

Study on the Region Economy in Iceland

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Abstract. Iceland is a country always affected by the world situation on its economy. They have faced a lot of economic crisis with high debt rate. However, after Iceland move their focus on region economy, they achieve a significant success on their economy and get a big improvement on their debt. This essay tries to discover how region economy benefit on Iceland and how it saves the Iceland.

Keywords: Iceland Economy; Regional Economy; Geothermal Industry; Aquaculture; Tourism Service.

1. Introduction

Iceland is facing a serious economy crisis under the pandemic that destroyed its fragile economy. Containment measures were less severe than elsewhere, and all domestic restrictions were lifted at the end of June 2021. Yet the economy suffered a lot. (Hansjörg Blöchliger and Vassiliki Koutsogeorgopoulou, 07 2021) The nation is limited by its scarce labor force, that the labor force participation rate decreasing to 82% under the pandemic which are the lowest rate among the 20 years in Iceland, and resources so that importing continues to be the main supply for Iceland that Imports of goods and services as percentage of GDP is 39.30 % (world bank,2021). Extensive research (Meyer,1991; Serafin,2012; McMahon,2016) has shown the fragile structure of Iceland's economy which is easy to be affected by the global market. However, a considerable amount of data currently has been established that Iceland facing a more serious decreasing trend on their GDP than other European country with a unhealth unemployment rate and CPI under the pandemic, which shows a significant problem on their economy structure. Some previous studies suggest that the regional economy is the key factor leading to a stable social economy. This prospective study was designed to explore how the regional economy affects Iceland’s economy and its issue under the pandemic. The main structure of the study takes the form of three chapters, including the structure of Iceland’s economy, the regional economy in Iceland, and the future challenge for Iceland’s Economy. All the data are collected from OECD and FRED to make sure the statistical information is accurate. Since there are only a few studies about Iceland’s economy, even most of the previous studies are more than ten years ago, so that this study makes a major contribution to global economic development.

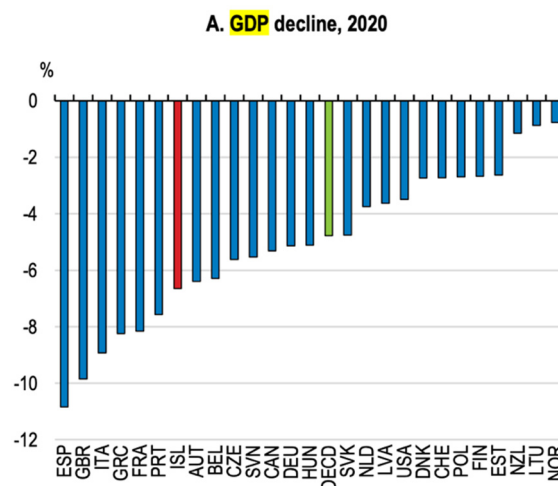


Fig 1. A GDP decline, 2020

2. The Structure of Iceland's Economy

Iceland used into a tough predicament on its economy, because of its simple economic structure. As Icelanders are for the first time in 60 years protesting in the streets, the full impact of the collapse is being felt. In short, the economy has hit a wall. (Forbes, 2009) However, after ten years, there is an extensive change in Iceland economic structure that the government is much more focused on the development of the regional economy. The recent data shows that the GDP of Iceland is most reliant on tourism which are 74.4% of the GDP in Iceland. Based on the data from OECD, the share of service and industry are kept increasing among the ten years. This transition reflected a great improvement in the economy. Besides, the increase in GDP, the government debts are also decreasing to 106.9% of GDP which previously was felled by \$80 billion of debt, over six times the country's GDP. (Serafin, 2009). The situation obviously suggests that the GDP development in Iceland is based on their regional economic benefits.

3. Region Economy

Region economies, including geothermal industry, aquaculture, and tourism, show an obvious benefit for Iceland's development. This explains why distinct regional economies develop to serve the unique needs of people. (National Geographic, 2021) The essay below will demonstrate the benefits Iceland gained from the regional economy in three main parts, which are geothermal industry, aquaculture, and tourism.

3.1 Geothermal Industry

Renewable energy is recently attracting the whole world's attention because of sustainable development. Iceland shows great strength in its resources and development on one of the important renewable energies – geothermal energy. About 85% of the total primary energy supply in Iceland is derived from domestically produced renewable energy sources. This is the highest share of renewable energy in any national total energy budget. (Government of Iceland, 2021) It's extremely reduced the burden on energy demand. Geothermal is a kind of special renewable energy that only appears in a specific area so that it attracts a lot of foreign investment. Also, the geothermal provides a significant benefit to tourism. 20 percent of tourists would like to pay for the entry fee to see the power plant. What's more, in 2012, National Geographic featured the Blue Lagoon as one of the 25 wonders of the world. (McMahon, 2016) That's a perfect example to prove how the geothermal attracts foreign tourists. Those potential benefits from geothermal accelerate the recovery of Iceland's economy. In addition, the government plans to increase spending on infrastructure, digital and green transition, and research and development by around 0.5% points of annual GDP over the next few years, to ensure a healthy and sustainable recovery. (Hansjörg Blöchliger and Vassiliki Koutsogeorgopoulou, 07 2021)

