

Uppfærum Ísland

Upgrading Iceland

Christoffer Taxell
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Reykjavik

”Upgrading Iceland”

Some personal views

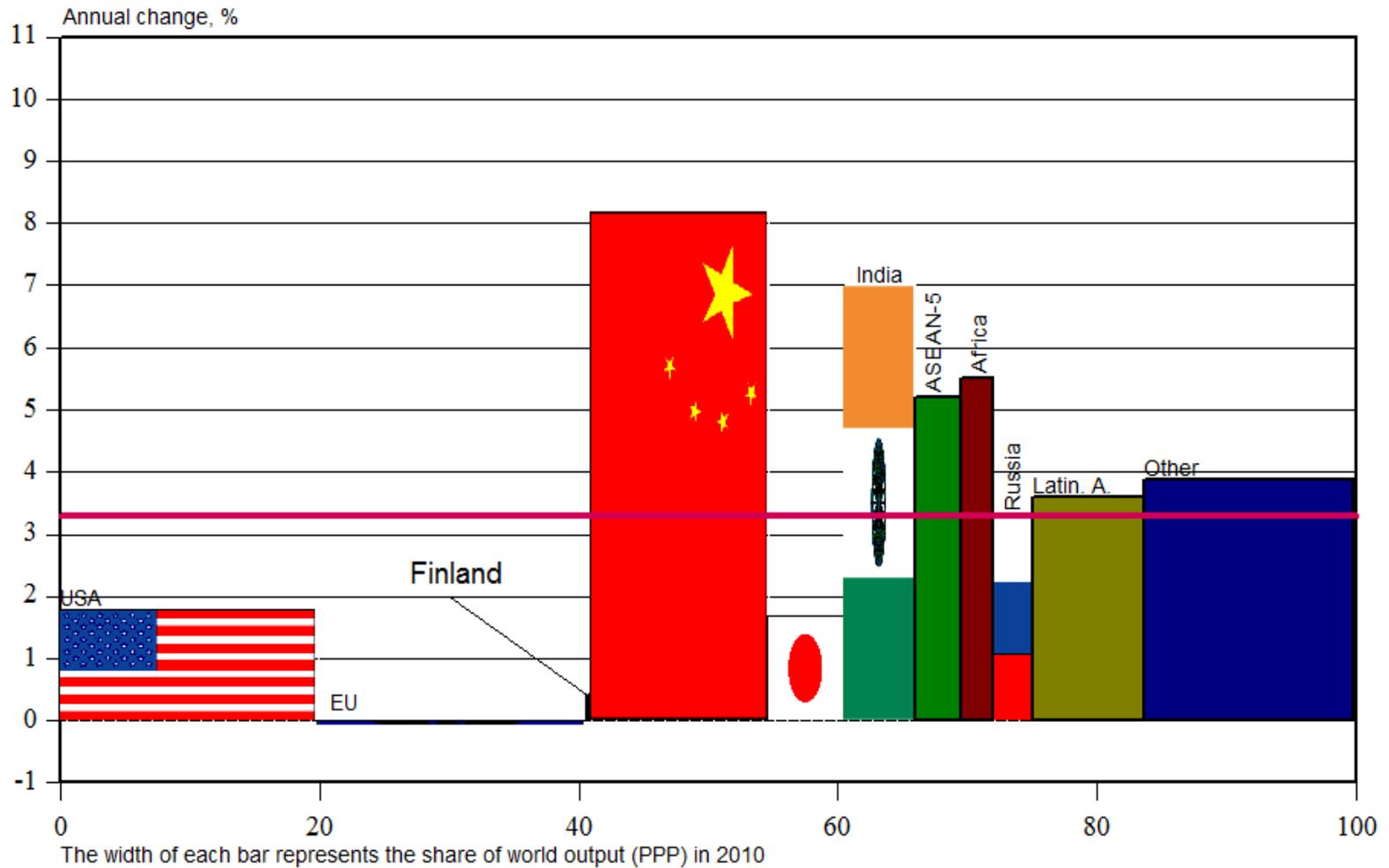
- **Let me start with two illustrations, or observations, about the world today**

”Upgrading Iceland”

Some personal views

- **Let me start with two illustrations, or observations, about the world of today**
- **Sources of GDP growth**

Sources of GDP Growth in 2012



A couple of conclusions to be drawn, none of them new or surprising, but important

- **An increasing share of the growth in the world economy comes from China, India and Brazil**
- **With the current pace the role of Europe is continuously decreasing**
- **Finland represents a very small share of the European economy, - not to talk about the world economy - Iceland an even smaller**
- **The GDP of the five Nordic countries together is among the 15 biggest economies in the world. The idea of NORDEK, that failed in 1970 (!) was not bad.**

