



MEGATRENDS IN THE 21ST CENTURY & THE ROLE OF REGIONS AND CITIES

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A **policy environment** shaped by 4 main complex, disruptive, interrelated megatrends



Globalisation



Digitisation

How to minimise trade-offs and build complementarities between growth and inclusion?

Demographic changes



Climate change





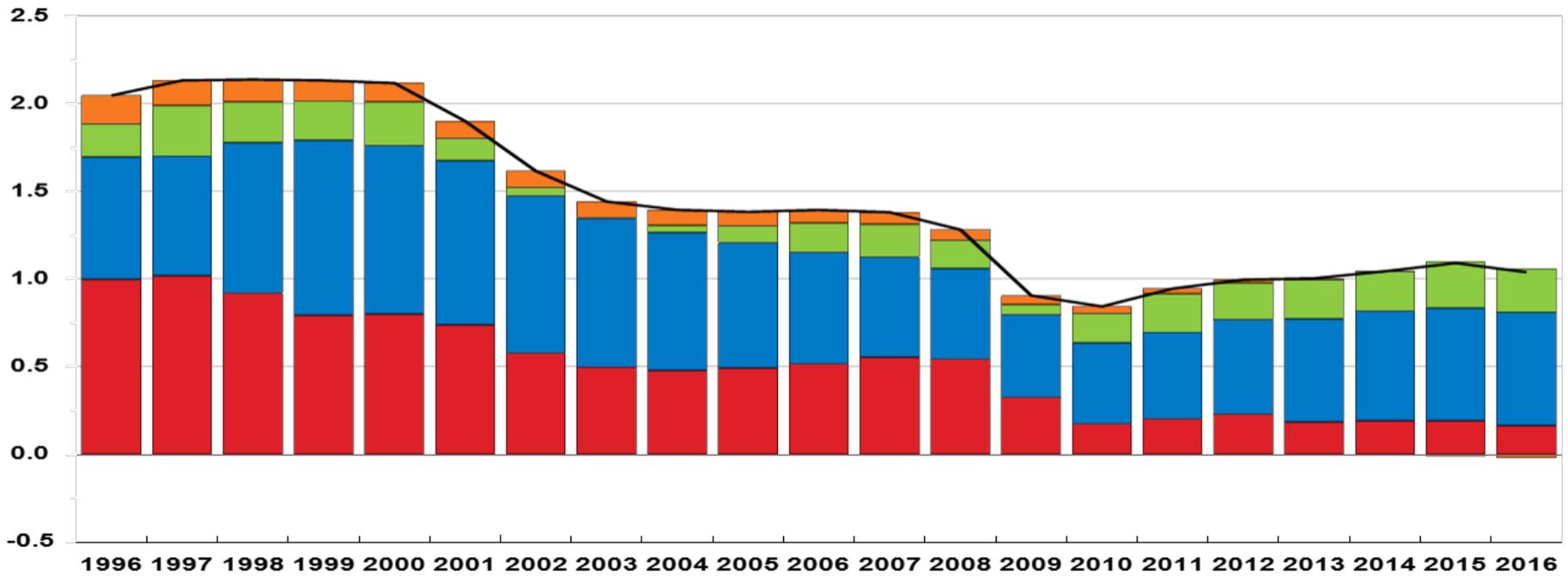
PRODUCTIVITY AND REGIONAL DISPARITIES IN THE OECD



The productivity slowdown is a structural issue

Contributions to potential per capita output growth (% pa)

- Potential per capita growth
- Capital per worker
- TFP
- Potential employment rate
- Working-age population share



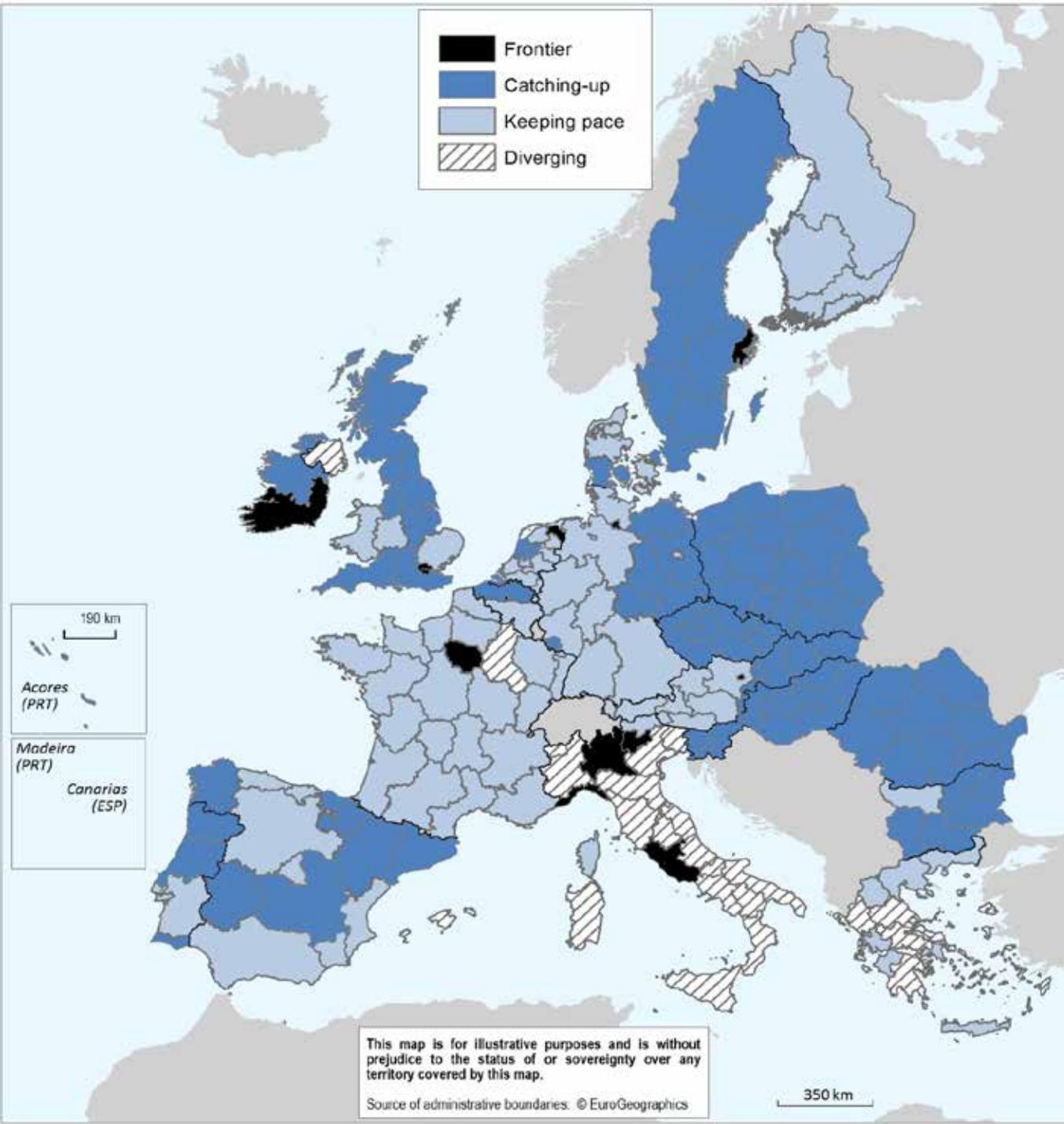
Pre-crisis: Multi-Factor Productivity story

