

**EU INDUSTRIAL POLICY: PURPOSE, APPROACH AND INSTRUMENTS**

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**Abstract:** Industrial policy is a significant factor in the development of every economy. During the last decade, the leading world powers have focussed their attention on it, searching a way to overcome the financial crisis. Key aspects of this policy are aimed at enhancing the innovation and investment activity of industrial entities and thus improve their competitiveness and stability. In this study, through a thorough examination of the EU legislation, the author specifies the strategic purpose, new approach and tools of the European industrial policy.

**Key words:** industrial policy

Bulgaria has become a full member state of the EU since 01.01.2007. The country industrial policy is entirely subordinated to the Common European policy. It is governed by the regulations adopted and disseminated by the European Commission within the Community.

After a period of disregarding and focusing on the market in the 90s, since the beginning of the century industrial policy has attracted policy attention. Interest in it was prompted by the increasing globalization, indications of de-industrialization and the fear of economic slowdown (especially in EU countries), in particular:

1/ In the economy structure highlighted imbalances that fueled suspicions of failures in market mechanisms in the regulation of investments and directing them to the correct activities or sectors. For example, since the beginning of the century there is an unjustified increase in the financial services sector and "boom" in real estate, which led to the financial crisis in 2008. ;

2/ There is irrefutable evidence of rapid economic growth in the countries that rely on successful industrial development policies (China, Vietnam, etc.) and a relatively weak performance in countries (Latin America, Eastern Europe and Africa) that adhering strictly to the neo-liberal policy .

3/ Industry accounts for over 80% of Europe's export and 80% of private research and innovation. Nearly 25% of jobs in the private sector is in industry and often require highly skilled labor. Every new job in production creates 0.5-2 jobs in other sectors<sup>1</sup>.

4/ Industrial policy is seen as a "main driver to boost growth, not just through demand stimulus, but also through improvements to supply side..."<sup>2</sup>. It is placed in the focus of a number of strategic documents, paying attention to the vital importance of the industry to enhance the competitiveness and sustainability of the economy. It is a major conductor of new knowledge and technologies. For example, one of the main objectives of the strategy "Europe 2020" is the share of industry in GDP of the European Union to reach 20%, which is financially supported by programs whose budget reached 300 billion euros.

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<sup>1</sup> COM(2014) 14 final , COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS For a European Industrial Renaissance, 22.1.2014 г., Brussels, p.1

<sup>2</sup> Warwick, K. Beyond Industrial Policy: Emerging Issues and New Trends, OECD Science, Technology and Industry Policy Papers, No. 2, OECD Publishing, 2013, p. 10;

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During the last decade the call about an "industrial renaissance" become stronger. The new industrial policy ideology is based on several basic statements<sup>3</sup>:

- ✓ Industry is the backbone of the European economy. Within the EU it provides 32 million jobs and more than 20 million jobs in related sectors.
- ✓ The decline in manufacturing's share of GDP is a worldwide trend that has undergone rapid deterioration following the financial crisis. In 2013 the service's share of GDP was 50,6%, while the manufacturing's share of GDP reached only 15.1%.
- ✓ Member States are characterised by market differences in terms of overall level of competitiveness as well as share of manufacturing in GDP.
- ✓ In the manufacturing a number of negative trends are noticed, concerning the reduction of employment.
- ✓ A new paradigm of industrial policy is emerging. It emphasises the role of public-private partnership and blurs old dichotomies such as the opposition between horizontal and vertical industrial policies.

The main (strategic) purpose of the EU industrial policy is „achievement of high level of competitiveness and sustainable growth in the industry“ referring to the latest regulations<sup>4</sup> of the European Commission.

An innovative approach is applied, bringing together a horizontal basis and sectoral application. The purpose of horizontal measures is to improve framework conditions, while the vertical focus to the specific sectors. There is symbiosis and synergy between them with clearly defined levels of commitment to their formulation and monitoring<sup>5</sup>:

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<sup>3</sup> European Parliament. EU Industrial Policy: Assessment of a recent developments and recommendations for future policy, Directorate general for internal policies , Brussels, 2015, p. 11

<sup>4</sup> COM(2010) 614 final. COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS An Integrated Industrial Policy for the Globalisation Era. Putting Competitiveness and Sustainability at Centr Stage. Brussels, 28.10.2010; COM(2012) 582 final, COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS – A Stronger European Industry for Growth and Economic Recovery. Brussels, 10.10.2012.

