

Modernizing Rural Economies

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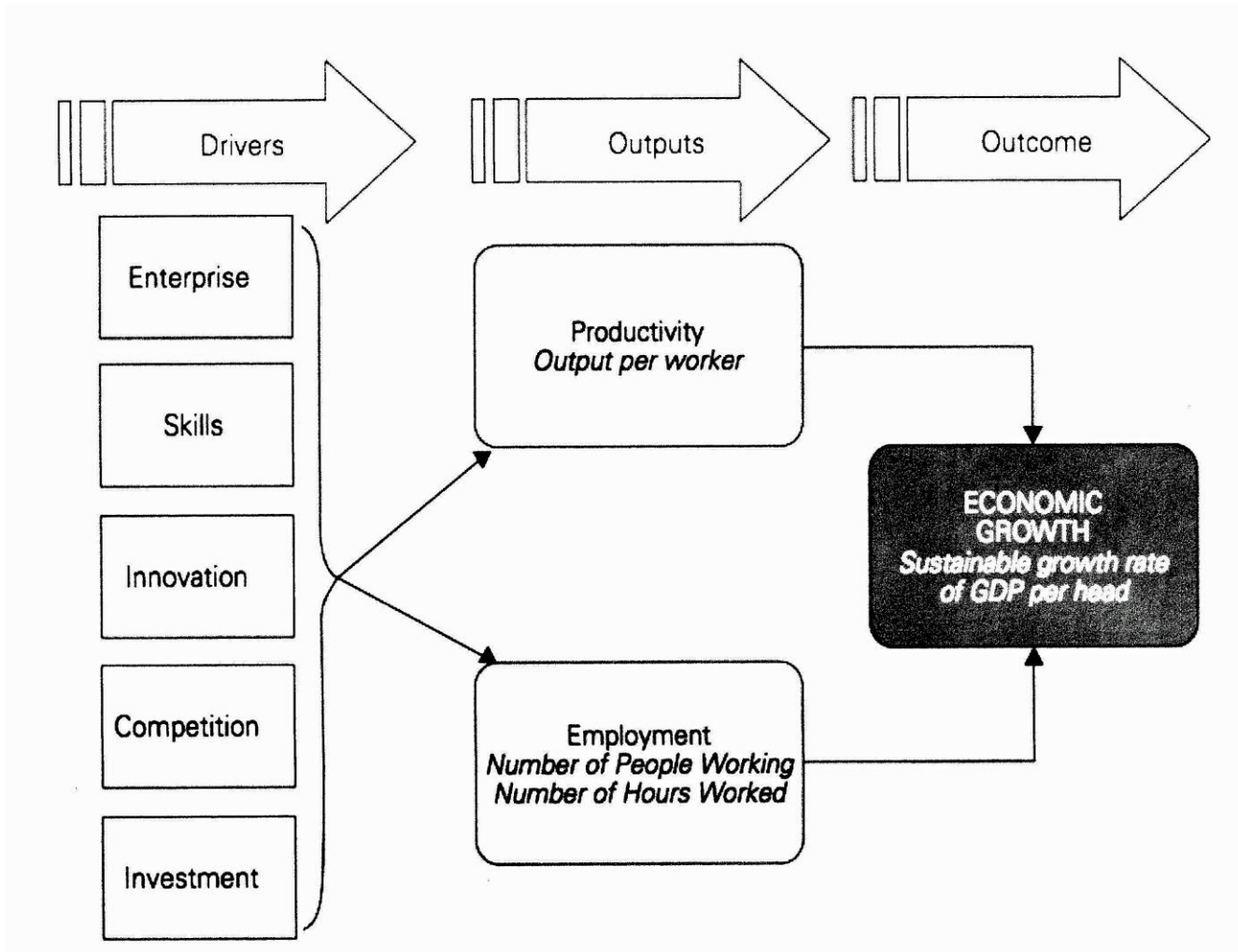


Outline of presentation

- Drivers of Economic Growth
 - Number of employed persons
 - Productivity
- What is the “modern economy”?
- Characteristics of most “rural economies”
- Making the rural economy modern
 - Growth opportunities and vulnerabilities –a matter of perception
 - Rural exemplars – world leaders from rural places
- Conclusions

Drivers of Economic Growth

(HM Treasury)



Identifying The “Modern Economy”

Common Elements:

- Led by the service sector, especially producer services
- Network economy – internet, computers, telecommunication (ICT)
- Core workforce is highly skilled and gap between skilled and unskilled will continue to grow
- Economic growth is driven by innovation and productivity
- Entrepreneurs and SMEs create the most jobs
- Only large cities lead economic growth
- Endogenous growth driven

Where are Rural Regions Today

- Most rural employment is already in services and manufacturing, but mainly low end consumer services
- Weak skills, youth outmigration and an aging workforce
- Low productivity, except in the primary sectors, and limited entrepreneurial activity
- Lagging in Internet connections and computer use
- Most firms are SMEs, but often exhibit low growth
- Low levels of innovation, when measured by patents and formal R&D
- Exogenous growth driven

Modernizing Rural Economies: The New Rural Paradigm

- How do we make rural economies more modern?
 - Requires a bottom-up development strategy
 - Requires investments in people, firms and places, mainly by the region itself
 - Requires support from national and state/provincial government
 - Requires taking vulnerabilities and turning them into opportunities to drive growth

Opportunities or Vulnerabilities?