Post-crisis: Capital story



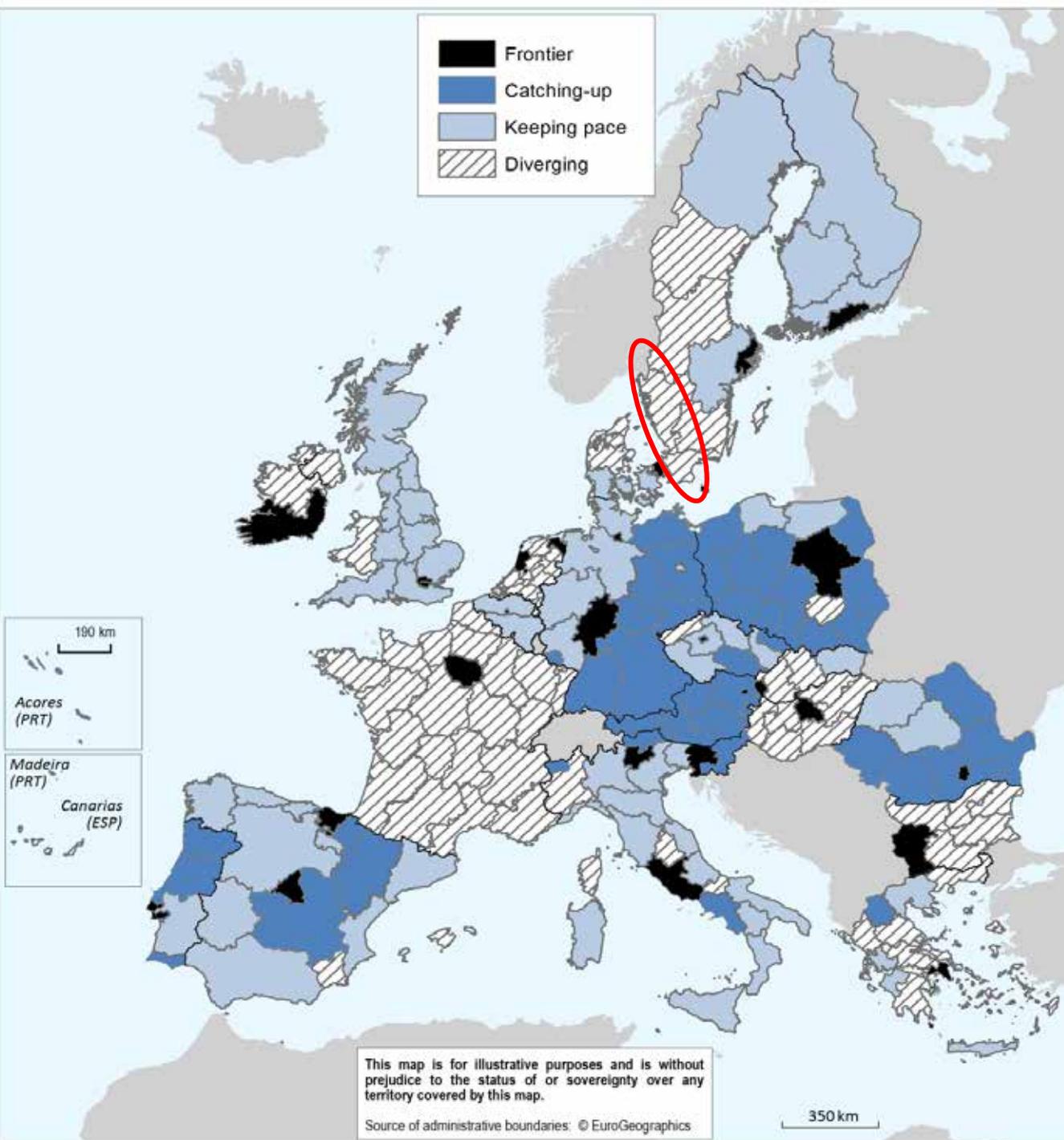
The productivity slowdown puzzle

- Why is it **worrying**?
 - Structural and widespread phenomenon
 - Lower income growth, slower convergence
 - More inequality and intergenerational stagnation in incomes
 - Less sustainability of social welfare systems
- Why is it **puzzling**?
 - Innovation diffusion doesn't seem to deliver
 - Structural flexibility (reforms) do not seem to be associated with a regain of productivity



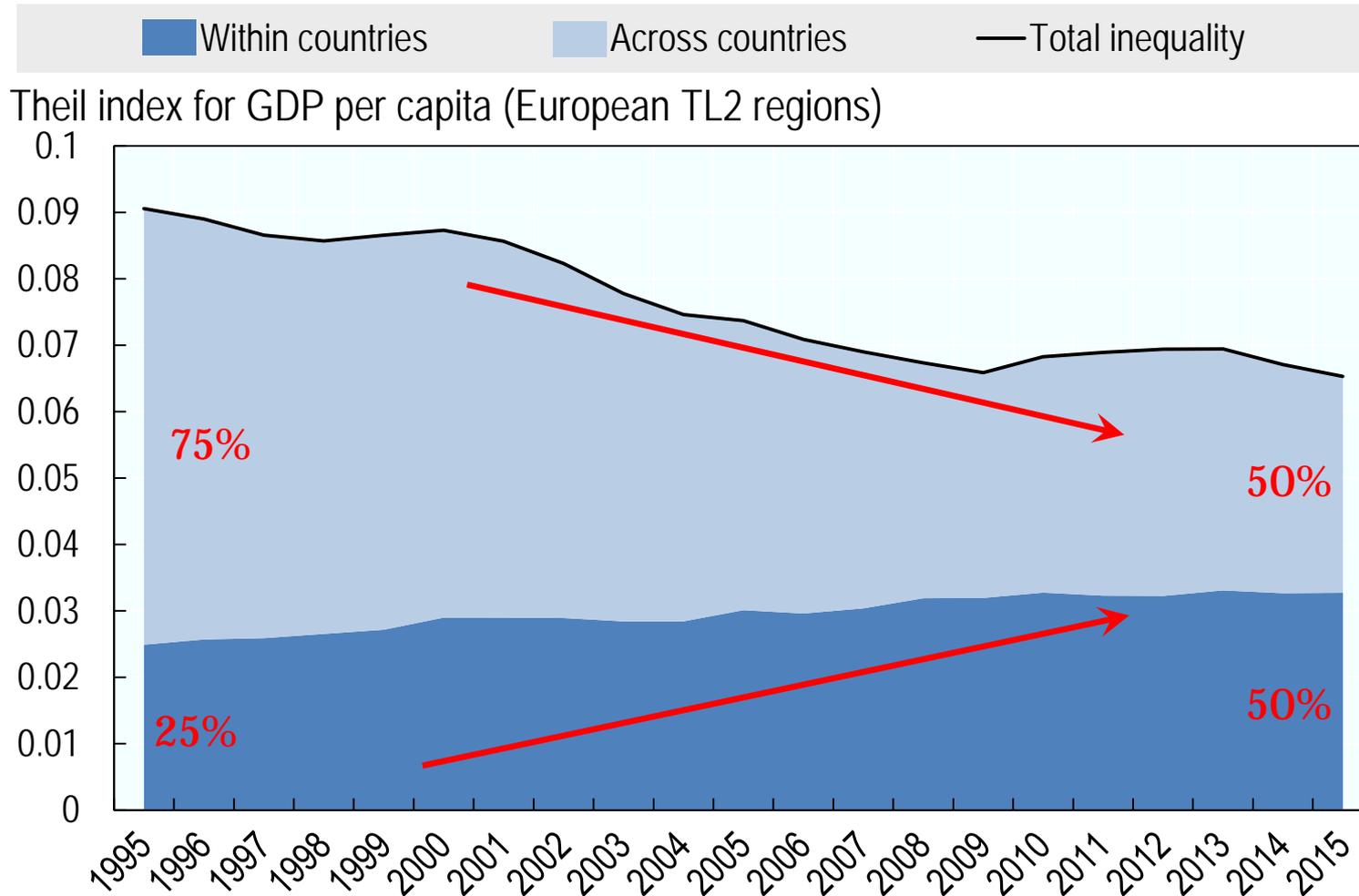
Geography of productivity convergence relative to EU frontier in European regions, 2000-14

