

14. THE FACTORS BEHIND REGIONAL PERFORMANCE

Economic performance varies significantly among OECD regions. But why are some regions more competitive than others? Regional benchmarking makes it possible to identify the factors behind the success of certain regions and to perceive the existence of unused resources in others.

Regional benchmarking means comparing a region's growth rate to that of all other OECD regions. Successful regions grow faster than others and therefore raise their share of total GDP. GDP growth will be slower in less competitive regions and their share of total OECD GDP will decline.

National and regional sources of growth

Growth in regional GDP can be regarded as the joint result of several factors. First, regional performance is significantly affected by country-specific factors, such as national policies and the business cycle. Second, it depends on region-specific factors, such as demographic trends and natural resources. Finally, it depends on regional policies, i.e. on the region's ability to increase productivity, change industry specialisation to seize new market opportunities, increase the efficiency of the local labour market, and invest in skills and in innovation.

In order to account for the contribution of these different factors, changes in each region's share of GDP in total OECD GDP can be broken down into:

- **National factors:** Changes in the country's share of total OECD GDP.
- **Regional factors:** Changes in the region's share of the country's GDP.

If all of a country's regions grow faster than the regions in other OECD countries, this faster growth can be ascribed to that country's good performances (national factors).

If a region grows faster than all other OECD regions, including those in the same country, faster growth can be ascribed to the region's good performance (regional factors).

Six key drivers of growth

Regional factors, in turn, are the result of changes in six major components:

- **Productivity**
- **Industry specialisation**
- **Employment rates**
- **Participation rates**
- **Age activity rates**
- **Population**

A detailed explanation of this methodology is provided in the "Source and Methodology".

Each of these components can be viewed as an indicator of the determinants of economic performance at the regional level. Average labour productivity is a proxy for the productivity of the regional production system; industry specialisation captures the contribution of high value added industries; employment rates measure the efficiency of the local labour market; participation rates summarise the characteristics of the regional labour force; age activity rates and population control for region-specific developments in working-age and overall demographic growth.

Natural resources and regional assets

These six components are affected by two types of resources: natural endowments and regional assets. Natural endowments are the characteristics of a region that cannot be changed or can only be changed in the long run, such as geographic location, natural resources, urban or rural setting, and demographics. Regional assets indicate all the resources that could be more efficiently used and allocated so as to generate a higher level of GDP per capita, such as transport, general infrastructure, tourism-oriented facilities, labour market conditions, and human and social capital. The distinction has important implications for policy: while a region's natural endowments are a "given", regional assets can be mobilised through appropriate policies.

The role of specialisation

Changes in a region's share of GDP in the country's total GDP can be explained in terms of the methodology illustrated in Table 14.1. A rapid rise in GDP per worker – relative to the country's growth rate – may be due to specialisation or to a change in specialisation towards sectors with high productivity growth, better infrastructure, higher skill levels or more efficient production technology. As specialisation is driven by comparative advantage, the share of productivity growth that is due to irreproducible inputs (*e.g.* land, oil) can be seen as attributable to natural endowments. To the extent that infrastructure, technology and skills are reproducible resources, the rest of productivity growth can be regarded as a function of the region's policies.

Labour market efficiency can be improved

High growth in employment rates may be due to higher skill levels or to greater efficiency of the local labour market. 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. As young and elderly individuals tend to have lower participation rates, the difference in activity rates due to the age profile of the population can be seen as resulting from natural endowments. In contrast, higher participation rates across all age groups are an indicator of regional assets. 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.

14.1. The factors of regional competitiveness

Changes in the regional share of GDP are due to changes in:	Natural endowments	Regional assets
Productivity		Technology, skills + Infrastructure
Industry specialisation	Irreproducible inputs (natural resources)	Reproducible inputs (skills, capital)
Employment rate		Skills of the labour force + Labour market efficiency
Participation rate		Labour market participation
Age activity rate	Changes in working age (15-64) population	
Population	Demographics	Migration

Symbols and Abbreviations

OECD (25) average	Unweighted average of 25 OECD countries.
OECD (25) total	Sum over all regions of 25 OECD countries.
OECD (25)	Range of variation over all regions of 25 OECD countries.
TL2	Territorial Level 2.
TL3	Territorial Level 3
NOG	Non Official Grid
*	Differences in the definition of data or regions. Please check the “Sources and Methodology” section.
PU	Predominantly Urban
IN	Intermediate
PR	Predominantly Rural
PPP	Purchasing Power Parity
USD	United States Dollar





