

2020 BASQUE COUNTRY COMPETITIVENESS REPORT

RESILIENCE: BEFORE, DURING
AND AFTER THE PANDEMIC

Executive summary



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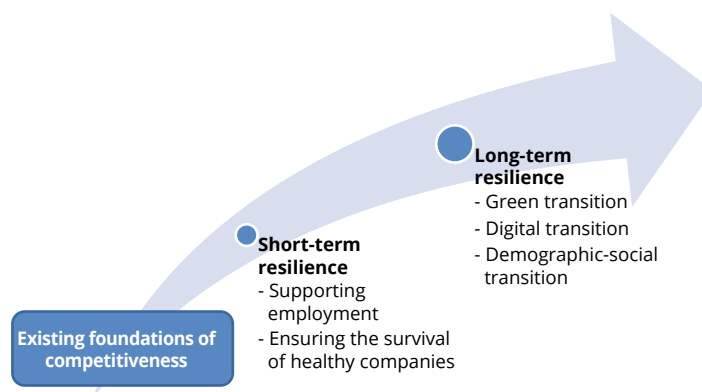
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Executive summary

The COVID-19 pandemic and the measures implemented to combat it have caused a socio-economic crisis that is unique in its global reach, severity, and combined social and economic impacts. The Basque Country has experienced other crises in recent decades, in the context of which a resilient economy and society have been built. In this Report, we analyze that resilience: before, during and after the pandemic.

Building resilience is a long-term task, which requires working within different timeframes. In fact, the resilience of the Basque Country will depend on: (1) the foundations of competitiveness built thus far; (2) how the crisis situation is responded to in the short term; and (3) the ability to lead the fundamental transitions that will mark the way to sustainable competitiveness in the long term.



1. Foundations of Basque Country competitiveness prior to the pandemic: *From where did we start?*

The Basque Country ***entered the crisis in a strong position to face its impacts*** and to build resilience for the future. In 2019, it ranked very well across many of the key indicators of competitiveness in comparison with European regions and with the rest of the Spanish regions. Moreover, more than half of the indicators analyzed had improved with respect to the previous year. Particularly noteworthy are the result indicators, where the Basque Country is among the top European regions in GDP *per capita* and in the low *percentage of the population at risk of poverty or social exclusion*. This highlights the inclusiveness of the competitiveness model that has been developed.

The **main challenge concerns employment**, especially in the context of a crisis that implies a new negative shock in this area. Despite positive developments in recent years, the long-term unemployment rate was still above most European regions in 2019. Furthermore, although job creation was increasing, job quality analysis shows high levels of temporality and undesired partial employment. The measures taken to counteract the impacts of the crisis should consider this situation, so that it does not end up affecting especially the most vulnerable groups.

The report also highlights **several strengths where further advances will be important to build the resilience of the future**, as well as some **areas for improvement, particularly with respect to the Basque Country's most comparable regions**.

- **Economic and financial position of the firms:** The healthy economic and financial position of Basque firms is an asset for resilience in the short term, although their greater use of working capital finance may become a threat in the medium term, as this type of financing is more susceptible to being reduced in times of crisis.
- **Skills:** The high level of qualification of the population can be taken advantage of to change, adapt and transform the economic model, especially if it is leveraged in an appropriate manner taking into account elements analyzed in the previous *Basque Country Competitiveness Report* (Orkestra, 2019). These processes of transformation and renewal are more difficult without a qualified population that is interested in further training to adapt their skills to a changing work environment.
- **Investment in R&D&I:** Priority should continue to be given to investment in R&D&I, increasing the expenditure made, in order to be able to react with the necessary innovations that will enable Basque firms to continue to keep abreast their competitors and to respond to the needs of the population. In particular, collaboration with actors abroad and between science and industry should be reinforced, and scientific and technological capacities should be better linked to the market.
- **Unit labor costs:** The slight advantage in unit labor costs in the manufacturing industry compared to Germany, and compared to other regions that are comparable in industrial structure, underlines the need to keep unit labor costs under control through productivity increases.
- **Internationalization:** The pool of exporting companies has increased, and the challenge is to further consolidate this pool by increasing both the percentage of companies that export regularly and the average volume of exports over turnover, and by growing presence in the most dynamic markets.
- **Digitization:** The advanced positioning in digitalization, especially in terms of connectivity and digitalization of business models of firms, as well as progress in terms of digital supply of public services, provides a good foundation from which to address the digital transition. It will be important to consolidate the use of digitized services in a world where electronic interactions are increasingly important, as well as to achieve greater and improved incorporation of women in the digital environment.
- **Energy ecosystem:** Strengths include the increasing diversification of fuel imports, as well as good results in access to and security of energy. The main challenges for the energy transition are associated with greenhouse gas emissions in key sectors such as mobility and buildings, the need to make further progress in improving energy efficiency in general, as well as energy intensity in the industrial sector, and in achieving a diversification of primary energy sources more geared to the challenges of decarbonization.