Geography of productivity convergence relative to national frontiers in European regions, 2000-14



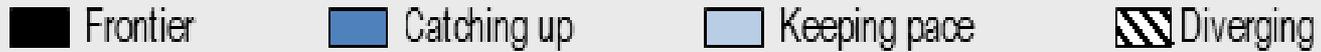


Inequality **across** European regions declined, but not **within** countries

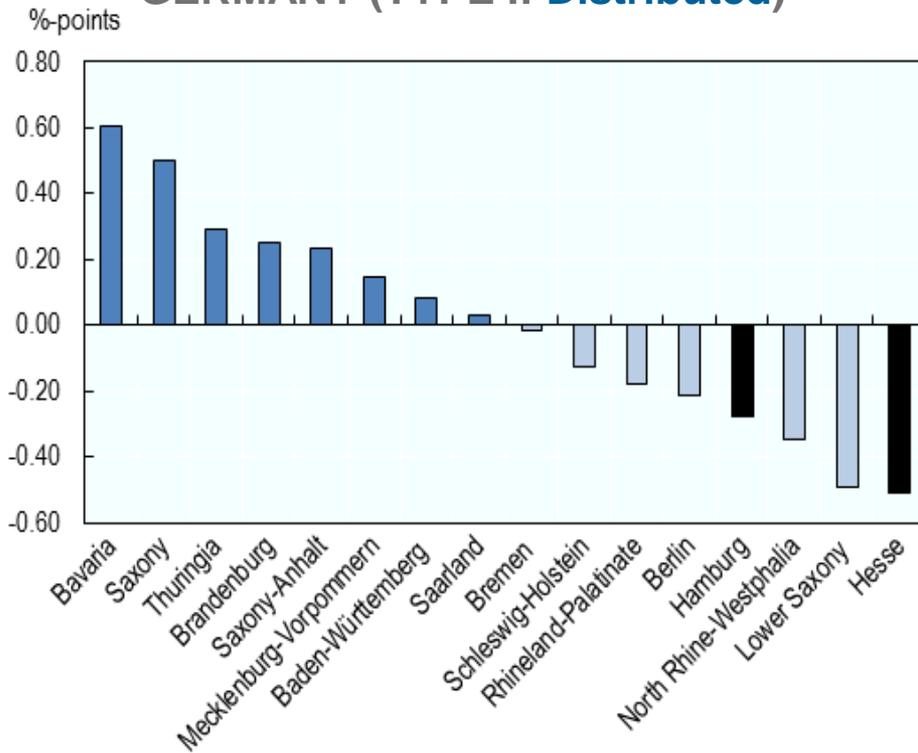




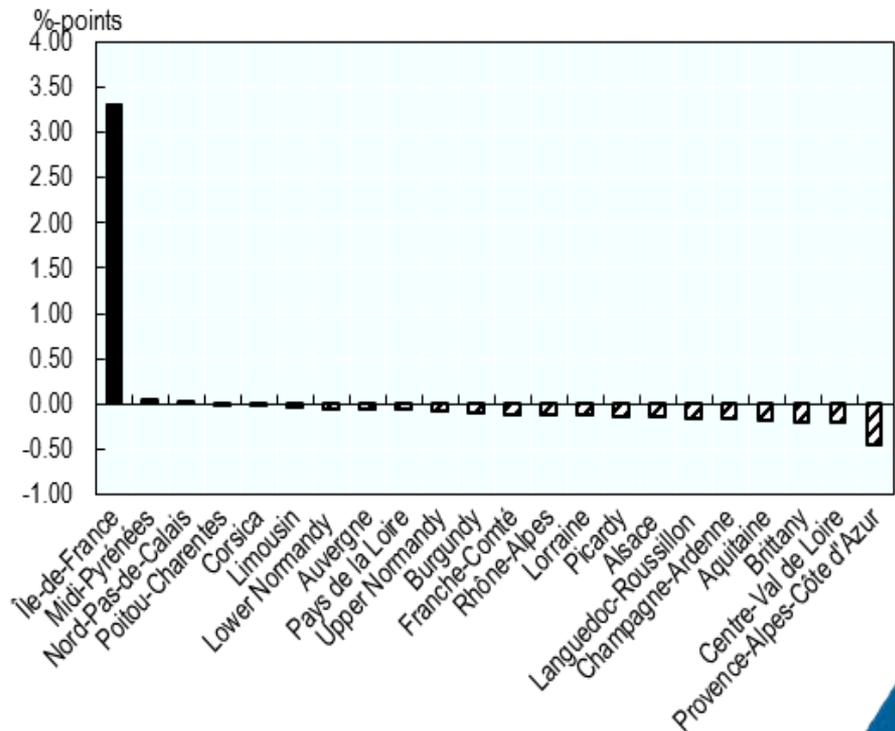
Illustrations of the two regional productivity growth models (2000-2014)



GERMANY (TYPE I: Distributed)



FRANCE (TYPE II: Concentrated)



NB: The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region, cf. OECD Regional Outlook (2016).



Both Sweden and Denmark are *concentrated* countries in terms of productivity growth

