

## Regional Analysis Spain

# Premature deindustrialisation?

Expansión (Spain)

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Spain is not different. Just as in other developed countries, the country's economy has shown a trend towards deindustrialisation and tertiarisation. Should this worry us? The authorities seem to be concerned. At least the last two governments have been betting on reindustrialisation, while several regional executives maintain plans that include the proportion of GDP that should come from this sector as objectives to be achieved.

At the international level, the process of industrialisation has been widely studied and presents a clear pattern that is repeated in most countries. In an initial stage, both the proportion of total employment and the contribution of the sector to the gross value added (GVA) of the economy increase. Subsequently, deindustrialisation arrives: the relative weight of both begins to be reduced, in favour of services. Industrial employment's share tends to fall faster than the weight of GVA, due to improvement of apparent productivity. Thus, industry is typically associated with higher average salaries, which could explain its attractiveness for certain public policies.

However, in this case, the order of the factors does alter the product: the countries that were previously industrialised reached higher levels of employment and industrial GVA than those who went through the process at a later point. In terms of certain emerging economies in particular (mainly South American and African countries), an investigation by Harvard professor Dani Rodrik documents a phenomenon that he calls "premature deindustrialisation": the relative weight loss of the industry begins at increasingly low levels, the later that industrialisation of the country occurs. That is to say, if one is not among the first to arrive at the party.... you will miss something; the party isn't going to last forever, and the front door seems to be getting narrower, making it harder to come in.

Has something similar happened in Spain? [A recent study by BBVA Research analyses](#) this phenomenon with regard to Autonomous Communities, and, according to the data available since 1960, it seems like the answer is yes. The two most extreme cases, Extremadura and the Basque Country, exemplify at least two aspects that the Spanish regions have in common: 1) the proportion of industrial GVA has been reduced in the final years of the period analysed; 2) the weight of industrial employment has also lost relative importance during recent decades. However, while in the Basque Country, the weight of the industry came to represent around 40% of its overall economy; in Extremadura this figure barely reached 11% before beginning its gradual decline that, with data until 2016, has led it to represent a full quarter of economic activity in the case of the Basque Country, but only 7% in Extremadura.

Furthermore, among the Autonomous Communities of Spain, we also show something that economists have found evidence of at the country level: the current level of per capita income is related to the maximum level of employment achieved in the industrial sector... in the past! If the weight of the industry in a country was relatively high at some point in history, the country is more likely to be rich now, but... does this still happen today? Additional evidence for European regions seems to indicate that this is not so: being industrialised today does not necessarily mean to be a rich region. Germany is another example of this.

Therefore, commitment to (re)industrialisation does not seem to represent a sure path to prosperity. It goes without saying that there are business opportunities associated with industrial activity. However, these are becoming less labour-intensive, so they should not be considered "the" opportunity, but rather "one of many" opportunities. Premature or not, deindustrialisation remains a general trend. Certain regions arrived late to the industrialisation table. Will they reach that of tertiarisation with high added value?

The Fourth Industrial Revolution is already on, and, as occurred during the industrialisation, access to physical capital and, above all, human capital will determine the potential development of sectors with higher wages and more intensive use of labour; which are neither the same, nor limited to the industry. It's about raising productivity. The best would be not to miss the train of progress: digitalization, artificial intelligence and big data may be the blast furnaces of the 21st century.

## Creating Opportunities

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