Good morning everyone. It is a pleasure for me to participate in this Conference; and first of all, I would like to take the opportunity, on behalf of the Government, to welcome you all to the Basque Country.

The Government’s contribution here, with my presentation and this afternoon’s presentation on clusters, should be understood from the point of view of practitioners and our cooperation with the Basque Institute of Competitiveness, who I would like to thank for the organization of this event.

Why study the experience of The Basque Country? First of all, it is just another case in the regional sphere and as such, it may be representative. However, it is also a success story. We are not the only ones to say this…. it has also been recognised by Michael Porter.
The Basque Country is one of the few regions in Europe that has made significant progress in upgrading its traditional industrial base

Michael E. Porter

And not only by Porter. International interest in our experience has grown recently, including that of the OECD, which is reflected in the visits we receive and surely by the fact that this conference is being held here.

We study experiences in order to learn and apply the knowledge acquired. For this reason, I believe that there are two key questions in any experience: one concerns strategy and the other deals with idiosyncrasy. As far as strategy is concerned, it is relevant to know whether the success was due to deliberated strategies or whether they simply happened.

Henry Mintzberg, the great debunker of strategy, says that the strategy implemented is the result of two forces: deliberated strategy and the emerging strategy. The result is always a combination, because predominance of the former would imply a lack of learning and predominance of the latter implies a lack of control.

The second key question, is related to the presence of singular elements - idiosyncrasies- which are difficult to copy but have a decisive influence on results.

I do not intend to provide definitive answers to them both. I mention them because they were in my mind whilst preparing this presentation and I suggest that you should take them into account.
Therefore, I wish to commence my presentation with an initial section that talks about context, institutions and policies, which I feel reflects the influence of these two key questions.

In the second section, I will present some economic results that have also been used as a diagnosis to tackle the New Strategy which is described in the third part.
Let’s take a look at a long term view from the eigthies to the present
Competitiveness is a micro question, provided that the macro fundamentals are good and the same for everyone. However, as we can see here, the macro context is rarely the same for everyone, even within the same monetary area.

Here you can see some historic events, institutional changes and related economic results and actions. In general it can be said that the process of economic integration has been an extraordinary catalyst for the growth of the Basque economy.

But macro-economic policies had highly visible effects on the growth trend for the good and for the bad. An example of the second: the poor policies of the 1980’s worsened the crisis at the beginning of the 1990’s; contributing to a deep recession in which employment fell by 8%.

Conversely, the favourable peseta/euro exchange rate to access the final phase of the monetary Union had a positive impact on the foreign sector, which tripled exports in eight years and led to the decade of employment, which increased by 38%.
1.2 Institutions and Public Policies

Statute of Autonomy 1979-
Institutional wealth, Own treasury, collecting most of the taxes and strong spending capacity

New welfare net: Universal Health, Education, Housing, Basic Income and social services

"Europe 93" "Euskadi XXI" and "Euskadi 2000Tres" three Plans for Infrastructures and social cohesion

Strategies and plans on Cities, Territory and environment: the success of Bilbao

Industrial Policy: Restructuring, promotion, land, energy, clusters, technology, internationalization and information society

Apart from macroeconomic context, institutions and policies as a consequence of the process of devolution is the other key question I was referring to.

A public sector with enormous institutional wealth, (Government+ Councils+ Town Halls), high tax independence and expenditure capacity was created with the Statute. Actually current income rose from 4% of GDP to 24% and investment reached 6% of GDP.

Besides, an advanced social welfare network was built with subjective universal rights for individuals in essential public services, (health, education, social services…) and pioneering initiatives such as the set up of a universal basic income. Important initiatives were launched, such as the three plans for infrastructures and cohesion: Europe 93, with 1,076 million euros, Euskadi XXI, with investment of 1,436 million euros and Euskadi 2000Tres with 1,045 million euros and which took public spending capital to 6% of GDP.

The entire territory was planned and revitalization strategies for cities and regions were launched, among which the success of the modernization of Bilbao stands out, based on cultural infrastructures like the Guggenheim Museum.

There was a commitment to industry and for building on the existing fabric, maintaining in a sustainable way a series of industrial policy actions ranging from restructuring, promotion, industrial land, technology, energy and the information society.
Competitiveness essentially depends on all of these policies deployed over 25 years; but it is obviously necessary to pay special attention to the industrial policy, in which two periods can be differentiated

**RESTRUCTURING in the 1980’s**

In light of the serious industrial crisis and high unemployment, both the State and Basque Governments established instruments and subsidies for the restructuring of companies and social adjustment (in addition to unemployment benefit, recycling and relocation of workers, etc.)

Special aid plans for the re-launch of viable activities were also introduced.