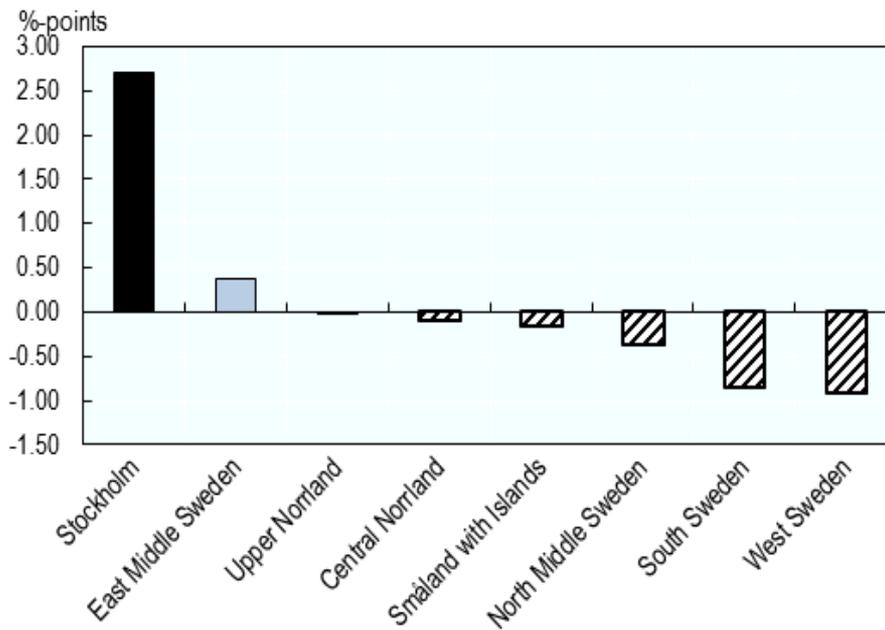
■ Frontier

■ Catching up

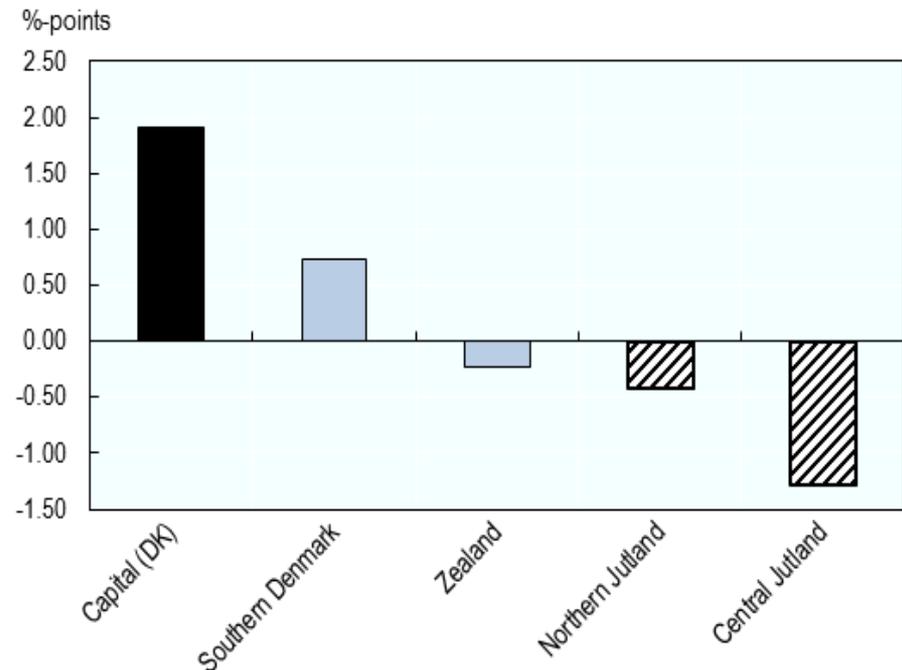
■ Keeping pace

▨ Diverging

SWEDEN



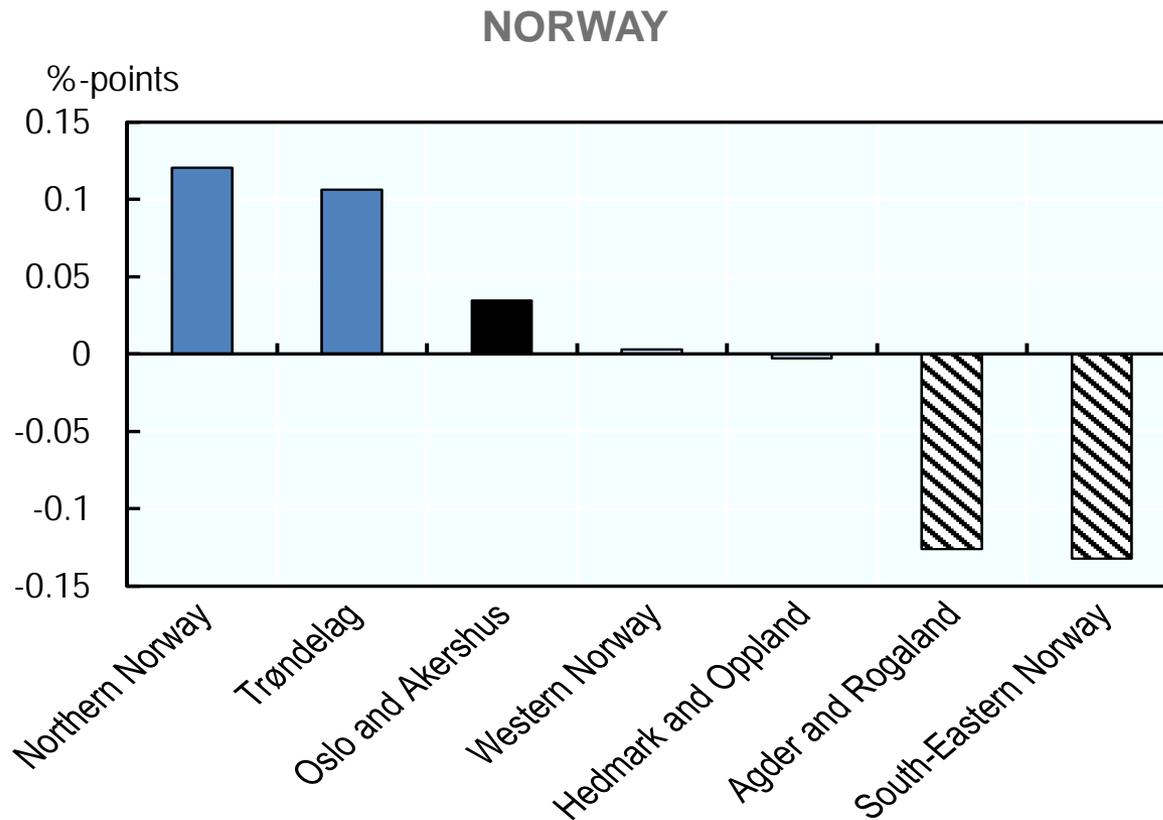
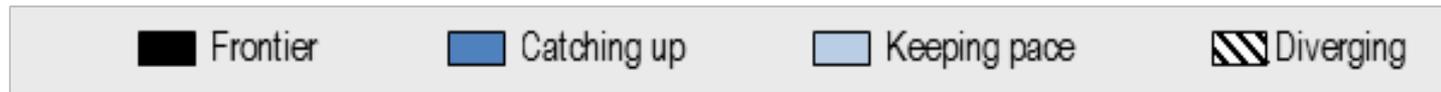
DENMARK



The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region, cf. OECD Regional Outlook (2016).



