The reindustrialization of the euro area countries which lost their competitiveness and European industrial strategy as the challenge of the EU policy. Do the new EU –member states have any Industrial strategy?

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Many researchers are agreed that the global changes in trade and sector structure of economies caused the external and internal imbalances. This is the reason why the change in the economic (industrial) policy of the EU must be rethought and rediscussed that the best suitable solutions were proposed to the decisive European/world organizations/persons and social partners. The problem of economic imbalances grew in importance especially in face of the current financial and economic crisis.

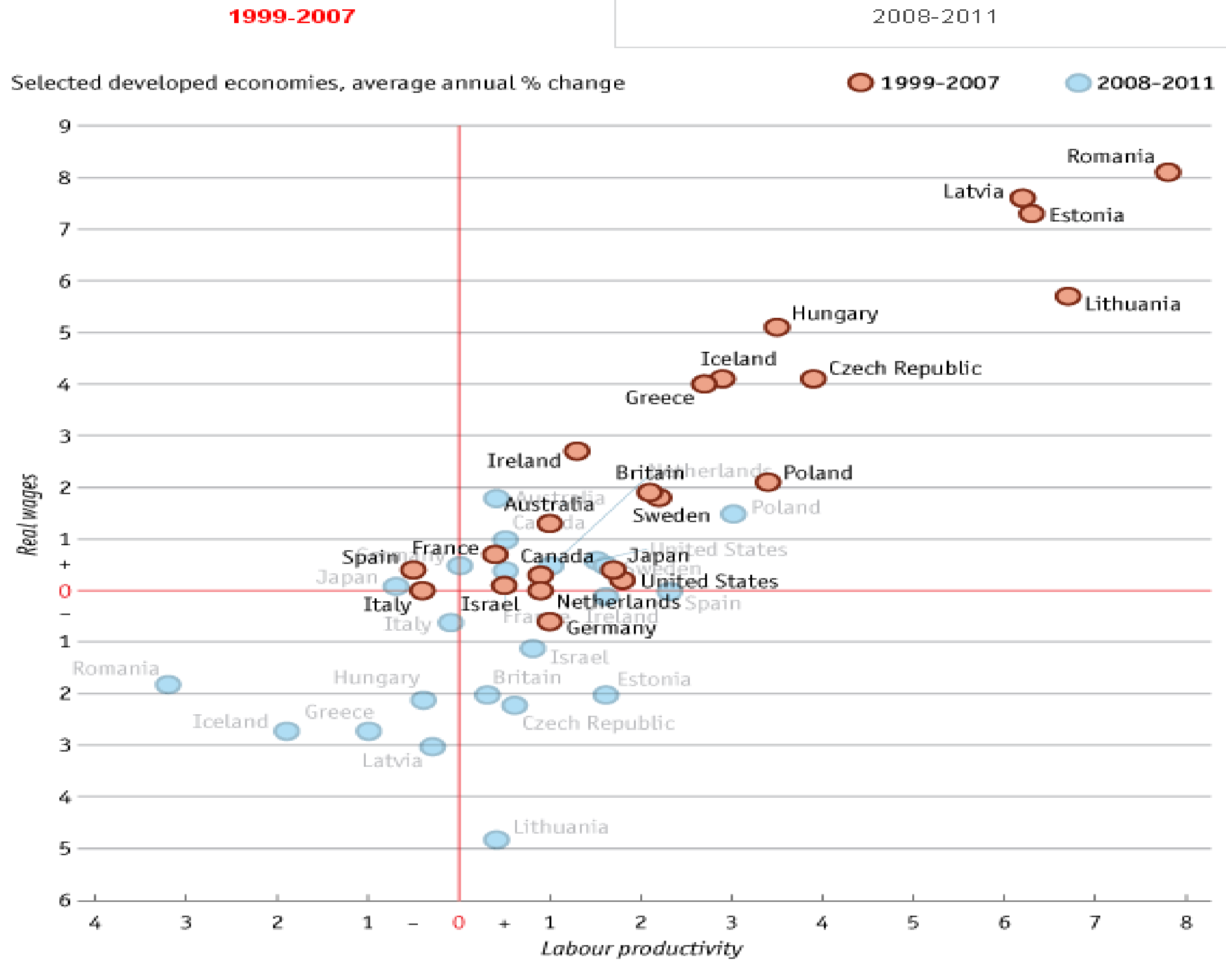
There is a cause and effect relationship resulting in the economic imbalances between countries. Process of Globalization (i.e. set into the competition of all productions and services between all the word economies) involves delocalization of production which implies the growth of the current account deficits/surpluses and indirectly the growth of public deficits/surpluses (which implicates a "massive call for the global savings"). The capital flows from the developing to the developed countries and is equal to the amount of the deficits. Relevant in this mechanism is the fact that the capital comes from the central banks of the exporting countries (such as China) which buy for ex. dollars from their own exporting –companies and buy for these dollars assets (i.e. obligations of the importing countries) and store them in their foreign -exchange reserves. The importing countries (i.e. their government selling obligations) will receive dollars and will profit from the money creation by the regular growth of the money supply and credit, the rise of assets prices and by the positive stimulation of demand/investment. At the end this phenomena causes the "wealth effect" in the developed (importing) countries. However, this system hides the "structure differences" between countries and results in gigantic investment in the unreliable financial products ("financial glut") and increases the risk of periodical crises caused by "financial bubbles"). The side effect might as well result in the insufficiency of investment in the relatively most productive sectors of the richer economies (for example industry). **Western model of the macroeconomic governance is imbalanced *by nature* therefore instable.** [1]