2. Resisting the pandemic: *How have we responded in the short term?*

During 2020 the pandemic has had a strong impact on the economy, reflected in a severe drop in the industrial production index and a reduction in foreign trade activity, as well as an unprecedented fall in GDP and a rise in the unemployment rate. However, ***the impacts have been asymmetrical across sectors***, being particularly severe in the case of *Hotels and restaurants, Trade and transport equipment*, and severe, to a lesser extent, in *Metallurgy and metal products, Rubber, plastic and other non-metallic products, Construction, transport and storage, Recreational and cultural activities and Education*.

An important component of resilience is responses in the short term from the moment a shock occurs. The pandemic has been an extraordinary event, unknown to our generations, in which each firm, institution and person has had to respond to the impacts in different ways, many of them with radical changes in their day-to-day lives and also in their strategies for the future. Recognizing the high difficulty of dealing with this scenario, the analysis shows that in general ***the responses in the Basque Country in this immediate period of crisis have been swift and similar to those of other benchmark regions***.

The capacity for resistance in the short term has been supported by a solid economic and financial situation, in general, of Basque firms, together with good digitalization foundations. The first response to the health emergency meant that almost all activities had to be adapted quickly to completely new circumstances in which the potential of digital technologies came to the fore. ***An “express digital transformation” has been set in motion in many firms*** with respect to product (adaptation between the product and its demand), process (implementation of new processes), and/or channel (when the digital channel has been the solution for maintaining sales).

In terms of public policy, the Basque Country has given a very similar response to Baden-Württemberg and Upper Austria, two regions that share a similar productive structure, and therefore share challenges in facing the crisis. The measures in the three regions have focused on two main pillars: (1) sustaining the financial situation of firms to keep economic life going; and (2) supporting firms in the process of digitization to cope with the new context. In addition, other measures such as support for R&D projects for the management of the pandemic or specific sectoral support for those most affected, such as tourism and culture, stand out.

Given the high level of uncertainty regarding the evolution of the pandemic and the measures to counter it, the agility to resist and adapt ‘here’ and ‘now’ will be particularly important in the immediate future. It is imperative to ***continue to quickly adapt business behavior and policies in targeted support of improved competitiveness***. Without agility or precision in response, the risk is that other regions and their businesses —perhaps less affected at different times by the pandemic— may get ahead of the curve.

This implies, on the one hand, that policy measures should consider the differentiating sector, for which it is important to ***expand upon diagnostic processes and sector intelligence***. It is especially important to have better access to the data that the different administrations collect, but these secondary data must be complemented with the obtaining of strategic intelligence more immediately through dialogue with firms. For this reason, entities such as the Cluster Organisations or the County Development Agencies are critical allies for government when it comes to making strategic decisions.

On the other hand, the agility of response depends on the coordination of the actions of the various levels of government, adapting the actions to the specificity of each territory to guarantee the best coverage of its needs. In fact, one of the lessons learned from the health emergency has been the suitability of ***promoting models of co-governance*** that consider both the context and severity and complexity of the current crisis in each place.

Finally, short-term responses also play a role in building medium- and long-term resilience. In this sense, European and national policies establish a framework for a “green, digital and fair” recovery in which the regions have room to put forward their own strategies (*Next Generation EU*). The large injection of funds foreseen for recovery and resilience in the following years under this framework represents a significant opportunity. But it will be particularly important to direct them towards investments, even in the short term, that seek to increase productivity and facilitate green, digital, and social-demographic transitions.

3. Post-pandemic resilience: transition to a new sustainable competitiveness

Moving from a phase of resistance to a phase of recovery implies taking advantage of the windows of opportunity that arise from all crises, and that can lead to a modification of previous growth trajectories. From an evolutionary perspective of resilience, these opportunities involve reorienting the economy, which means not returning to a previous state but instead, leading the **search for a new model of competitiveness that is more sustainable and inclusive**. To this end, it is essential that all actors in the territory pull together to take advantage of the **new opportunities surrounding the green, digital and demographic-social transitions**. In this regard, the Report identifies seven key recommendations.