<sup>5</sup> По Bosch, X. Industrial Policy in the EU: A Guide to an elusive concept. Egmont Paper 69, Academia Press, Gent, 2014, p.15. За пръв път картографиране на политиките, участващи в състава на индустриалната политика на ЕС е направено от Jacques Pelkmans - European Industrial Policy, Bruges European Economic Policy Briefings N 15, July 2006

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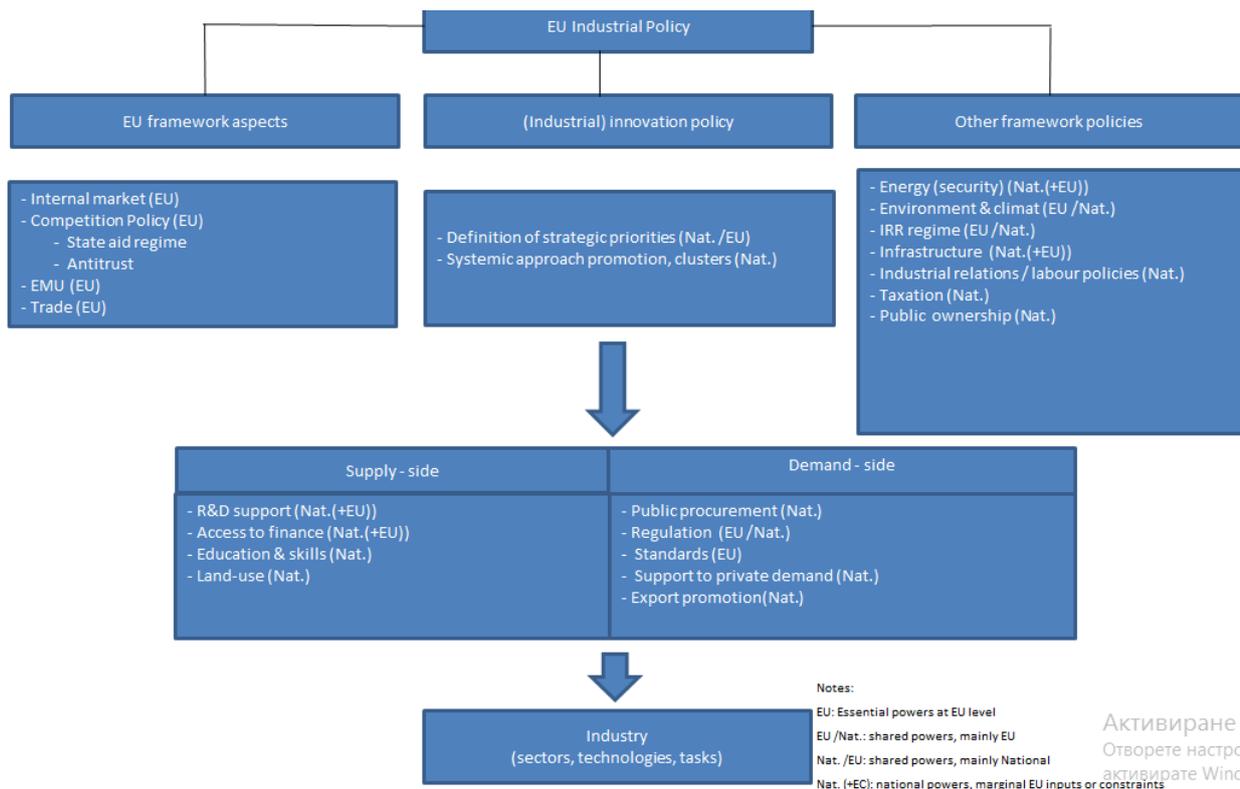


Fig 1. Mapping of the policies of industrial policy in the EU

This mapping of policies involved in the composition of EU industrial policies differs from the traditional approach of differentiating policies of horizontal and vertical ones and follows the Pack and Saggi definition of the industrial policy, which has gained the most popularity „...any type of selective intervention or government policy that attempts to alter the sectoral structure of production towards sectors that are expected to offer better prospects for economic growth than would occur in the absence of such intervention”<sup>6</sup>.