Norway is closer to the *distributed* model

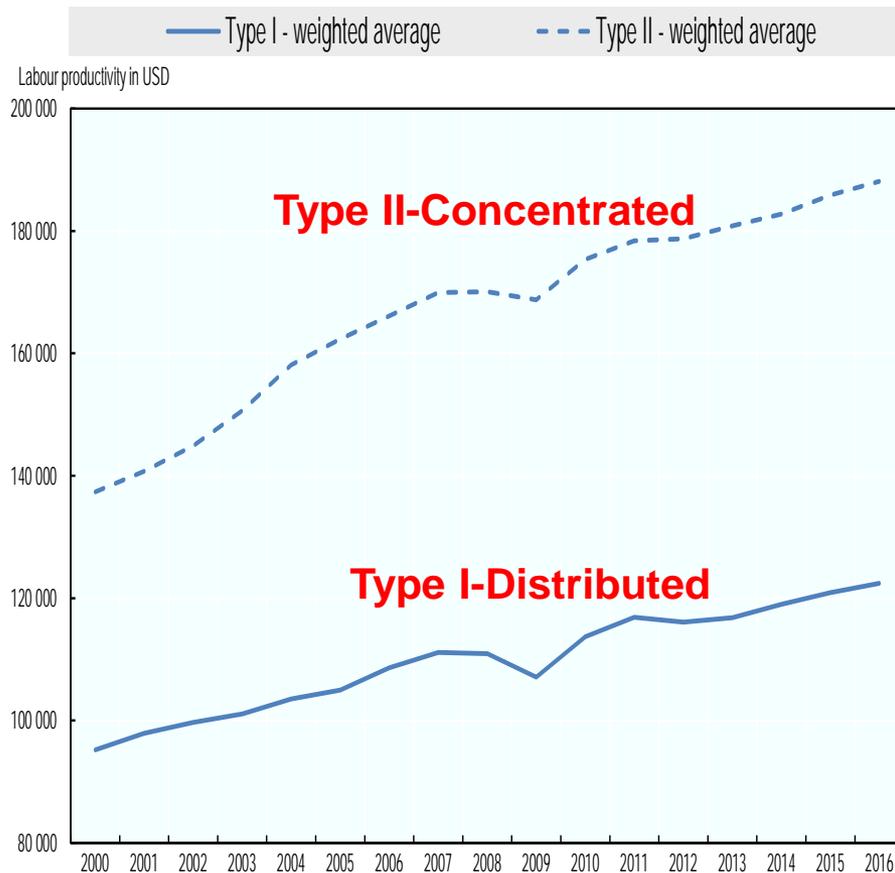


The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region, cf. OECD Regional Outlook (2016).

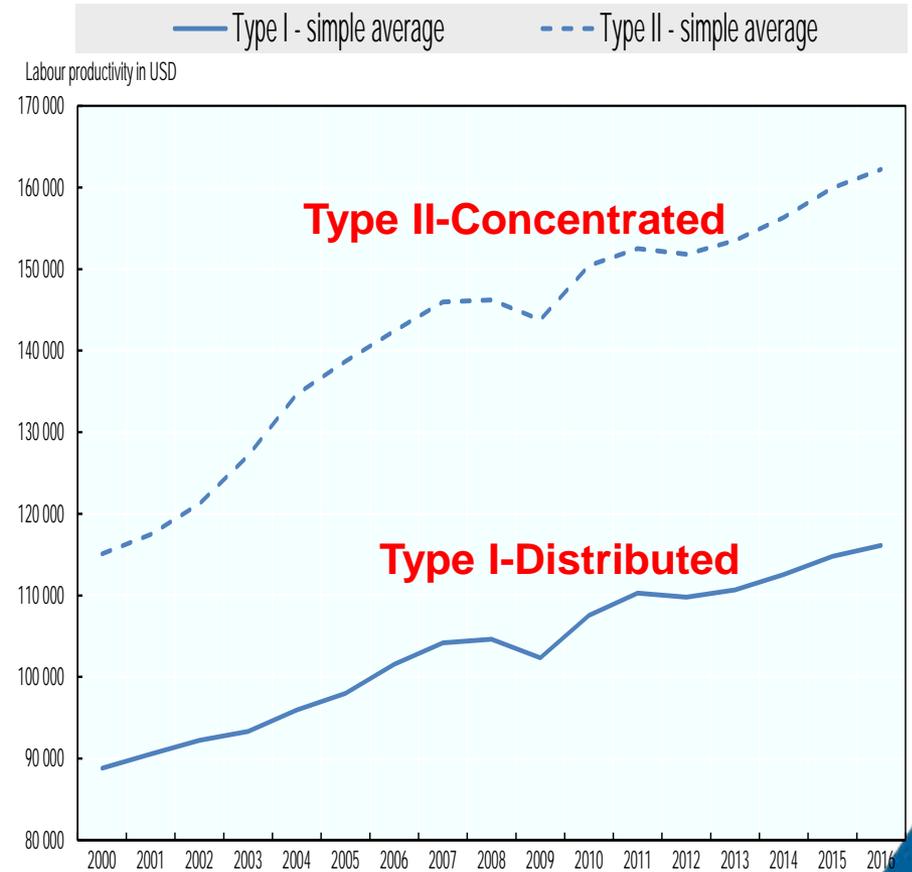


A comparison of productivity in the service sectors for the two models

Weighted averages



Simple averages



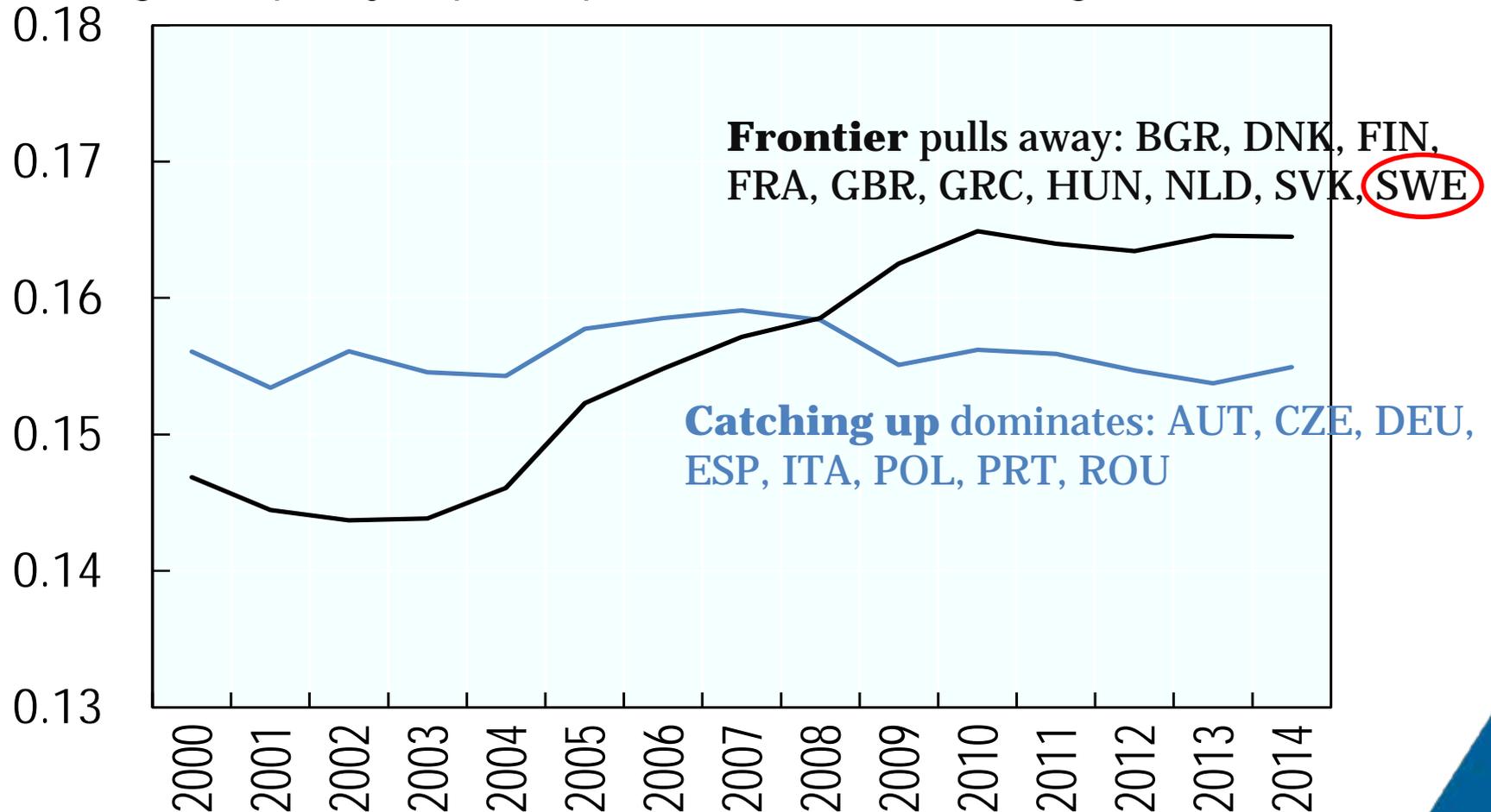
Source: OECD National Accounts



Evolution of Regional inequalities, 2000-2014

— Catching up dominates — Frontier pulls away

Average inequality in per capita GDP across TL3 regions (Gini)





What supports regional catching up?