Increasing the Number of Employed People

- Shift from surplus labor to labor shortage means less need to focus on “more jobs” and a chance to focus on “better jobs”
- Possibility for economic activity to move to rural areas if labor shortages impact urban areas
- Fewer rural workers as population ages and youth outmigration continues
- Inability to meet ongoing labor needs in some industries.
- Need to reorganize work to deal with older workers

Opportunities or Vulnerabilities?

Enterprise

- Small, unserved home markets can provide an ideal opportunity for a start-up entrepreneur
- Better social relations among firms in rural areas can facilitate collaboration – clusters
- Some rural places have a clear entrepreneurial culture
- Limited connection to high growth sectors –ICT, pharmaceuticals etc.
- Fast growth firms often relocate to urban areas
- Lack of venture capital
- Large firms in single industry towns can restrict opportunities for new enterprise

Opportunities or Vulnerabilities?

Workforce Skills

- Possibility of new training technologies
- High returns to workers from up-skilling provide an incentive to participate in training
- Rural opportunities may lie in industries where most workers only need moderate skills – not high tech
- Now largely a low skill labor force, but skills have to increase as workforce shrinks
- Traditional training programs are not cost-effective in rural regions
- Selective out-migration
- Weak workforce can limit firm viability

Opportunities or Vulnerabilities?

Competition

- Internet gives the opportunity to compete directly in urban areas by expanding markets beyond local demand
- Limited local competition provides start-ups with “incubator” effect
- High proportion of firms produce tradable, so contingent competition is always possible
- Small home, or local, market limits number of firms
- Rural firms with spatial monopoly face limited pressure to improve – especially true for services

Opportunities or Vulnerabilities?

Investment

- Fewer subsidies mean more opportunity for bottom-up local investment strategies
- More foreign private investments to facilitate resource utilization
- Because firms are small the amount of money needed per firm is not large
- Weak national finances limit subsidies
- Limited local fiscal capacity
- Limited public sector funding slows needed infrastructure investments, especially broadband and roads

Opportunities or Vulnerabilities?

Innovation

- High rates of technical change in all primary sectors – agriculture, energy, mining and forestry
- Clear rural competence in applied innovation – existing firms develop new products or process because they can't find an external solution
- Perception of rural backwardness may limit innovative behavior
- Very weak connection to national innovation systems based on formal R&D
- Limited connection to high growth industries

Walmart – Bentonville, Arkansas

- Walmart
 - World's largest retailer
 - First retail store opened in 1950 by Sam Walton in Bentonville
 - Walmart Head Office – Bentonville AR
- Bentonville population
 - 1950 – 2,900
 - 2010 – 35,301