The framework of EU industrial policy is formed by European policies concerning the internal market, competitiveness, economic and monetary union and trade. All of them are within the powers of the main EU institutions – European Commission, European Parliament, etc. Creation of a single (internal) market is the basic concept developed by the EU, aimed at „free movement of capital, goods and services” by which to stimulate innovation and progress. Competitiveness policy in accordance with the principles of the internal European market, where all participants operate in conditions of equality. Two of its dimensions – the system of state aid and antitrust law are invariably in the focus of European industrial policy. On the one hand all the initiatives of the governments that have to stimulate one or another sector or companies are subject of monitoring, since they are opposite to the principle of the free market competition. On the other hand, its application is admissible if it is determined that it supports all initiatives that are in common interest of EU. The economic and monetary union is important for the European industry also. It determines the appropriate fiscal and economic policies of the states, reflecting on the exchange rate of the

<sup>6</sup> Pack, H., Saggi, K. Is There a Case for Industrial Policy? A Critical Survey, World Bank Policy Research Working Paper 3839, February 2006, p.2.

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European currency (euro), banking system, lending, etc. Trade policy has the strongest impact on the export towards its facilitation and liberalization.

Other policies are those related not only to the industry, but those who are essential for sustainable development. Most of them are determined and controlled by the Member State of the EU, such as employment policies, taxes and state property. The responsibility in some policies is shared between state and EU. The influence of EU is dominated in policies concerning environment and intellectual property protection. In the area of energy and energy resources, infrastructure etc. the leading role has the government.

Figure 1 shows that the innovation policy is at the hearth of the EU industrial policy. She combines tools and policies that shape condition for innovation. The nature of innovation policy is horizontal one. It aims to provide the necessary environment for the emergence of innovative activities and industries. At EU level the following strategic priorities are defined:<sup>7</sup>

- Markets for advanced manufacturing technologies for clean production;
- Markets for key enabling technologies;
- Bio-based product markets;
- Sustainable industrial policy, construction and raw materials;
- Clean vehicles and vessels;
- Smart grids.

The systematic approach for stimulation of industrial entrepreneurship is associated with the cluster development. Clustering most often refers to the grouping of diverse structure, including public and private initiatives. They interact in the process of the development and application of innovation and strive to achieve a competitive advantage. To policies relating to the innovation development refer support for R&D, access to finance, education etc. They are entirely government priority, but two of them are under the EU strict control (R&D support, access to finance). Demand related innovation policies are public procurement, regulations, standards, promotion of individual demand and exports. Regulations are an important instruments of innovation policy. They are entirely under EU control that allows or limits the innovation initiatives. Most of them are related to safety, health, environment and consumers. Others are the subject of government policies.

The tools of European industrial policy implemented as legal regulatory as selective intervention. Their tasks are to minimize the lack of information and external impact, compensation of “market failures”, eliminating monopolistic structures. They are oriented equally to all companies and creating a favorable business environment. Horizontal incentives include tax credits, state venture capital funds, subsidizing the training of staff, etc. Vertical incentives refer to promotion through government procurement, temporary tariffs on imported goods, subsidizing exports, targeted lending, etc. They are aimed at <sup>8</sup>:

- Support for any firm operating a specific “frontier” technology, deemed likely to create productivity growth and product innovation, such as ICT, biotechnology, nanotechnology and so forth;
- Support for any firm in specific sectors or subsectors with the potential for significant productivity growth and where it is judged the economy can become internationally competitive;
- Support for individual firms either as key foreign investors or “national champions” operating in an area with significant potential for growth and competitiveness.

The effective industrial policy is a prerequisite for a rapid economic development. The innovative activity depends on its improvements, as well as the modernization of the

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<sup>7</sup> COM(2012) 582 final, COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS – A Stronger European Industry for Growth and Economic Recovery. Brussels, 10.10.2012., p. 9-16

<sup>8</sup> Weiss, J., Strategic Industrial Policy and Business Environment Reform, DCED, Working Paper June 2013, p.18

manufacturing. Bulgaria's membership in the EU imposes compliance and subordination of our industrial policy on European one. Hence the success and choice of priorities of Bulgarian industrial policy are predetermined by the guidelines for the development of European industry.

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