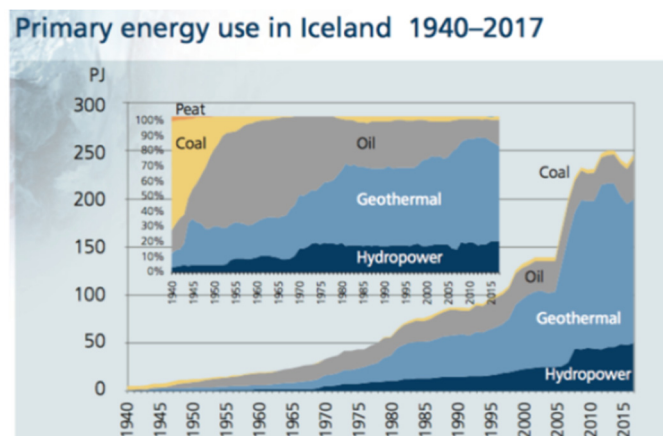


Fig 2. Primary energy use in iceland 1940-2017

3.2 Aquaculture

Aquaculture also contributes a part of Iceland's GDP, but its development speed is much slower. Iceland starts its fish farming in the 1950s, but the whole industry is still in the dilemma of finding development. The special ocean condition provides Iceland with a proper location for ranching salmon. Iceland produced nearly 21000 tonnes of fish in 2017, which significantly shows Iceland's success in fish farming. Iceland has taken pride in the fact that some important fish diseases are not found in Icelandic farmed fish. (Government of Iceland, 2021) Bacterial infections constitute the most important source of disease problems in all the various types of production (Meyer, 1991). However, deal to the special condition in Iceland, bacterial infection is hard to happen in Iceland. Those high-quality farmed fish increase the market share of Iceland’s Fish that provided a big potential for further development.



Fig 3. Aquaculture in Iceland

3.3 Tourism

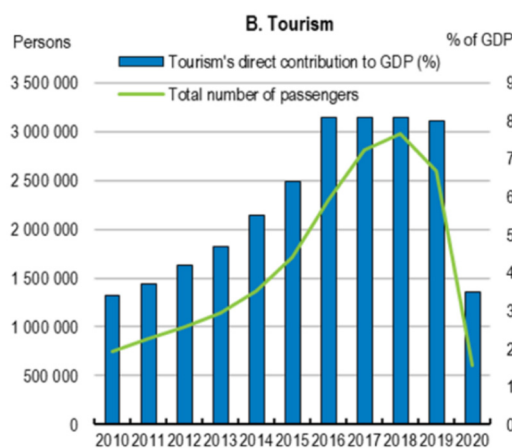


Fig 4. Tourism

Service provides the largest part of Iceland’s GDP; it is the core stone that supports the economy of Iceland. Thanks to the splendid natural landscape, Iceland become one of the most attractive nations for traveling in the world. Tourism is the major export earner in Iceland, accounting for ISK 520 billion in 2018 – equivalent to 39% of total export revenue. (OECD, 2020) Foreign tourist makes a huge amount of consumption every year in Iceland. In that case, there is a large demand in the service industry. With the continuing development of tourism, the government provides more policies

to accelerate and improve their tourism. With the support of the Icelandic Regional Development Institute, associations of municipalities operate Development Agencies, which have delivered a variety of tourism projects, including the newly launched Arctic Coast Way touring route (OECD, 2020).

4. Conclusion

The importance of the regional economy for Iceland is clearly supported by the previous essay. The findings from this research make several explanations to the reason for Iceland's recovery. Admittedly, Iceland's economy is developing stately, but they still face future challenges. Links between universities and the labor market are weak. Funding levers make it attractive for universities to more focus on enrollment rather the performance (OECD,2021). This phenomenon led to the lack of labor force, and directly make a negative effect on Iceland's market. Besides, climate change and the continuous destruction of the environment are also big challenges for Iceland. Reducing carbon emissions from tourism-related activities is a further area of focus as part of the Government's plan for Iceland to become carbon-neutral by 2040 (OECD, 2020). How to balance the development in the economy and protect the environment will be a big deal for Iceland's further development. More information on Iceland would help us to establish a greater degree of accuracy on this matter. Further research could also be conducted to determine more region economy at Iceland and discuss its feasibility.

Innovation outcomes in international comparison

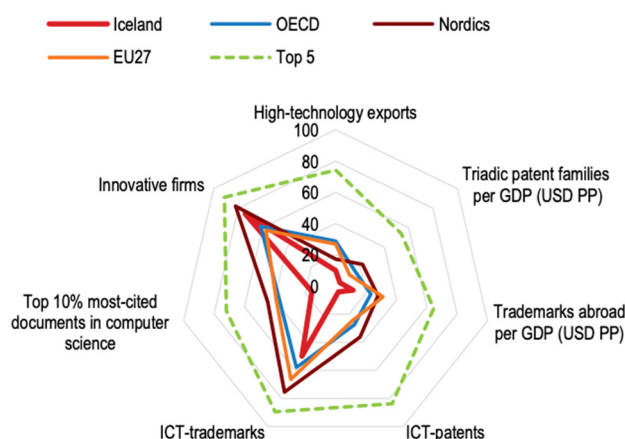


Fig 5. Innovation outcomes in international comparison

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