**COMPETITIVENESS AND DIVERSIFICATION: End of the 1980’s**

Once the worst part of the crisis was overcome and with growth brought about from European integration, policies were deployed with full intensity and diversity of lines:

- Development of venture capital for the diversification of production.
- Support for investment in job creation through subsidies and industrial land policy.
- Priority Clusters Policy: towards competitiveness through cooperation
- Fostering of total quality EFQM in the industrial sector, with the Euskalit Foundation, which has led to significant positions in Europe.
- Commitment to endogenous development: support for technological and development projects in new sectors such as biotechnology.
- Promotion of internationalization in the broadest sense, from initiating exports to overseas plants.
However, there is a line of industrial policy which has been decisive in the case of the Basque Country, namely the technological policy, which to a large extent is a logical consequence of a competitive strategy focused on industry.

We can also identify different stages here. We can define the first one as a SUPPLY policy, in which the priority was to consolidate the bases of the Basque Science and Technology Network. Technological Centres aimed at industry, R&D business units and the three Technology Parks were promoted. Actually, the Technology Park of Bizkaia was the first to be built in Spain. In this period, public policy management capacities were also created with a specific unit for technology.

From 1997, and following the experience of the previous two plans, there was a move towards a second stage which integrates supply and demand, so that technological development is led by production requirements. Supply capacities were consolidated but the demand of clusters and sectors were promoted and research into emerging scientific-technological areas was initiated.

The development of the information society is incorporated into the public agenda, and extraordinary progress was made despite a low initial position.

We are currently in the third stage in which it is necessary to consolidate and perfect the aforementioned and advance along new lines, which I will mention later.
As in the case of technology policy a special mention to energy policy is necessary

**ENERGY POLICY:**

- The Basque industrial crisis at the beginning of the 1980’s can not be separated from the energy crisis due to several factors: the impact of energy prices, the high energy consumption of our key industrial sectors and the high dependence on fossil fuels (coal and oil represented 86% of the energy mix).
- 1982-1990: beginning of a Basque energy policy based on improving efficiency, diversification and renewable energies. A reduction in primary energy consumption of 13% was achieved compared to 1980, significantly improving the industrial and global energy intensity.
- 1996-2005: intensification of efficiency programmes, incorporation of renewable installations, increased electric self-sufficiency and environmental contribution of the Basque energy policy. The energy demand was reduced by 10% over 10 years and energy intensity improved by a further 14 points.
- 2006-2010. At present, the Basque mix has changed significantly: natural gas represents 39%, oil 41%, coal 6% and renewable energy 5%. Industry (46% of total energy consumption in 2007) must continue to reduce its energy consumption and improve its competitiveness. The remaining consumers must move towards more responsible energy consumption, particularly as far as a more rational use of transport is concerned. In addition to intensifying savings and efficiency, a new era has arrived in which it is necessary to develop new and advanced energy technologies, increase renewable energy (wind and biomass), and contribute to the fight against climate change.
After this brief review to industrial policy let’s go to the second section and examine some economic results
I began my presentation by saying that the Basque Country was a success story. I believe that the combination of indicators that are presented here justify this statement.

The GDP in ppp has increased by 26 points over the EU 15.

According to the last figure de GDP per capita is 40% above EU27, after Luxembourg and Ireland.

Employment has increased by 39% with a reduction in the unemployment rate from over 20% to figures of almost full employment.

Productivity is 10% higher than that of the EU 15.

R&D efforts that were very low, have tripled

The energy intensity of the economy has been reduced by 34% and the importance of oil has fallen by 20 points.

Finally, a new phenomenon of tourism has emerged, which has doubled the number of visitors.
2.2 Exports: Share and Sophistication

Export growth has been well above that of European countries and only surpassed by emerging countries like India and China.

The sophistication index of Basque exports has converged with that of the European Union.

Besides to complete the table of indicators

To sum up, all these indicators justifies what has been called the First Great Economic Transformation of the Basque Country.
The evolution of the Basque economy has been extraordinary, but like everything in life, there is always good news and bad news.

The good news is that we have become wealthy; the bad news is that we have done so by working. Jokes apart, the real truth is that convergence has been supported by employment rather than productivity, which in spite of being 10% above of EU 15 has hardly moved in relative terms in recent years, and therefore there is a long way to go especially if we look at European regions as a whole.

Industry, the true driving force of the economy, because its productivity is almost 20% higher than services, maintains a balanced position in unitary labour costs, but occupies an intermediate position in the European productivity ranking estimated at current prices.

With the extension of the European Union to the East and the appearance of emerging countries, there are a lot of economies that are beginning a rapid learning process based on the investment competitive phase, which we have just completed.
We have already seen that expenditure on R&D of 1.47 was below the European average of 2%. The same occurs with the European Innovation Scoreboard, which in spite of having risen from 0.33 to 0.37 is below that of the EU 27 (0.45).

Even some emerging countries such as the Czech Republic and Latvia already enjoy innovation indicators similar to those of the Basque Country.

The Basque Country occupies a higher position in terms of GDP per capita than in innovation, which means that competitive advantages from investment and experience-based improvement processes (learning by doing, by Using, by Interacting) have been fully exploited.