”Upgrading Iceland”

Some personal views

- Let me start with two illustrations, or observations, about the world of today
- Sources of GDP growth
- **Back in business...?**

LINDEX

Lindex has made a successful entrance into the Icelandic market

- Lindex, in the business of affordable fashion, owned by Stockmann since 2007, is strongly internationalizing its business. The vision is to give its customers a world class fashion experience.**
- Lindex franchising partner opened in November the first store on Iceland in Reykjavik's Smaralind shopping centre. The opening was a fantastic success. The shop had to be closed after three days as all the goods had been sold out!**
- After new deliveries from the central warehouse in Gothenburg the shop was opened again. The sale has continued on a level exceeding all expectations.**

A couple conclusions to be drawn, none of them new or surprising, but important (cont.)

- **Consumption and the service sector in general are important driving forces in our economies**
- **What I often stress in the economic discussion back home: only we Finns are interested in the economic development of our own country, nobody else! I would believe that this is the case also concerning Iceland**

Back in business?

- **Based on recent economic figures – and the Lindex example - one could say**

Iceland is back in business!

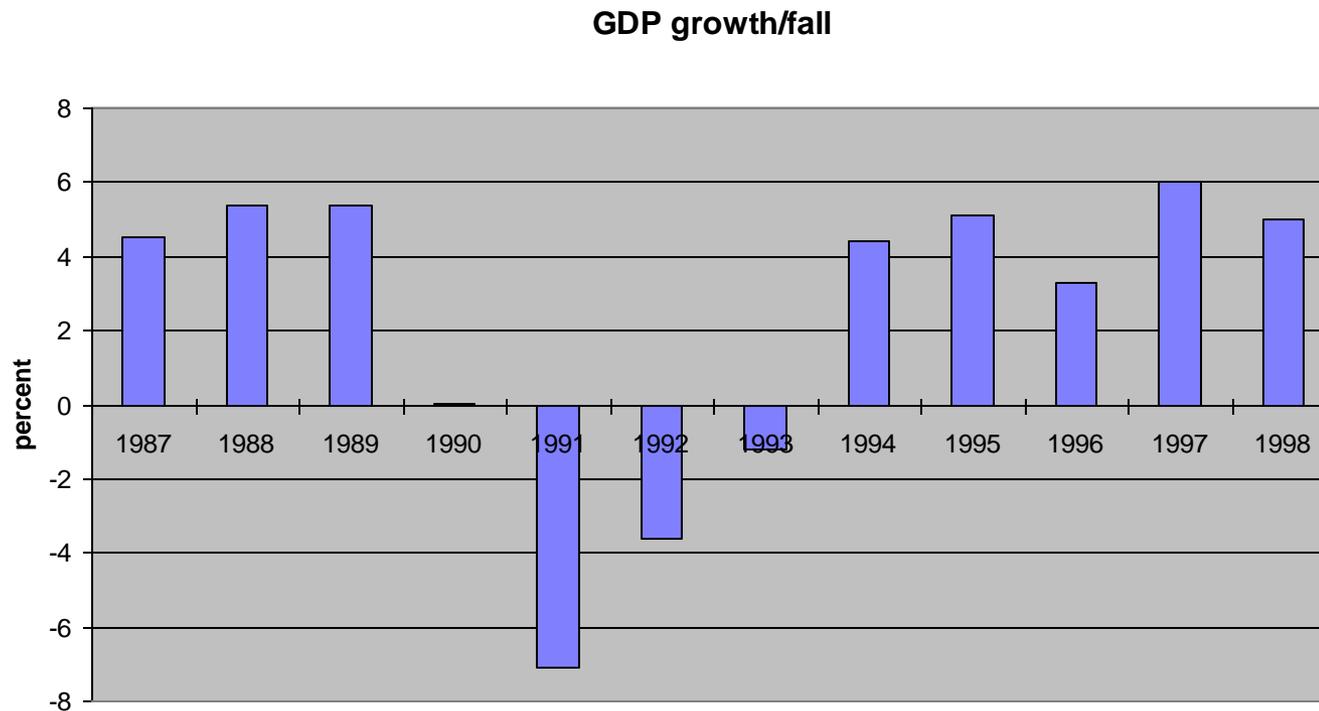
Am I right?