- **Well-functioning cities** (OECD Regional Outlook, 2014)
 - Home to **knowledge-intensive** (traded) sectors
 - Larger markets can support **economic diversity and dynamism**
 - **Agglomeration economies** (beyond borders)
 - **Rural-Urban** linkages
- **Tradable sectors** (OECD Regional Outlook, 2016)
 - Face **competition** even if they are not traded
 - Might **overcome** market size and institutional constraints
 - **Avoid economic imbalances** from excessive expansion of non-tradables

è **Inaction** comes at the price of **growing inequality** and a “**geography of discontent**”



DIGITALISATION & FUTURE OF WORK

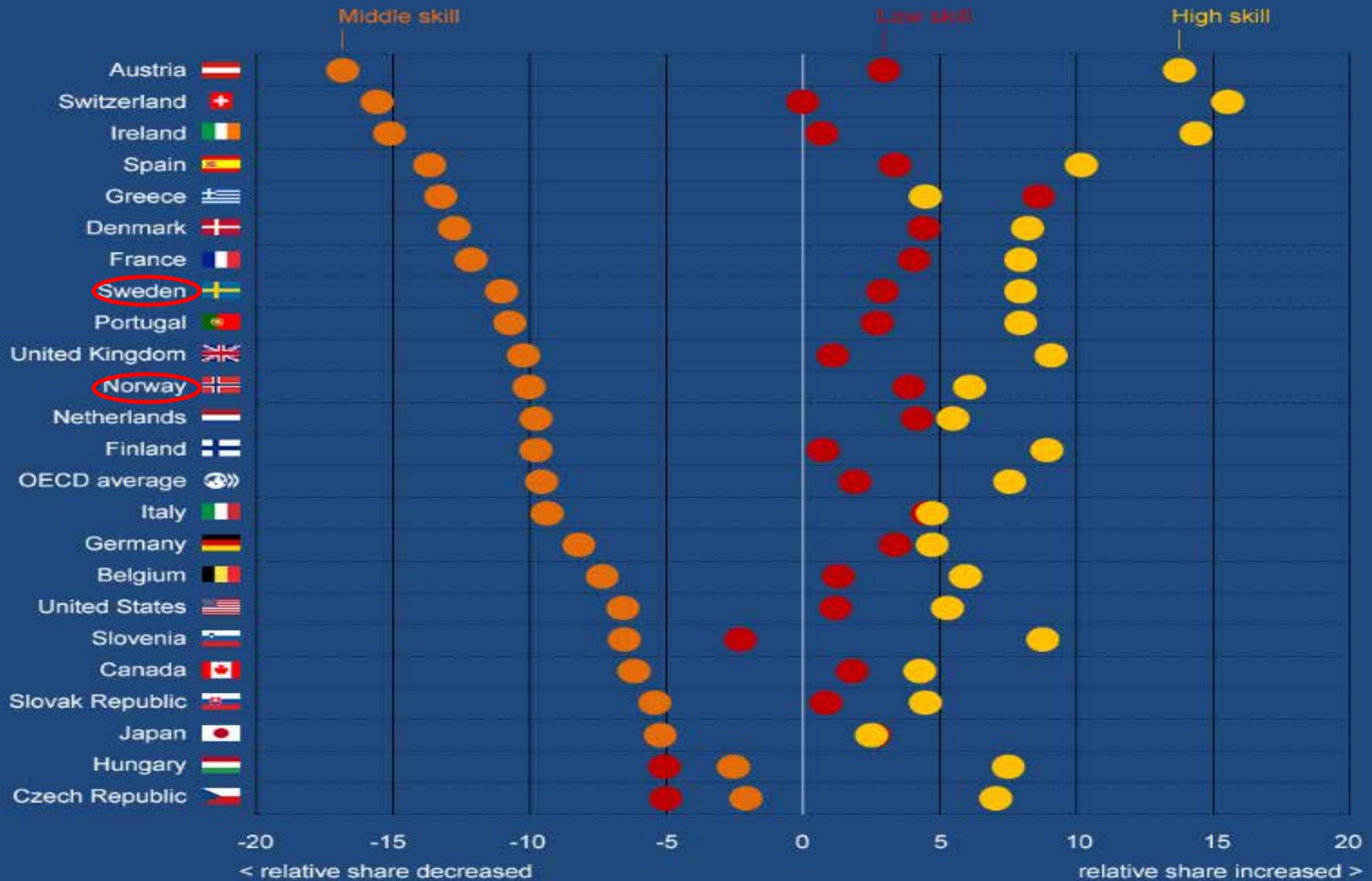




Job polarisation in OECD countries

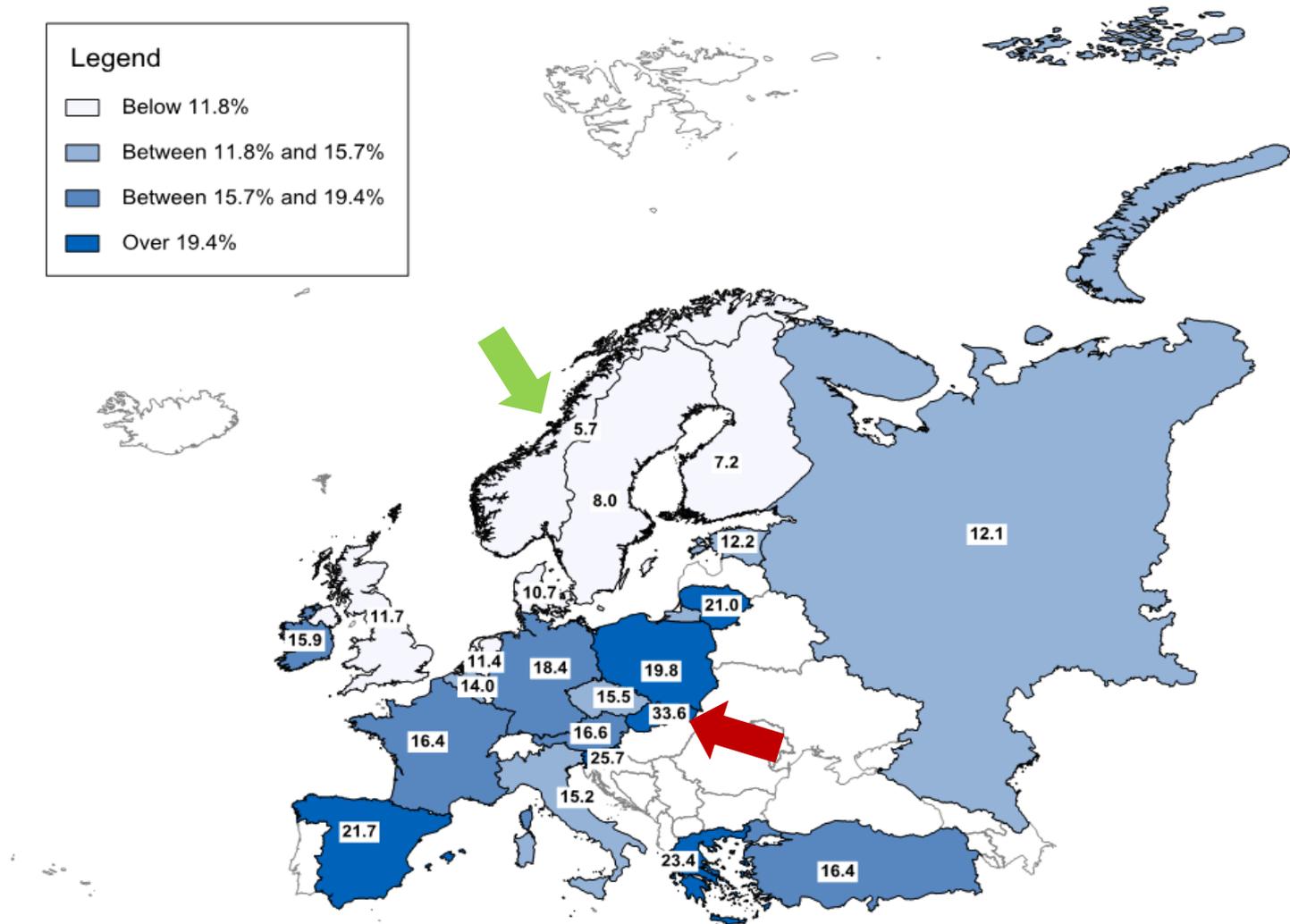
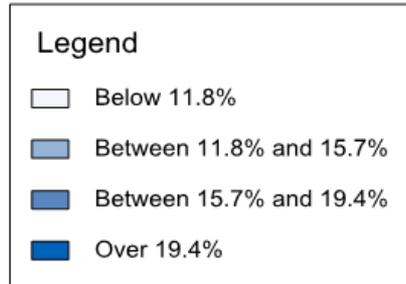
High, middle and low skill occupations