To continue moving up the competitive advantage ladder, the Basque Country must move towards a new competitive phase based on innovation and linked to science and technology.

Awareness of this need to change models was recognised by the President of the Basque Government in 2001 in the following statement
Following on immediately from this, he put forward the aim of what became called the second great economic transformation of The Basque Country, based on three factors:

1. Building the Information and Knowledge Society
2. Making The Basque Country a European reference in science and technology
3. Broadening Total quality for managing organizations
From here, the Competitiveness Forum Euskadi 2015 was created, as a participation instrument for all of the agents involved in industrial policy, which aims to develop and update the new competitiveness strategy.

The Bases of the Strategy were developed in an initial stage and then the Business Competitiveness and Social Innovation Plan was drawn up. A little later, this was developed in greater detail, including technological strategy with a new Science, Technology and Innovation Plan.

These two plans considered together represent the Competitive Strategy of the Basque Country, which I am going to describe in general terms.
First of all, referring to the “competitiveness model”, as you can see, the model is based on three axes: trained PEOPLE with new values, INNOVATION in business and society and DIMENSION and GROUPS to compete in the global economy.

The People Axis has important implications on the whole area of Training, but is also reflected in the other two axes and in the set of strategic lines.

The base of the triangle, also reflects other more indirect factors, but which are also important for the competitiveness policy. As seen in the analysis of the previous period, all of these policies are crucial. However, I am only going to refer to some of the keys of the two central axes of the industrial policy, beginning with Innovation and followed by Dimension.
On the INNOVATION Axis the most important change is the idea of Open Innovation
The technology policy has been also renewed, with two main strategies.

A strategy to identify the capacities of the innovation system, indicating the scientific and technological areas that should be developed because they have a direct impact on the competitiveness of the current economic base. In the case of the Basque Country, the selection focuses on manufacturing and new materials, in food safety and ICTs, as well as in the service sector (commerce and tourism).

Another strategy is not only to support the present but to also build the future diversifying towards new sectors committed to what is known as the science push. Well developed examples are the cases of a bioscience sector (a knowledge community with 300 researchers based around two Cooperative Research Centres with business participation) and nanotechnologies (another community with 400 researchers).

Other Cooperative and Research Centres are being built in Manufacturing, Alternative Energies and Tourism.
Moving on to the second AXIS defined in terms of **Dimension and Groups**, but in reality what we are talking about is the Creation of Companies and their Growth and internationalization.

**(Text on the slide)**

The change in the markets offers enormous opportunities to gain productivity, but on the other hand, requires minimum capacity to make use of these advantages: to face the internationalization of the activity and also for innovation. Innovation activities change the cost structure of companies: in the end sectoral concentration is directly related to innovative efforts.

The potential disadvantages are expressed in the different areas, and although it is true that dimension is always a relative concept to the sector, our studies into competitiveness factors reveal that the figure of 50 jobs is a critical threshold which must be overcome in the industrial sector.

In the Basque Country, there are 800 industrial companies with more than 50 employees and 3000 with between 10 and 50. The former have double the jobs than the latter.

On the other hand, although a company with around 100 employees can defend itself in a global world, the existence of business groups with traction capacity on the local fabric and with greater international projection is undoubtedly important for a country.
3.5 Internationalization of Basque Groups

- 61 Basque groups producing overseas: around 230 plants

Main Countries: Brazil, Mexico and China
Our competitiveness model is based on *people, innovation and business development*. I remember that the Vision of the Forum talks about productivity based on *people and shared projects* and therefore we are trying to achieve a creative, business and global society. In accordance with this, we set *productivity, innovation and the importance of industry* as strategic objectives. Namely, to achieve 131 level of productivity above EU 27, reach convergence on innovation index and to maintain the size of industry in terms of GDP and its level of employment.

We are clearly advancing towards the proposed objectives. The new productivity series indicates that in 2006 we fulfilled the objective of improving on the European Union by almost five points. Industry, which has made an enormous contribution to this productivity, has not only maintained the absolute level of employment but also its nominal weight in the GDP, due to intense deployment into foreign markets, through exports, setting up abroad and group consolidation.

R&D efforts have finally risen from 1.44 to 1.47 in spite of the enormous growth of the GDP, and we have also improved in the European Innovation Scoreboard, although with imbalances and the need of speeding the rate of convergence to reach the proposed objective for the year 2009.

We are now faced with a period of downwards movement, but we still believe that it is possible to move towards the fulfilment of the strategic objectives, although with less growth.
I must wind up and I would like to do so from where I started. What lessons, if any, can be learnt from the Basque Experience?

In my opinion the following five points are important lessons that can be learned from our experience:

(Text on the slide)

I would like to conclude by highlighting that there is a high idiosyncratic component and that in spite of the numerous plans and programmes that have appeared in the slides, not everything was strategic choice.

Remember what we said about deliberated and emerging strategy.

And do not forget that “Life is what happens while we are busy making plans”.

Thank you very much for your attention.
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