

ANNEX A

The Components of Regional Growth

Average productivity

Due to availability of data, average productivity at the regional level is defined by GDP per worker, where employment is measured at place of work. A rise in the regional share of GDP may be due to rapid growth – relative to the country’s growth rate – in average productivity. Average productivity, in turn, depends on technology, labour skills, production capital and infrastructure. All of these factors can be mobilised through regional infrastructure investment policies, through education and training to promote higher skill levels; and through research and innovation to create more efficient production technology. Therefore, the proportion of regional growth that is due to growth in average productivity tends to be based on regional assets.

A rise in the GDP share of a region may also be due to specialisation (in sectors with fast growth in GDP per worker) or to a change in specialisation towards sectors with high GDP per worker. Specialisation is a result of a region’s comparative advantages, which depend on both irreproducible (*e.g.* land, oil) and reproducible inputs (*e.g.* skills, capital). The proportion of regional GDP growth due to specialisation based on irreproducible inputs can be attributed to natural endowments. However, unlike the stock of irreproducible inputs that is fixed, skills can be upgraded through education and training, and capital can be accumulated through investments. Therefore, the proportion of regional growth due to specialisation based on reproducible inputs can be regarded as a function of regional assets.

The labour market

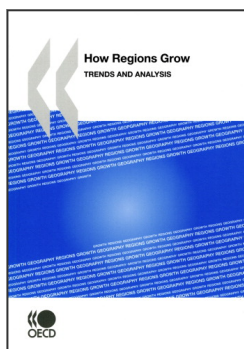
High growth in employment rates may be due to higher skill levels (skilled workers have higher employment rates than unskilled ones) or to greater efficiency of the local labour market, *e.g.* regulations and institutions which enable a better match between labour supply and demand. Both can be regarded as resulting from regional assets: skills can be upgraded through

training and education, and changes in employment regulations and labour institutions can increase the efficiency of the regional labour market.

A relative rise in activity rates may be the result of an increase in the working-age population or of an increase in participation rates across all age groups. Higher rates of growth of the working-age population may either follow natural demographic trends or be due to policies to attract working-age migrants from other regions and countries. Therefore, a rise in activity rates due to natural demographic trends can be seen as resulting from natural endowments. In contrast, an increase in the working-age population via migration and higher participation rates across all age groups are indicators of regional assets.

Population

Finally, higher rates of population growth may either follow natural demographic trends or be due to policies to attract migrants from other regions and countries.



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