

EXECUTIVE SUMMARY
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COMPARATIVE ANALYSIS OF THE SECTORAL SPECIALISATION OF EMPLOYMENT AND EXPORTS IN GIPUZKOA



Gipuzkoako Foru Aldundia
Diputación Foral de Gipuzkoa



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ETORKIZUNA ORAIN

Mikel Navarro Arancegui
Rakel Vázquez Salazar

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The analysis of the sectoral structure and specialisation of a territory allows us to know where its comparative advantages and disadvantages lie, based on which it must build its competitive and development strategy. Progress is not only a question of quantitative growth but also requires the transformation of the economic structure. Therefore, the assessment of a territory's economic development cannot be made without considering the extent to which its sectoral structure and specialisation have evolved. If total employment in Gipuzkoa is broken down into six major groups of activities, Industry is the activity with the greatest relative weight (24%) and the greatest specialisation (150% compared to the EU27). The largest sub-specialisations in Gipuzkoa can be found in Agriculture (41%), Non-market services (89%) and Other business sector services (93%)¹

The industrial sector has lost considerable weight over time (4 percentage points -pp- between 2008 and 2019), which, although mitigated in recent years, is expected to continue in the future. Construction has also lost weight (3 pp). On the other hand, there was an increase in the weight of non-market services (4 pp) and other business sector services (3 pp), with the latter expected to continue to grow substantially in the future.

Of the six major activities, Other business services and Industry have the highest productivity (84 thousand € and 79 thousand € per worker, respectively) and, consequently, the highest capacity to generate value and wealth per worker.

According to the technological level and knowledge intensity of the sectors, Gipuzkoa is highly specialised in high and medium-high technology manufacturing (9% of its employment, compared to 5% in the EU27), but lags behind in knowledge-intensive services (32% compared to 39% in the EU27). Within the latter, the main exception is R&D Services (with a specialisation rate of 193% compared to the EU27). Likewise, given their importance for Industry 4.0, the marked sub-specialisation in Telecommunications (29%) and IT (50%), the main sectors supplying ICT components, is a cause for concern. In any case, the greatest relative weight and specialisation with respect to the EU lies in manufacturing with a medium-low technological level (especially in Metallurgy and metal products).

As regards its evolution, as in other territories, the weight of activities with a high technology and knowledge intensity level increased between 2008 and 2019, a trend that will continue in the future. In Gipuzkoa, this has been based on knowledge-intensive services (both business and non-market services), and not so much on high and medium-high technology manufacturing. On the other hand, there was a fall in the weight of medium-low tech manufacturing (mainly Metallurgy and metal products) and low-tech manufacturing (due to a fall in Wood, paper and graphic arts). As for knowledge-intensive services, which typically have increased weight, there was a significant fall in employment in financial activities. In contrast, in the less knowledge-intensive Services, which are generally less dynamic, employment in Hotels and Restaurants and Activities of households as employers has grown considerably.

In terms of foreign trade, as would be expected given its small size, the level of concentration of Gipuzkoa's exports in the four largest sectors is high (73%), the specialisation profile shows strong contrasts (specialisation indices with very high or very low values) and the EU27 export structure differentiation index is quite high.

The analysis of foreign trade has focused on three issues: the sectoral and activity group distribution of exports; the specialisation indices concerning the EU in these sectors and activity groups; and the relative trade balances in these sectors and activity groups. The first question allows the relative weight of each sector or group of activities in total exports to be assessed; the next two questions identify the sectors and activities in which Gipuzkoa has comparative advantages. In general, it can be seen that the activities with the greatest weight in Gipuzkoa's export

¹ Non-market services includes public administration, education, health, etc., all of which are knowledge-intensive activities with a high incidence of public sector involvement. Other market services include advanced services, also knowledge-intensive, largely aimed at businesses.

structure have positive specialisation indices and positive and high relative trade balances (i.e. comparative advantages). This is positive from a vulnerability point of view.

However, to assess the appropriateness of the structure and specialisation of foreign trade, the characteristics of these activities must also be taken into account. The following activities stand out in Gipuzkoa due to their great weight in exports and their high specialisation indices and positive trade balances:

- Sectors: Machinery and equipment, Metallurgy and metal products, Other transport equipment (especially railways) and Motor vehicles.
- Clusters: medium-tech, capital goods and intensive in economies of scale and differentiation.

In turn, the following activities stand out for their relative sub-specialisation, or for having lower relative trade balances:

- Sectors: Chemicals, pharmaceuticals, computer and electronic products, and activities linked to the primary sector and energy.
- Clusters: high technology, consumer goods, science and technology and natural resource intensive activities.

In the period analysed, especially between 2008 and 2013, Gipuzkoa experienced a notable improvement in its trade balance, as well as a major change in its export structure.

- The following sectors stand out for their increased relative weight: Other transport equipment (and, to a lesser extent, Food and beverages); and the medium-high technology and capital goods clusters.
- They stand out for a decrease in their relative weight: Metallurgy and metal products (and, to a lesser extent, Electrical material and equipment); and high-tech and science and technology-intensive clusters.

In general, the industrial specialisation of Gipuzkoa's economy is positive, although this advantage is lessened (i) because the industry tends to lose weight, (ii) by its relative weakness in high-tech manufacturing, and (iii) because the comparative advantage that Gipuzkoa's economy has in terms of productivity is lower in the case of industry. The latter may have something to do with the fact that, as Gipuzkoa's industry specialises in goods that are intensive in economies of scale, there are not many large companies in its business fabric.

On the other hand, the sub-specialisation of Gipuzkoa's economy is negative for knowledge-intensive commercial services, which are the activities with the highest productivity and the best growth prospects. The exception is R&D services, in which Gipuzkoa is highly specialised. This shows that, even without a large urban centre, it is possible to find activities in this sector that can grow without it. Public policies should work with concepts such as the New Industry, which go beyond the traditional manufacturing industry, and promote KIBS (Knowledge-Intensive Business Services) beyond those based exclusively on R&D. This would be of interest, not only for the quality jobs that would be generated in such sectors but also for the positive effects that such activity would have on the competitiveness of the rest of the economy.



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