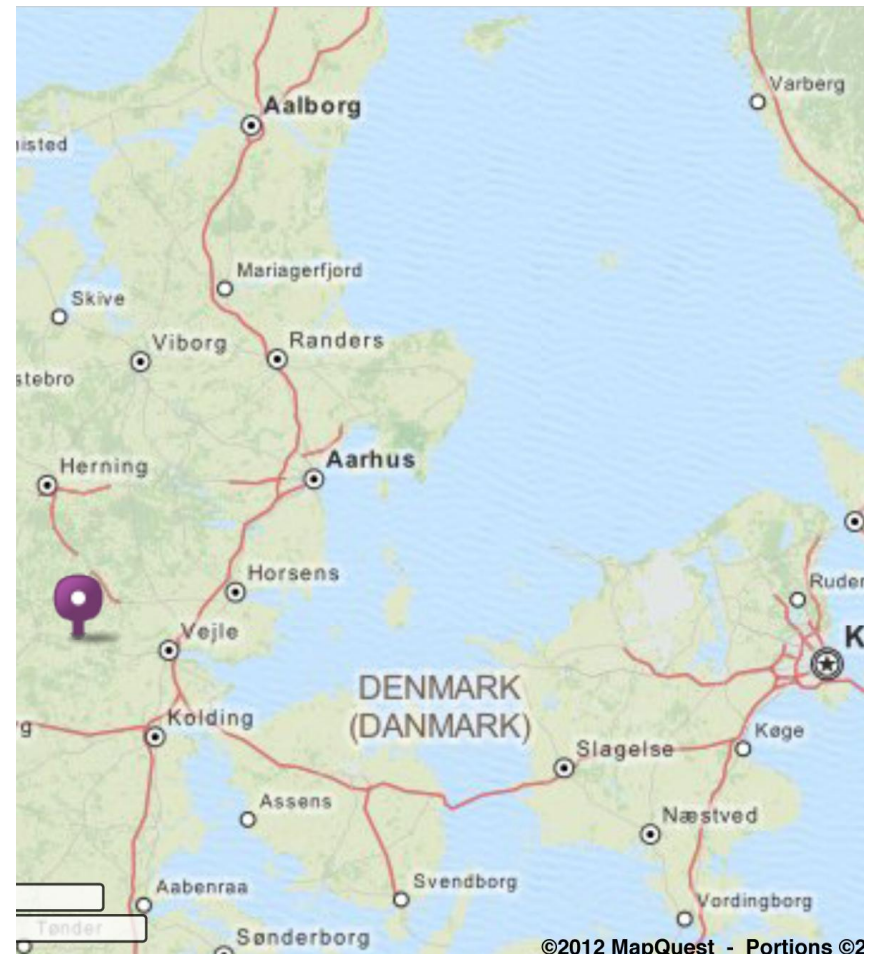
Bombardier – Valcourt, Quebec

- Bombardier
 - Third largest global producer of airplanes and railroad equipment
 - Bombardier Recreational Products (BRP) spun off in 2003 to focus on snowmobiles, jet skis and motorcycles
 - Bombardier started by Joseph-Armand Bombardier, in Valcourt, Quebec to make tracked snow machines in 1942. In 1960s introduced snowmobiles and jet skis, and then branched into airplanes.
- BRP Head Office – Valcourt
- Population Valcourt
 - 2006 – 2,349



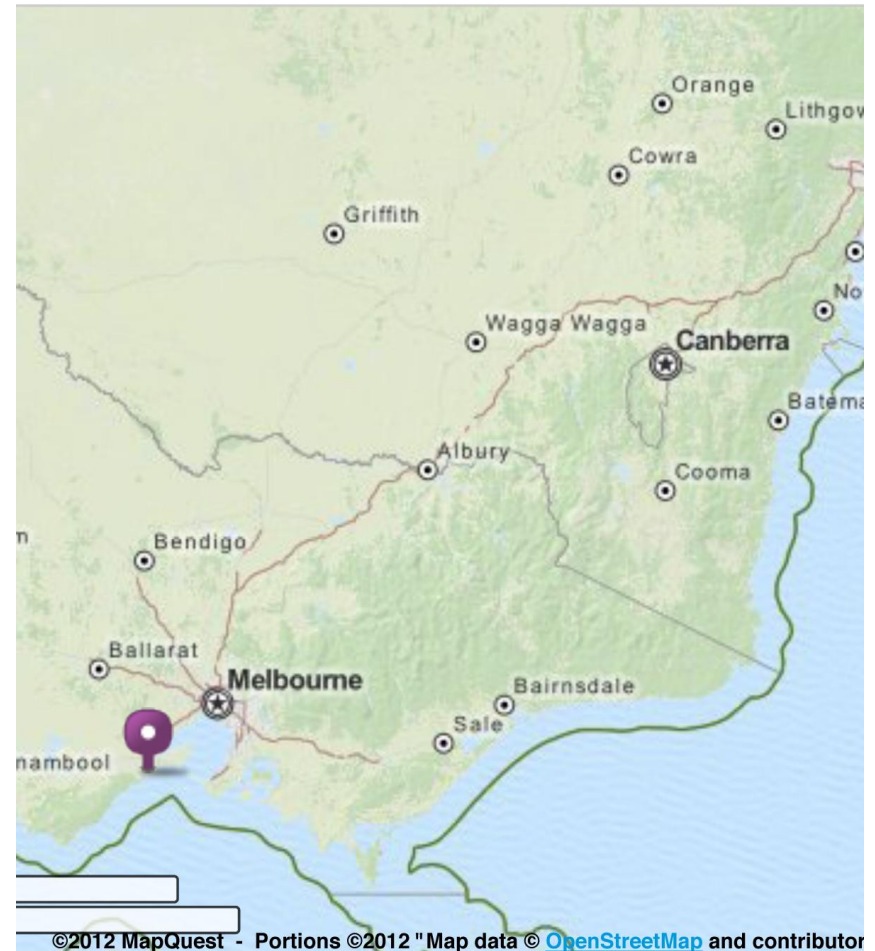
LEGO – Billund, Denmark

- LEGO
 - Fourth largest toy maker in the world
 - Company started by Ole Kirk Christensen in Billund in 1916 as a general woodworking shop. In the 1930s the firm focused on wooden toys and in 1947 started making plastic building bricks.
- Head Office: Billund
- Population Billund
- 2012 – 6,146