**In the beginning of the nineties
Finland faced a deep depression,
worse than ever before**

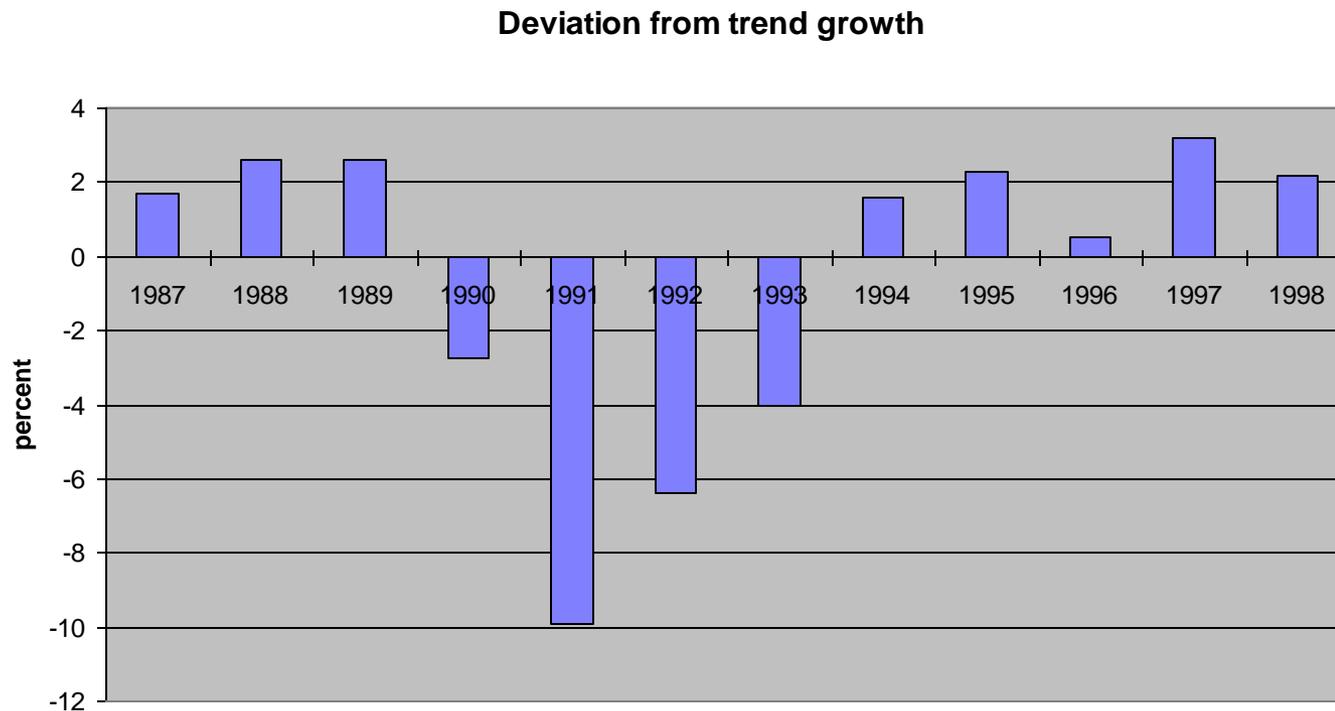
Finnish depression in the 1990's

- **Weak export demand**
 - The Soviet bilateral trade ended 1991
 - Weak demand in the western markets (Germany etc.)
- **Overheated economy before the crisis**
 - Liberalized money markets => increased debt of households and companies
 - Weakened price competitiveness
- **”Bad luck, Bad banking and Bad policy”**