Change in respective shares of total employment between 1995 and 2015 (Percentage point)





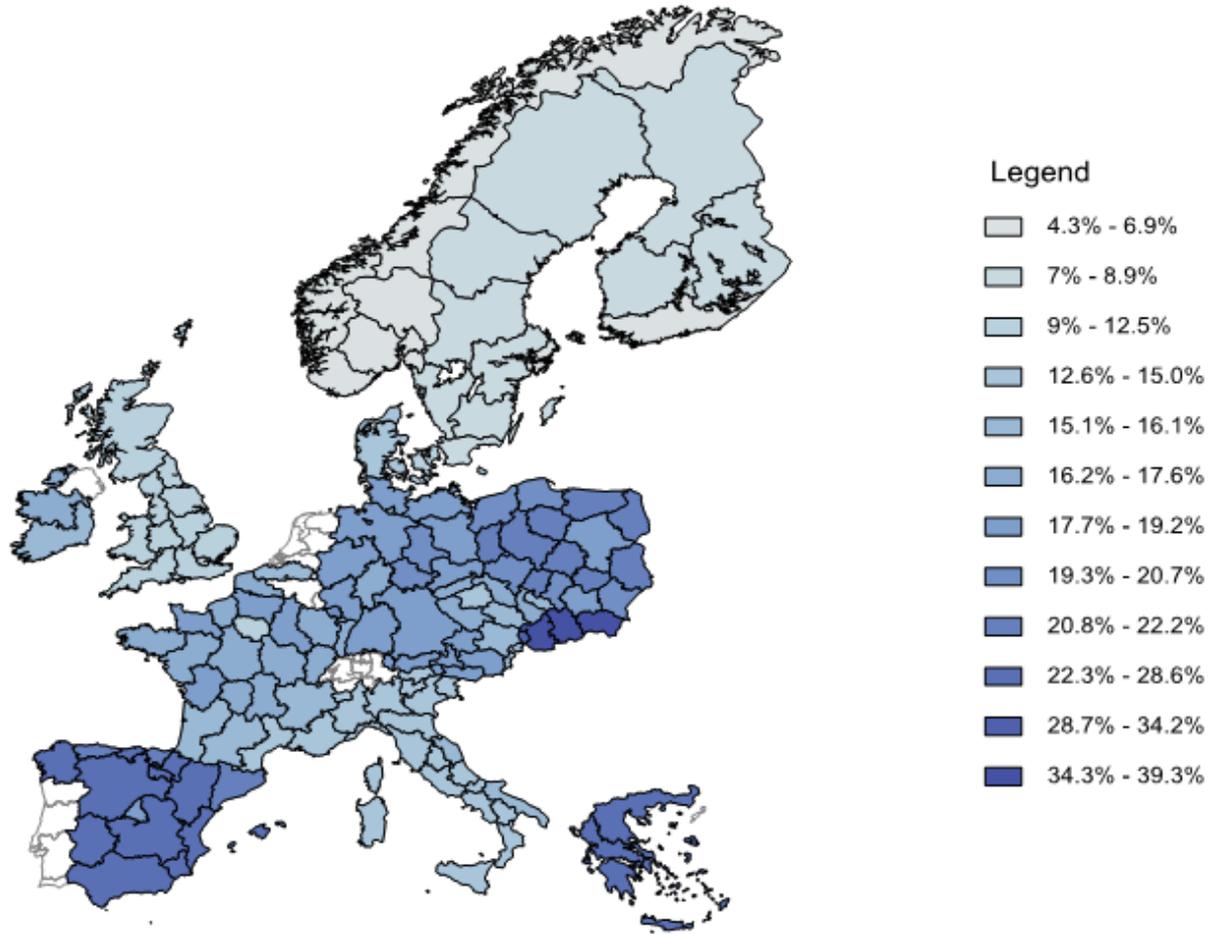
The percentage of occupations at high risk of automation differs **across** countries...



Source: Quintini (forthcoming)



... but also **within** countries.