[1] Artus Patrick, Virard MariepPaule, Wielki kryzys globalizacji (...)

The EU countries/enterprises can elaborate strategies which would "save" their industries such as strategies based on the investment in the "client value" [2] or go along with the global trend of wages growth restriction which in the worse scenario would lead to reduction of the society "fundamental values". Many scientists however are agreed that **Industry is the main source of the technological progress (and spill over effects) as it focuses its two principal leviers: research and development (R&D) and the exportation capacity.** However, the EU macro policies focused on the improvement of competitiveness (pact euro-plus, Macroeconomic Imbalance Procedure, Maastricht criteria) by the lowering of costs and wages may have a very **negative impact on the employment as it translates into the constraint of the internal demand.**[3]

The charts below show the changes in wages competition and in structure of the current account balances in the EU countries:

Chart 1 Real wages and productivity



Source: ILO

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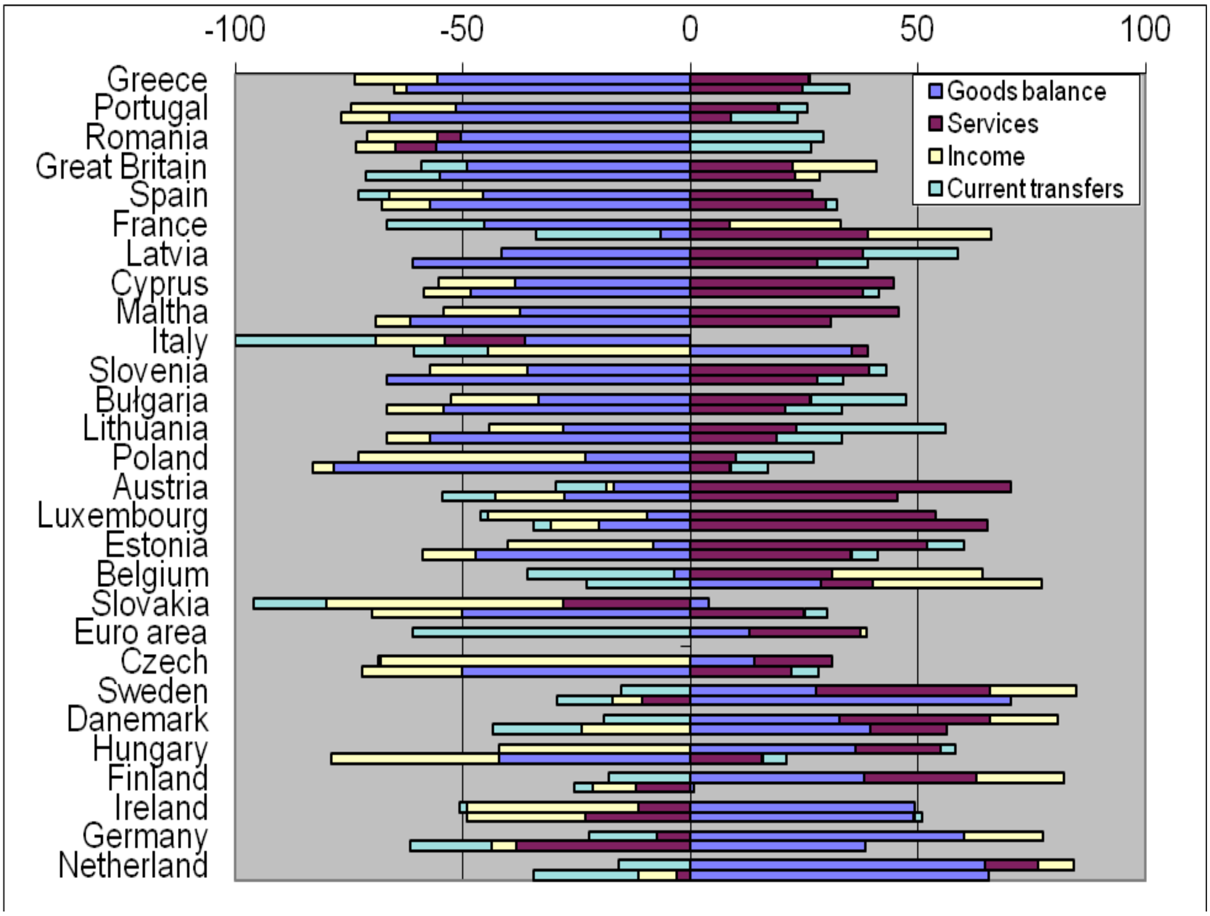
[2] Other strategies are: creation and production of Lean Products, system orientation (creation of the value added for the client, maximization of the client value on each level of the chain), prioritization of the clean technologies (worldwide), increase of the competition, generic ruptures etc. More on the subject you may find in: Leger Jacques, L'avenir de notre industrie! (...)

[3] Materials from the series of the conferences organized by the Confrontations Europe: the European Economic Debates, Entretiens Economiques Européens or EEE) on For a social market economy: Reconciling competitiveness with solidarity, Bologna 30-31.10.2012, Paris 23 -24.11.2011, Warsaw 9-10.12.2010.

Chart 2 Structure of current accounts of the EU countries in 2010 and 2000*
(ascending in respect of balance in goods in 2010)



Source: own calculations based on Eurostat data.
Balances with the sign + or - are (in%) are calculated by the formula: | Balance of Trade | + | balance of trade in services | + | net income | + | balance of current transfers | = sum (100%). Calculations are based on Eurostat.
*Fist bar graph for each of the countries corresponds to 2010 and the second one to 2000