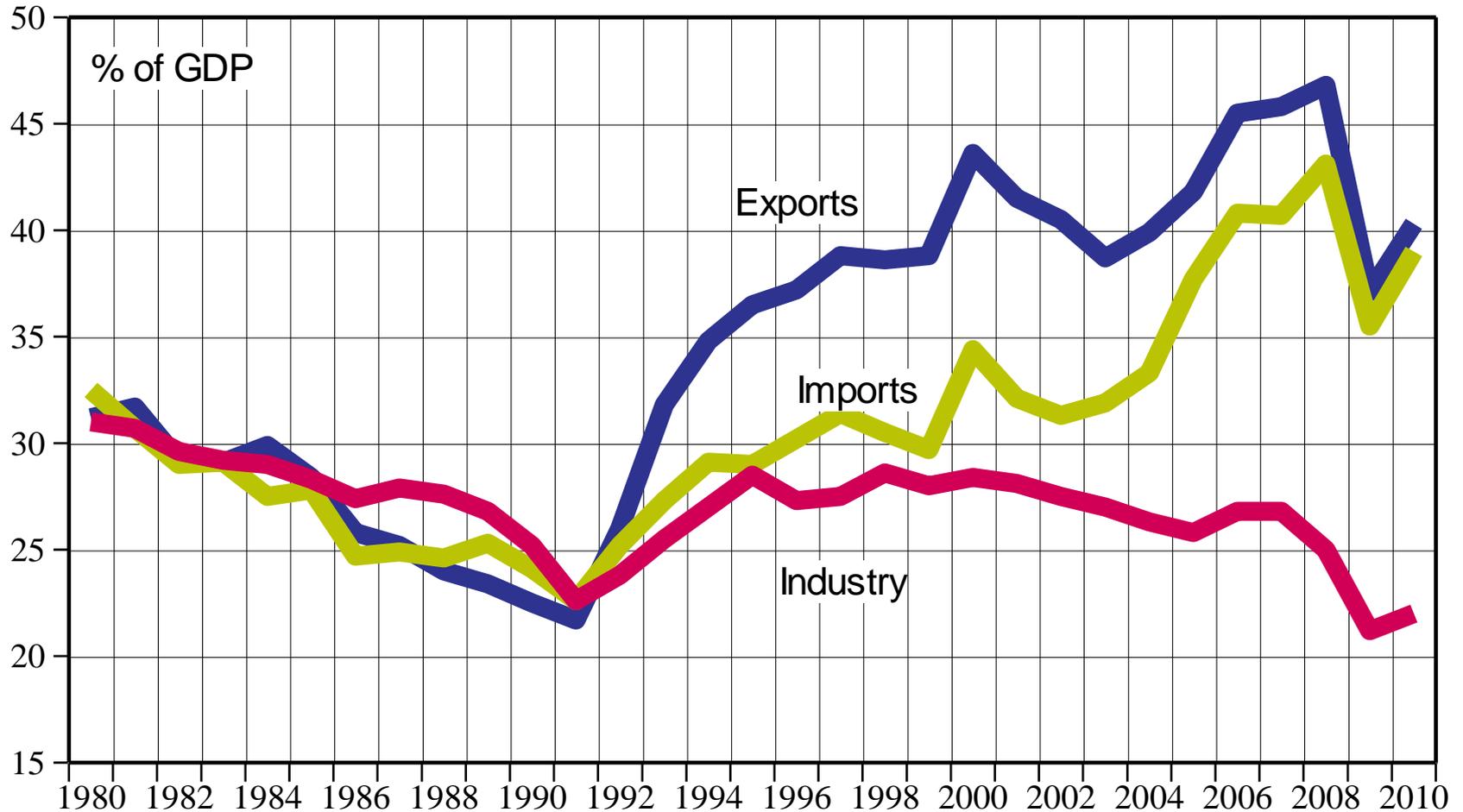
Four years without growth, three years with falling output