1. **Digitalization, a transversal lever of resilience**

The digital transition must be a lever to strengthen competitiveness in all sectors as well as facilitating green and demographic-social transitions. Although the DESI index places the Basque Country in a good position —especially in relation to connectivity, integration of technology in firms and digital public services— there are weaknesses in translating that into new digital business models in the private sector and into citizen demand for digital public services. Therefore, it is not only important to incorporate technology, but also to improve skills and competences in companies, government and society.

2. **Sustainability, an opportunity and competitive advantage**

The green transition must be approached as an industrial and technological opportunity for the Basque economy, so that all sectors evolve their practices in ways that strengthen their competitiveness in an evolving context that demands and rewards sustainability. Above all, this means putting the strengths of the Basque Science, Technology and Innovation Network at the service of the green transition. In particular, actions related to the food system, the mobility system and the energy system will have a significant impact on the environment and on greenhouse gas emissions. It will therefore be essential to make investments in innovation in these areas.

3. **The foundational economy, a source of economic development**

It will be important to contribute to the demographic-social transition by strengthening those parts of the economy that are essential to human well-being, such as health, food, education and care. The pandemic has highlighted the importance of the so-called ‘foundational economy,’ both for the well-being of the population and for the resilience of other sectors on which competitiveness policies have traditionally focused. Taking advantage of these synergies and working on the potential of the foundational economy as a source of opportunity for the economic development of the region is therefore a major challenge.

4. **Skills, a transversal lever of resilience**

The processes of transformation and renewal that support resilience in the long term require the continuous development of the skills of the people in a territory. Therefore, it is necessary

to act to ensure that the Basque Country has people with the necessary skills to promote the digital and green transitions from business, government and society in general. As analyzed in the previous *Basque Country Competitiveness Report* (Orkestra, 2019), it is particularly relevant to work on the agility of the skills ecosystem, adapting the different training modalities and attracting international talent.

5. **Public administrations, a catalyst for transition**

With instruments such as investments, public procurement or the promotion of business collaboration platforms, public administrations will have to play a driving role in the generation of new solutions and innovations, new companies and business models, as well as the infrastructure needed to address the transitions. Likewise, they must become a digital, agile administration that is responsive to citizens.

6. **Public-private collaboration, towards an intelligent and sustainable strategy**

The driving role of public administrations should be positioned in the context of a sophisticated public-private partnership, such as the one that has been developed through the Basque Country's smart specialization strategy (RIS3 Euskadi). It will be important to evolve this innovation strategy from a *Smart Specialisation Strategy* (S3) to a *Sustainable Smart Specialisation Strategy* (S4) that will serve as a lever for generating common projects oriented towards recovery and transitions, through existing public-private partnership mechanisms such as *Pilot Groups* and Cluster Organizations.

7. **Co-governance, through multi-stakeholder and multi-level collaboration**

The ability to drive forwards digital, green and socio-demographic transitions will also depend on how the capacities and actions of multiple actors at multiple territorial levels are harnessed. This requires more effective governance, building on existing relational structures to: (1) reinforce co-governance between the different administrative levels (local - regional - state - European), ensuring a clear distribution of roles that avoids duplication and takes advantage of synergies; and (2) ensure that the multiple territorial actors (firms, universities, technology centers, cluster organizations, etc.) play a relevant role.

In short, recovery requires reorienting the Basque economy by taking advantage of the opportunities provided by transitions. But also combining this medium- and long-term reorientation with short-term measures aimed at those firms and sectors with the greatest difficulty in recovering, but with potential for the future. All this without forgetting measures that protect the most vulnerable groups, thus mitigating situations of inequality.

In conclusion, resilience is a process of constant change in which different measures will have to be adapted and implemented at different times, in response to context and capacities, and the learning that is continually generated. In this sense, *the Basque Country entered the pandemic with a series of strengths in its competitiveness fundamentals on which to build its responses. The measures adopted in the short term, at a time of great uncertainty and difficulty, have been rapid, flexible, and similar to other benchmark regions. However, the uncertainty of the pandemic remains for now, and in the coming months the key will be to combine resistance measures with a vision of investing in the transitions that will ensure the resilience of the Basque Country in the future.*

The Basque Country Competitiveness Report 2020 is available via the following link: <https://www.orkestra.deusto.es/en/research/basque-country-competitiveness-report-2020>



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