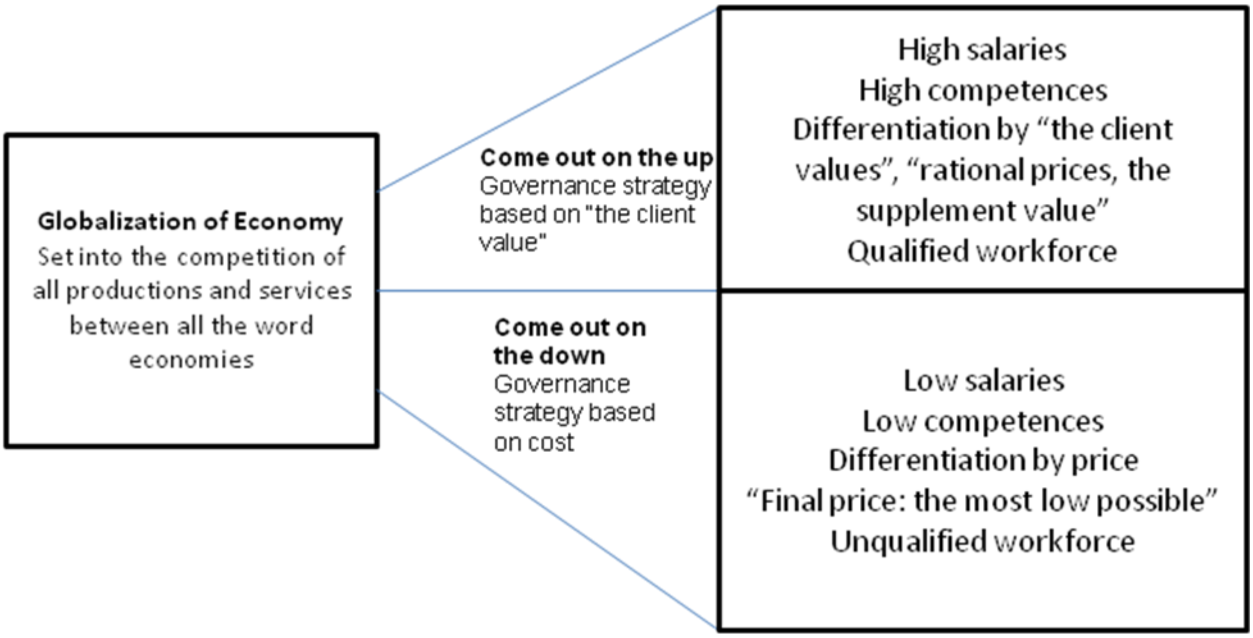
Analyzing the above graphs we can draw the following conclusions (hypothesis):
-Southern countries (Italy, France, Greece, Spain and Portugal) have had the biggest problem with the growing deficit on their current accounts, as it could be caused by loss of a wage-cost competitiveness (also in the manufacturing) and to some extend by the same euro parity for each of the euro area country.
-In terms of export expansion, the main beneficent is Germany[4], which improved its price and cost competitiveness which was going together with the stagnation of German domestic demand recompensed by the relatively excessive external demand from the Southern economies.
-Importance of the new EU member states as exporters rose, they improved their **price and cost competitiveness in the manufacturing sector** (tradable goods) but it did not go along with the lost of competitiveness calculated for their whole economies.[5]

[4] My publication: Krupa Karolina, Effective exchange rate and external imbalances (...) shows that Germany's share in the EU export grew considerably in the past decade.
[5] In my publication: Krupa Karolina, Comparative analysis of productivity and wages (...) I concludes that wages rise the most in business and services sector (Eurostat) unlike the manufacturing sector

-Poland lowered its trade deficit but increased the income deficit which now even exceeds the trade deficit and become the main source of the external and internal imbalances. **Income deficit is the problem of all poorer EU countries**[6]

Model of the economy growth based on wages reduction is a risky model as it would imply the low quality of products and low competences of workers whilst the model of the economy growth based on the "more productive/efficient solutions for the industry" would protect the social model of the Western economies. However, these are 2 extreme cases. The picture below presents 2 hypothetical models of the economic growth/(industrial) governance:

Picture 1: 2 models of the economic growth/ (industrial) governance



Source: own elaboration based on Leger Jacques, L'avenir de (...)