A 20 percent cumulative deviation from potential GDP



The Significance of Foreign Trade and Industry



4/21/2011 Source: Statistics Finland

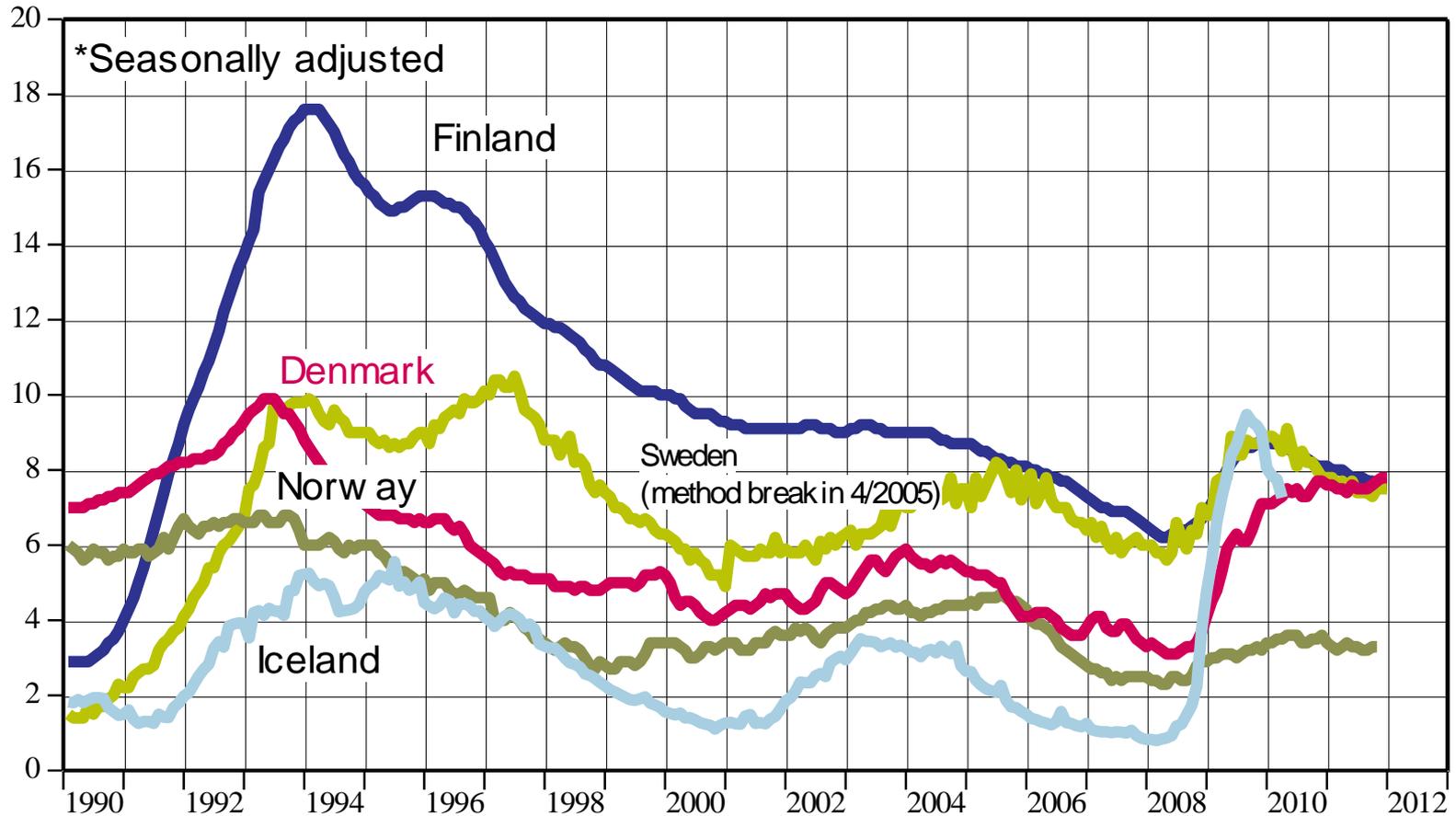
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Confederation of Finnish Industries