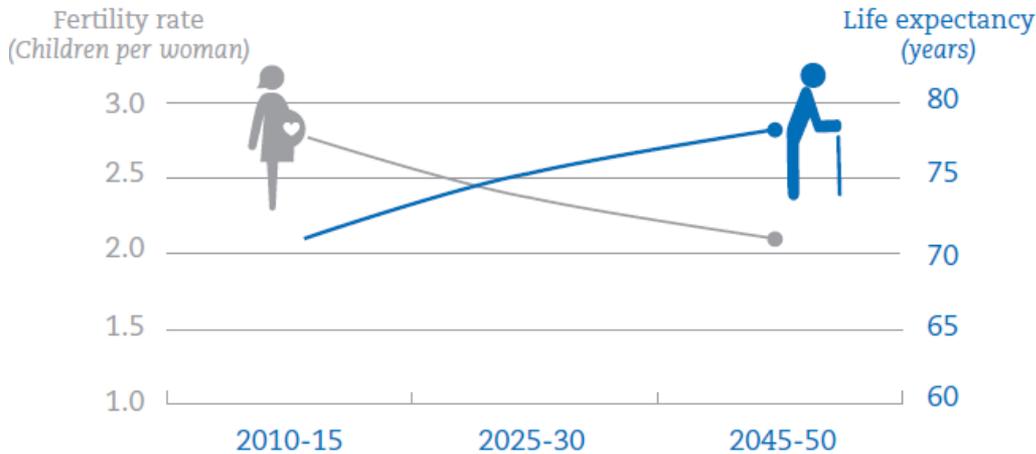
DEMOGRAPHIC CHANGES





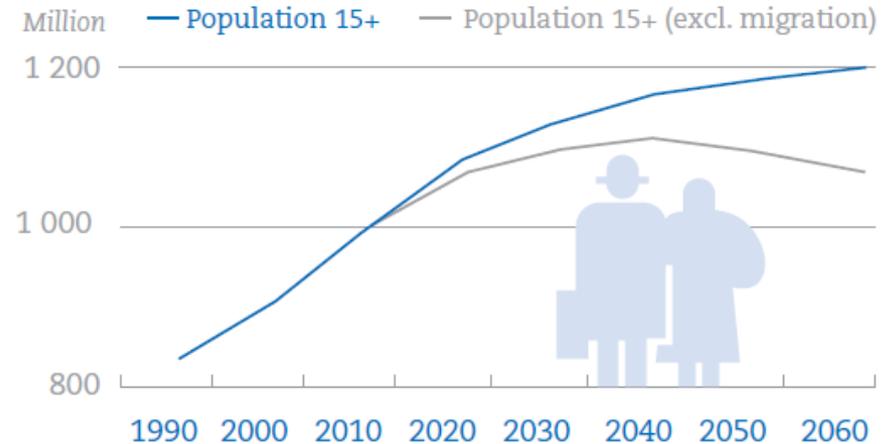
Ageing, mitigated partly by migration

Fewer births and longer life spans¹



The population in all major regions of the world is ageing.

Population and migration
OECD, 1990-2060³



Migrant workers will be an important factor to mitigate the effects of ageing in most OECD countries.



The “Metropolitan Century”

% of the world population living in urban areas



Nearly **90%** of urban expansion will take place in Asia and Africa.

Rise of megacities: a challenge to nation states?¹²



Megacities may become the epicenter of social, economic and political development, displacing national states in some instances.



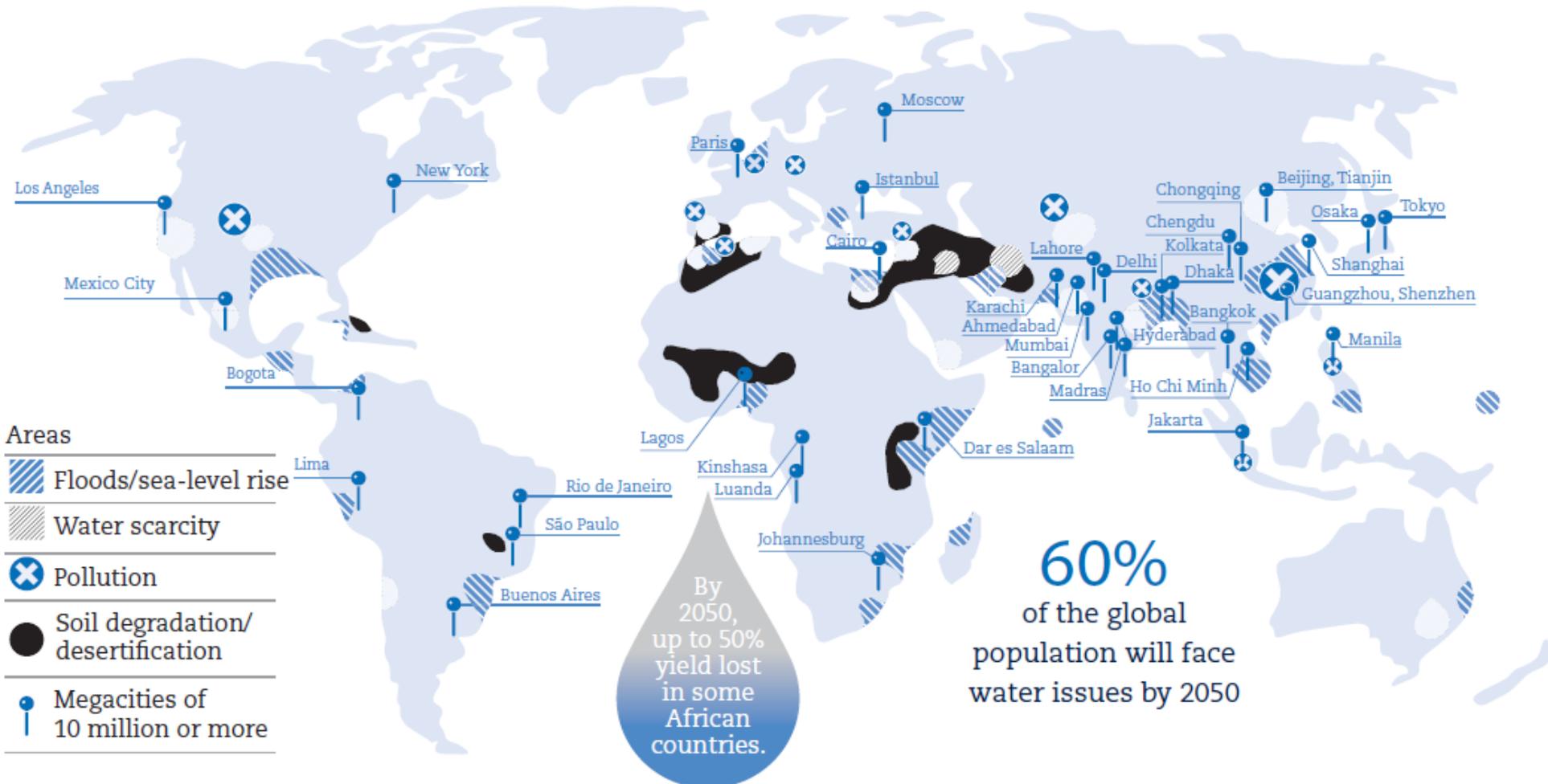
SUSTAINABILITY & CLIMATE CHANGE





Climate risks are multi-faceted

Areas of floods, water stress, pollution and droughts today, and locations of megacities in 2030^{1,2}





Investing in climate action brings benefits for growth

- The 2017 OECD report *Investing in Climate, Investing in Growth* – commissioned by the German G20 Presidency – provides clear evidence:
 - a “decisive transition” towards the target of “well below 2°C” warming is feasible and brings net benefits: a climate-friendly policy package can increase long-run GDP **by 2.8% in 2050** across the G20,
 - and **by almost 5%** if the positive impacts of avoiding climate damage are factored in.
- Acting now is good for growth in the **near-term** too, with a net growth effect of **around 1% by 2021** for G20 economies.



Climate risks (and solutions) are **local**.

- Cities contribute over **70%** of global GHG emissions and are responsible for **2/3** of global energy consumption.
- Cities are particularly **vulnerable** to climate change impacts, which are also likely to further entrench **structural inequalities** in cities.
- But cities are also **part of the solution**: subnational governments have authority over essential dimensions of low-carbon growth.
- The OECD is currently developing a project on *Localising the Paris Climate Agreement*.





FINAL THOUGHTS



Regions & cities have a critical role to manage these global trends

- **People:** help populations and places that are left behind
- **Firms:** market concentration and the changing nature of industry pose challenges for SMEs integration in the global economy
- **Places:** the service economy is a continued source of advantage to “agglomeration” (cities); regional catching up forces are not fully working

è Role of city networks/megaregions



THANK YOU