

Value Added regional growth decomposition: structural and demand-led regional economic growth

Topic: Global Value Chain Analysis

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Economic growth is equivalent with producing and selling more or better products and services. This economic growth can be due to economic growth and demand from other regions, or it can be due to internal factors raising productivity. These internal factors that increase a region's competitiveness result in a gain in the market share of this region and these are the most policy relevant as they can be influenced by the region itself. As a result a region may implement excellent regional policies and relatively outperform many other regions while having an overall negative growth rate. The reason is that this negative growth rate may be caused by a collapse in the demand for goods and services from other regions. The economic crisis in Europe that started with the banking crisis in 2008 and still continues into 2014 is an illustration of these negative interregional demand spillovers. We therefore have to distinguish between regional growth that is the result of an increase in demand in other parts of the world, and growth that is due to a change in structural factors strengthening a region's competitiveness and increasing its productivity.

The here proposed Value Added growth decomposition is based on the PBL multiregional Supply and Use tables (Thissen et al., 2013) and gives these region specific sources of economic growth. Furthermore, it will give a ranking of those regions that outperform other regions and give a precise number by how much they outperform these other regions. Naturally, it also gives a ranking of regions that perform worse than the region under investigation. The performance of all regions is also analyzed on different product markets and different geographical markets. This gives the information needed to evaluate and monitor regional policies. The methodology allows to evaluate regional policies in either a worldwide economic boom or recession. It is an ideal framework for policy evaluation and monitoring of regional economic progress. Every year a region can analyse its performance vis-à-vis other regions and see which regions performed better and which regions performed worse. The decomposition can be done on the aggregate or sector level. The whole world can be included in the decomposition and it can be shown whether a European region loses competitiveness to, for instance, China or the US. It can even be shown in what geographical markets these losses occur.