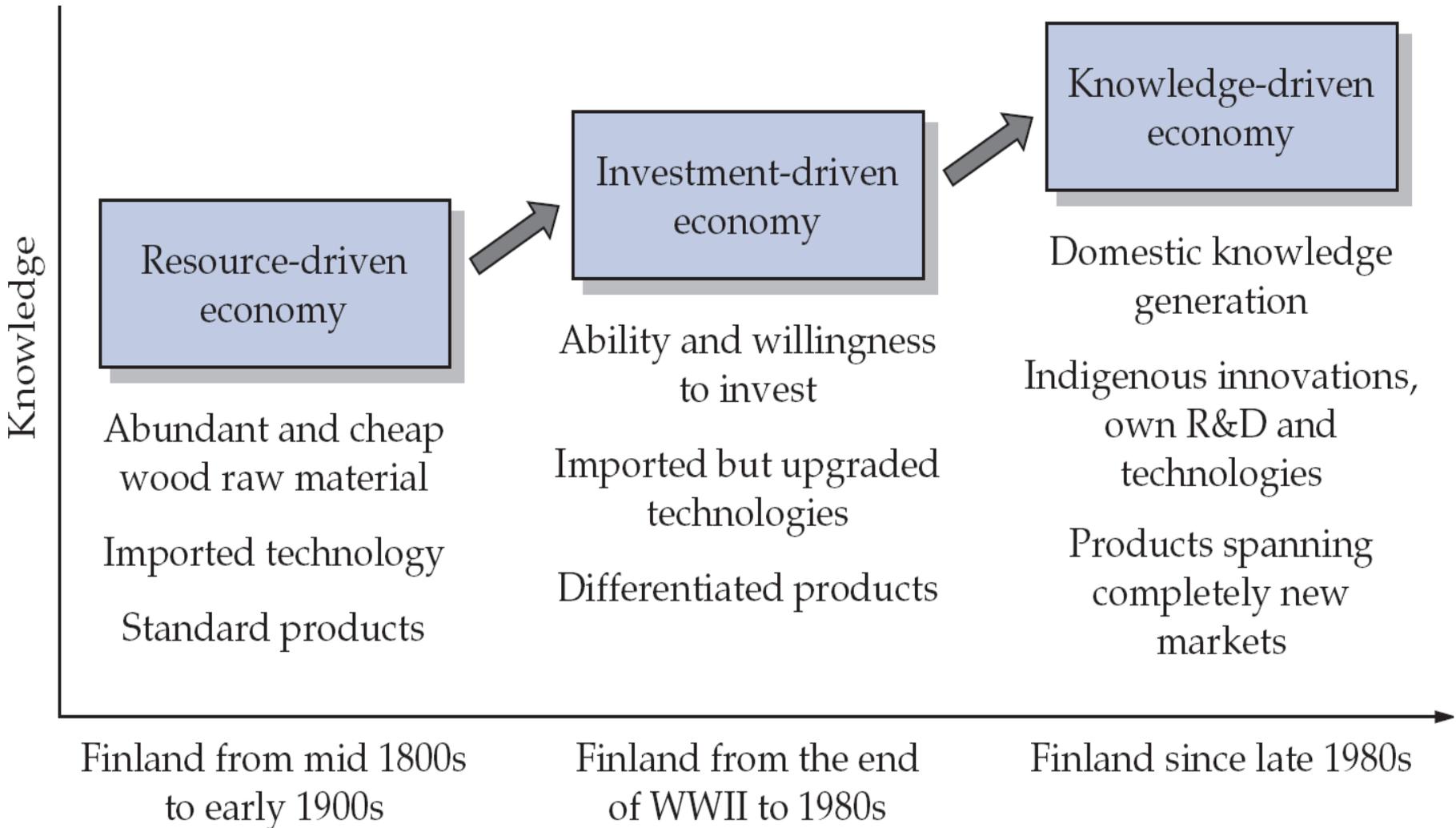
Unemployment rate rocketed to 18 %



How did Finland recover from the depression?

- **Devaluation and flotation of Finnish Markka**
 - Competiveness and exports increased
 - Lower interest rates => investments and consumption
- **“Creative destruction”**
 - The economic units that survived were more efficient
 - Finland continued to invest heavily in R&D => “an innovation society”.
 - “The Nokia effect”
 - up to 1,5 % of the growth in GDP.
- **Savings programs to get the public debt under control**
 - Heavy cuts in the entitlements (pensions, other benefits)
- **Decision to join the EU and EMU**
 - Stabilization of the economic and monetary environment

From the resource-driven economy to the knowledge driven economy



Sources: Adapted from Porter 1990 and Hernesniemi and others 1996.

The knowledge driven economy

- **economic growth largely driven by tremendous increases in business R&D and**
- **supported by growth-focused education policy**

The knowledge driven economy

- economic growth largely driven by tremendous increases in business R&D and
- supported by growth-focused education policy
- **To remember: Not only is the economic competition global. The same goes for competition in the fields of science, technology, universities - and people!**

The knowledge driven economy

- **economic growth largely driven by tremendous increases in business R&D and**
- **supported by growth-focused education policy**
- **Is this the direction even for Iceland?**

The report

“Education, Research and Innovation policy. A new direction for Iceland”

was presented in June 2009 by a panel consisting of members from the OECD and Finland.

The panel, that I chaired, offered Iceland 34 different, rather concrete recommendations, grouped as follows

The panel offered Iceland, at that time badly hit by the recession, 34 rather concrete recommendations

- ***“Maintain investments in education at all levels”***
- ***“Reshape the education and research landscape”***
- ***“Focus on innovation”***
»
- ***“Reform and strengthen governance structures and systems”***
- ***“Unite support for short-term change and implement it quickly”***

Some quotations

“Education and training should remain high on the political agenda and not be handled only by civil servants. Action needs to match the political rhetoric.”

Some quotations (cont)

“It should be a shared political responsibility to take the necessary measures in education, science, technology and innovation and to prepare Iceland to deal with the challenges but also the opportunities that lie ahead.”

“We cannot sufficiently emphasize the importance of excellent education and training, on all levels, for sustained economic growth.”

“Although our remit does not cover primary and secondary education we believe that cuts in these sectors should be avoided as far as possible although this should not prevent efforts to improve efficiency.”

Some quotations (cont)

“The management of Iceland”s innovation system is fragmented and involves several ministries (including Fisheries and Agriculture; Industry; Commerce and Trade; and Education, Science and Culture).

Coherence and coordination among these numerous actors appears to present a real challenge. The diversity of the university system.... further complicates the picture.”

Back in business and back on track?

- **I have understood that there are several technology driven companies that have developed well, even on an international or global scale. - I remember Marel already from my first evaluation here in Iceland in 1992**
- **I have been told that there is a lot of promising smaller companies as well. Rannis and others are said to have played an important role in that development. Is it so?**

Back in business and back on track?

