly rural.

Source: Calculations based on OECD Regional Database (2008).

With regard to the four categories (Table 1.7), predominantly urban regions were the largest group (44%) among regions with higher per capita GDP and growth than the OECD average (QI). In contrast intermediate regions represented the largest group (38%) among regions with higher per capita GDP but lower per capita GDP growth than the OECD average (QII). They were the second largest group (38%) among regions with both lower GDP and growth per capita than the OECD average (QIII). Finally predominantly rural regions represented the largest group (47%) among regions with lower GDP per capita but higher GDP per capita growth than the OECD average (QIV).

Table 1.7. **Distribution of the four categories by regional type, TL3 regions 1995-2005**

	Percentage			
	higher GDP/capita and higher growth in GDP/capita (QI)	higher GDP/capita and lower growth in GDP/capita (QII)	lower GDP/capita and lower growth in GDP/capita (QIII)	lower GDP/capita and higher growth in GDP/capita (QIV)
PU	44	28	19	16
IN	36	40	34	39
PR	20	31	47	44
all TL3 regions	100	100	100	100

Note: PU = predominantly urban, IN = intermediate and PR = predominantly rural.

Source: Calculations based on OECD Regional Database (2008).

Comparing the performances of predominantly urban and predominantly rural TL3 regions not only reveals a marked gap in per capita income but also, more worryingly, that this gap was widening between 1995 and 2005. In 1995, average per capita income in urban regions exceeded the OECD average by 21% (Table 1.8); in contrast average income in rural regions was just 85% of the OECD average. The gap between urban and rural regions increased over the decade 1995-2005, resulting in income in urban regions being 24% higher than the OECD average and rural regions being 84% of the average by 2005.

Table 1.8. **GDP per capita by regional type, TL3 regions 1995 and 2005**

Region type	1995		2005	
	Average GDPpc (PPP)	% of OECD av.	Average GDPpc (PPP)	% of OECD av.
PU	22 110	121%	27 111	124%
IN	18 169	99%	21 526	98%
PR	15 531	85%	18 533	84%

Note: PU = predominantly urban, IN = intermediate and PR = predominantly rural.

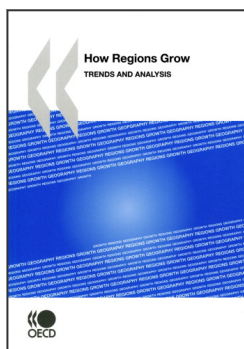
Source: Calculations based on OECD Regional Database (2008).



Despite the persistence of the overall gap, previous analysis displayed a significant number of rural regions outperforming urban regions, and likewise a significant number of urban regions performing better than rural ones. This means that opportunities for growth exist in all types of regions; whether regions achieve their growth potential will largely depend on their ability to mobilise their assets and resources. In the next chapter we make use of a benchmarking technique to tease out the common factors associated with successful and unsuccessful regions.

**Note**

1. Data for Greece, Ireland, Finland, The United Kingdom, Spain, Portugal, Italy, Austria, France, Netherlands and Belgium are available from 1980-2007; for the Slovak Republic, Hungary, Poland, The Czech Republic and Turkey from 1990-2007; for Australia from 1981-2007; for Norway from 1980-2005; for Korea from 1985-2005; for Germany from 1991-2007 and for the United States from 1963-2007.



**From:**  
**How Regions Grow**  
Trends and Analysis

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