I. REGIONS AS ACTORS OF NATIONAL GROWTH

1. GEOGRAPHIC CONCENTRATION OF POPULATION
2. GEOGRAPHIC CONCENTRATION OF THE ELDERLY POPULATION
3. GEOGRAPHIC CONCENTRATION OF GDP
4. REGIONAL CONTRIBUTIONS TO GROWTH IN NATIONAL GDP
5. GEOGRAPHIC CONCENTRATION OF INDUSTRIES
6. REGIONAL CONTRIBUTIONS TO CHANGES IN EMPLOYMENT
7. GEOGRAPHIC CONCENTRATION OF PATENTS

Table of Contents

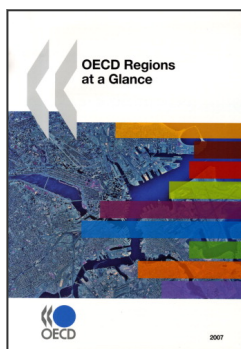
Executive Summary	7
Symbols and abbreviations	11
I. Regions as Actors of National Growth	
1. Geographic concentration of population	14
2. Geographic concentration of the elderly population	20
3. Geographic concentration of GDP	26
4. Regional contributions to growth in national GDP	32
5. Geographic concentration of industries	38
6. Regional contributions to changes in employment	44
7. Geographic concentration of patents	50
II. Making the Best of Local Assets	
8. Regional disparities in GDP per capita	58
9. Regional disparities in labour productivity	64
10. Regional disparities in specialisation	70
11. Regional disparities in tertiary education attainment	76
12. Regional disparities in unemployment rates	82
13. Regional disparities in participation rates	88
The Key Drivers of Regional Growth	
14. The factors behind regional performance	96
15. Regional growth in the OECD	98
16. National factors and regional performances	102
17. Regional factors: GDP per capita and population	106
18. Regional factors: productivity and specialisation	110
19. Regional factors: employment, participation and ageing	114
III. Competing on the Basis of Regional Well-being	
20. Accessibility: distance from the closest urban centre	120
21. Education: student enrolments in tertiary education	124
22. Voter turnout in national elections	128
23. Safety: reported crimes against property	132
24. Safety: reported murders	136
25. Home ownership	140
26. Environment: private vehicle ownership	144
27. Environment: municipal waste	148

IV. Regional Focus on Health

28. Health: age-adjusted mortality rate	154
29. Health status: premature mortality	160
30. Health status: incidence of cancer	166
31. Health resources: number of physicians	172
32. Health resources: density of practising nurses	178
33. Health resources: hospital beds	182
34. Health resources: medical technology	188
35. Non-medical determinants of health: prevalence of smoking	194
36. Non-medical determinants of health: prevalence of obesity	198

Source and Methodology

Territorial Grids and Regional Typology	205
Regional grids	205
Regional typology	205
Population – Chapters: 1, 8, 17, 21, 23, 24, 26, 27, 30, 31, 32, 33, 34, 35, 36	214
Population by age and sex – Chapters: 2, 11, 13, 19, 28	215
Gross domestic product – Chapters: 3, 4, 8, 9, 15, 16, 17, 18, 19	217
Employment by industry – Chapters: 5, 10, 18	219
Labour force, employment, unemployment and long-term unemployment – Chapters: 6, 9, 12, 13, 18, 19	220
Employment at place of work – Chapter 9	222
Patent applications – Chapter 7	223
Educational attainments – Chapter 11	224
Time distance from the closest urban centre – Chapter 20	226
Student enrolment in tertiary education – Chapter 21	228
Voter turnout in national elections – Chapter 22	229
Crimes against property – Chapter 23	230
Number of murders – Chapter 24	232
Number of dwellings inhabited by the owner; total number of occupied dwellings – Chapter 25	234
Number of private vehicles – Chapter 26	235
Volume of produced waste – Chapter 27	236
Death by age and sex: Chapters 28, 29	237
Number of new cases of cancer – Chapter 30	239
Number of physicians – Chapter 31	240
Number of nurses – Chapter 32	242
Number of hospital beds – Chapter 33	244
Number of CT scanners and MRI units – Chapter 34	246
Number of smokers aged 15 and over – Chapter 35	247
Number of people suffering from obesity – Chapter 36	248
Indexes and Formulas	249
The drivers of regional growth	251



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