(Cont)

- **In Finland the importance of the forest industry was almost forgotten during the Nokia boom. With the current Nokia development the role of the forest industry is again recognised and the products move towards biofuels and other developed products**
- **I am sure that you have not forgotten the role of the fishing industry – and I have understood that it has been developing well during recent years. The combination of strong fishing industry and high tech offers opportunities – now as well as, I am sure, in the future.**

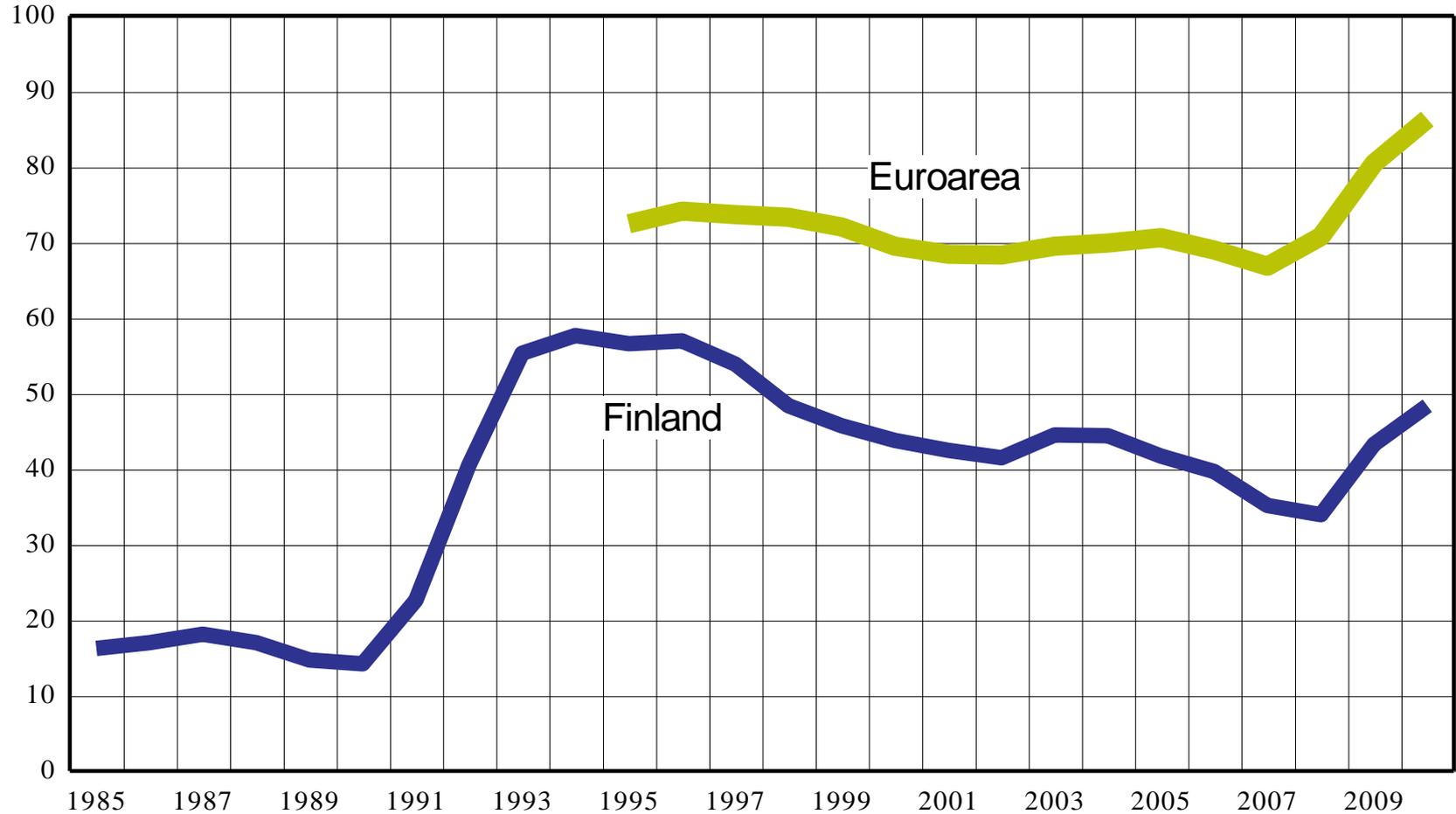
From a strategic point of view, for a small country like Iceland (and Finland) I find it important

- **to create a common national vision**
- **to define the common strengths, challenges and opportunities and**
- **to form a working relationship between**
 - **the Government, the private enterprises and the unions**
 - **the different ministries!**
 - **industry and education and research institutions**
- **Thus making the small size of the country a strength, not a weakness**

But...