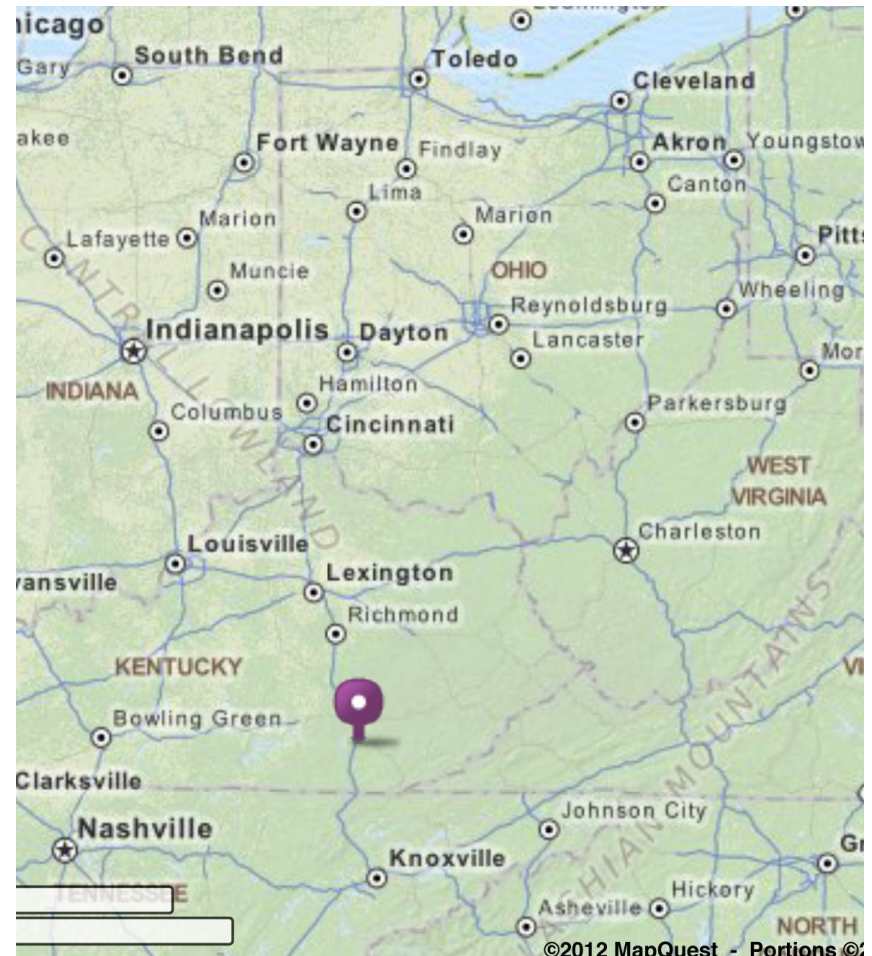
Rip Curl & Quiksilver – Torquay, Australia

- Rip Curl and Quiksilver
 - Rip Curl is a major global producer of wetsuits for surfing. It was started in 1969 in Torquay to make surfboards, but in 1970 switched to wetsuits
 - Quiksilver was started to make surfing shorts in 1970 by a worker who left Rip Curl. It rapidly began to export to the US and has diversified into clothing for most summer and winter board sports
- Rip Curl Head Office – Torquay, AU
- Quiksilver Head Office – Huntington Beach, CA
- Population Torquay
 - 2011- 10,143



KFC – Corbin, Kentucky

- KFC
 - Formerly Kentucky Fried Chicken, the world's largest chain of fried chicken restaurants, second largest fast food chain after McDonalds. Now part of YUM Brands
 - Founded by Col. Harland Sanders at his gas station in Corbin in 1930
- YUM Head Office – Louisville, KY
- Population Corbin
 - 1930 – 6,301
 - 2010 – 7,304



Key points from examples

- Rural innovation can be any sector, not just traditional rural industries
- Rural innovation is likely to be driven by one person, not a large innovation system
- Rural innovations may lead to patents, but many do not
- Rural innovations are likely to have a niche market and that can still be significant in a rural place, but some rural innovations have global effects
- It may take time for a rural innovation to exhibit its full value, which makes venture capital unlikely

Conclusions

- UK Treasury identified 2 sources of growth
 1. Employ more people
 - Less likely in future due to shrinking and aging rural populations
 - Fewer opportunities for unskilled in future
 2. Increase productivity
 - Crucial, for small, export oriented economies that are distant from external markets and have a limited home market
 - Crucial, given aging, shrinking work force
 - Crucial, given likelihood of fewer national subsidies
- Get there by focusing on strengthening: enterprise, investment, skills, competition and innovation