- **It is not easy to be an optimist concerning the European economy**
- **The debt crisis is a real threat, for Europe, for EU and for the European citizens**

Public Debt, % of GDP

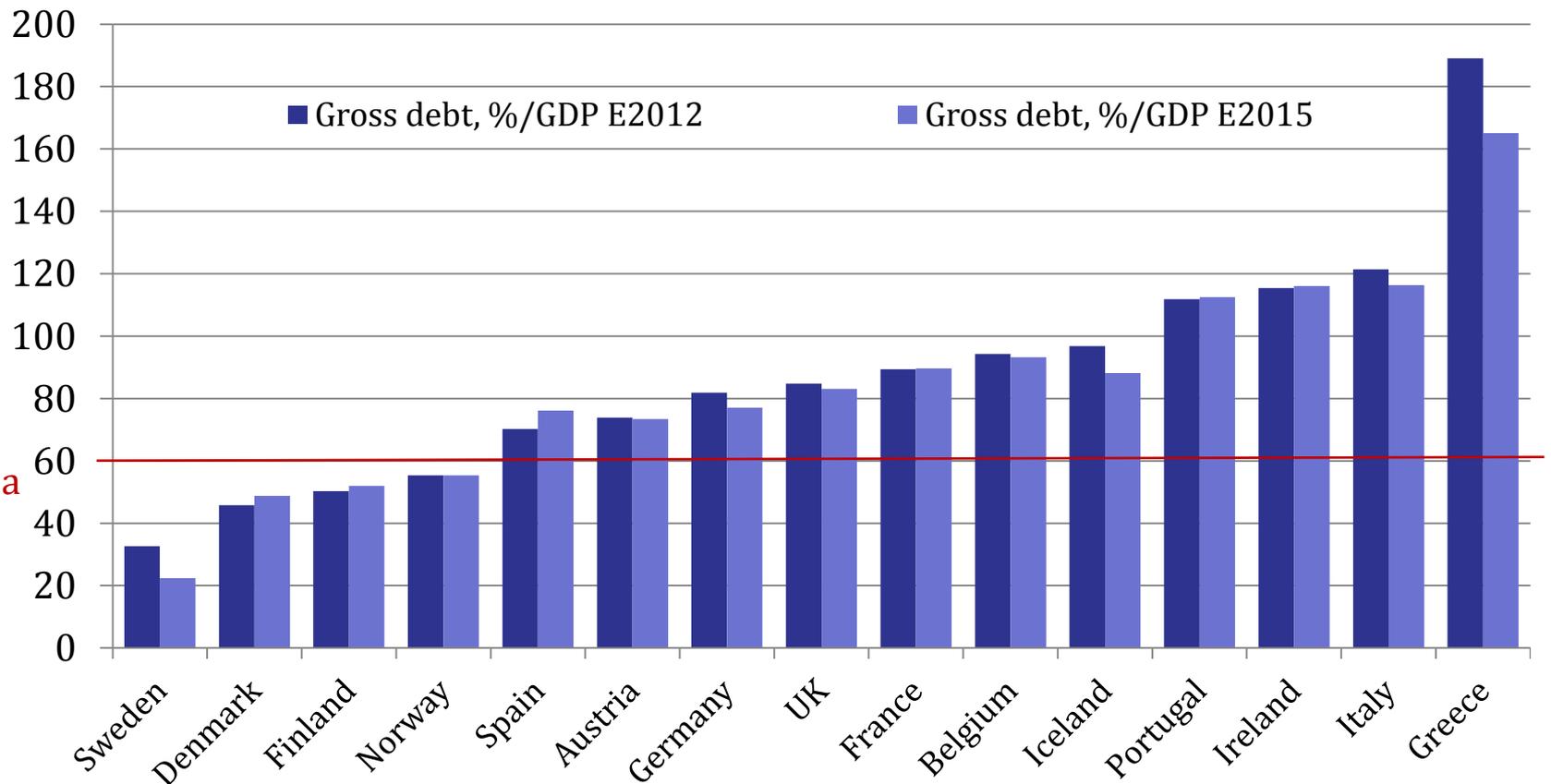


4/21/2011 Sources: EU Commission and Statistics Finland

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10.11.2011/tal80/jka/EKI Talousgraafit

Government gross debt IMF projection 2012 and 2015, %/GDP



EMU
criteria

But...

- **At times of crisis there is an opportunity to really consider “if everything we are doing is more important than what we could do?”**

Are the priorities the right kind, in the public sector and in the private sector? - Should and could available resources be reallocated?

Upgrading Iceland

- **I wish you all success in upgrading Iceland**
- **The sad truth is that only you Icelanders are interested in the economic development of Iceland**

Upgrading Iceland

- I wish you all success in upgrading Iceland
- The sad truth is that only you Icelanders are interested in the economic development of Iceland
- **You face a tough challenge, but I believe you have the guts and skills to succeed!**

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