Picture no 2 shows that the source of the economic growth in developed and developing countries differs. As we see the starting point for the Western economies is competence which is based on **experience** and is source of innovation, in the developing countries it is production which is a driving factor for the growth in employment and then in the next step of competence and innovation.

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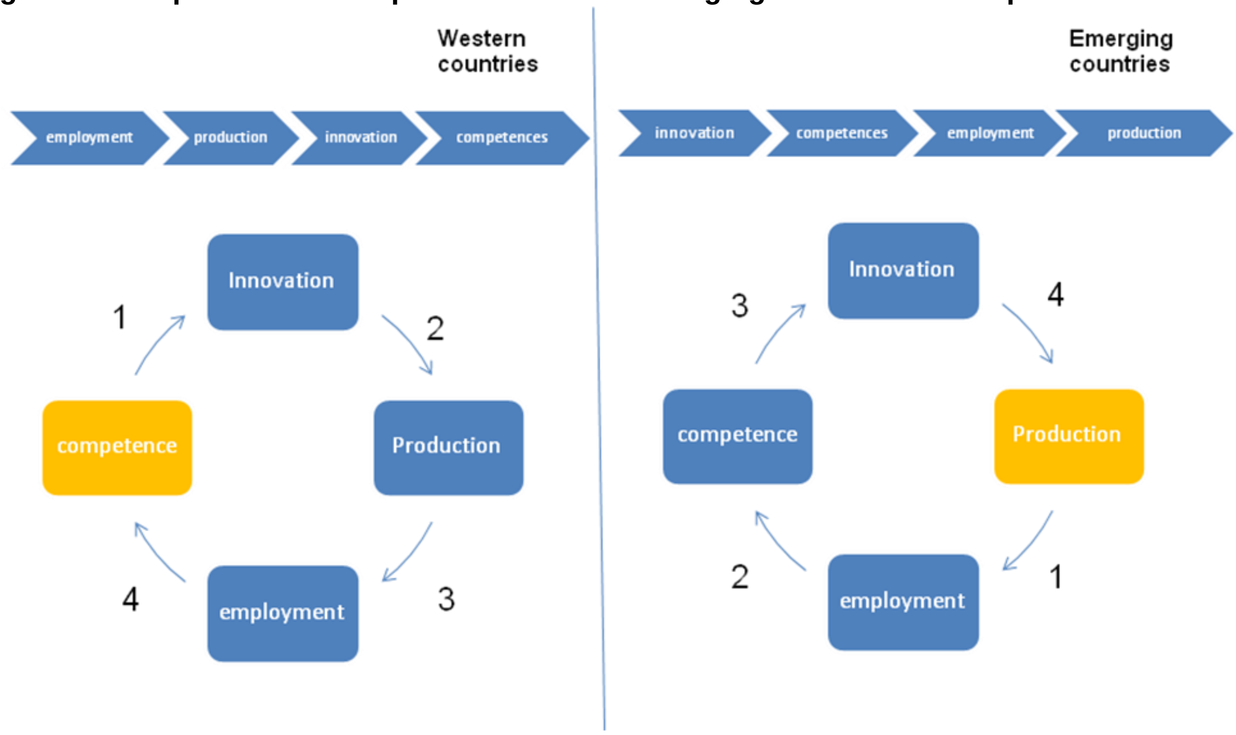
and this discrepancy between sector competitiveness is much higher in the new EU member states than in the old EU economies.

[6] **Income deficit (i.e. factor income) is** a sub-account of the current account. Income refers not only to the money received from investments made abroad (note: investments are recorded in the capital account but **income from investments is recorded in the current account)** but also to the **money sent by individuals working abroad,** known as remittances, to their families back home. If the income account is negative, the country is paying more than it is taking in interest, dividends, etc.
CA=(X-M)+NY+NCT where: CA is the current account, X and M the export and import of goods and services respectively, NY the net income from abroad, and NCT the net current transfers.

Picture 2: What has been the strength of the EU model which ensured the European great development over the past decades vs. emerging countries development model

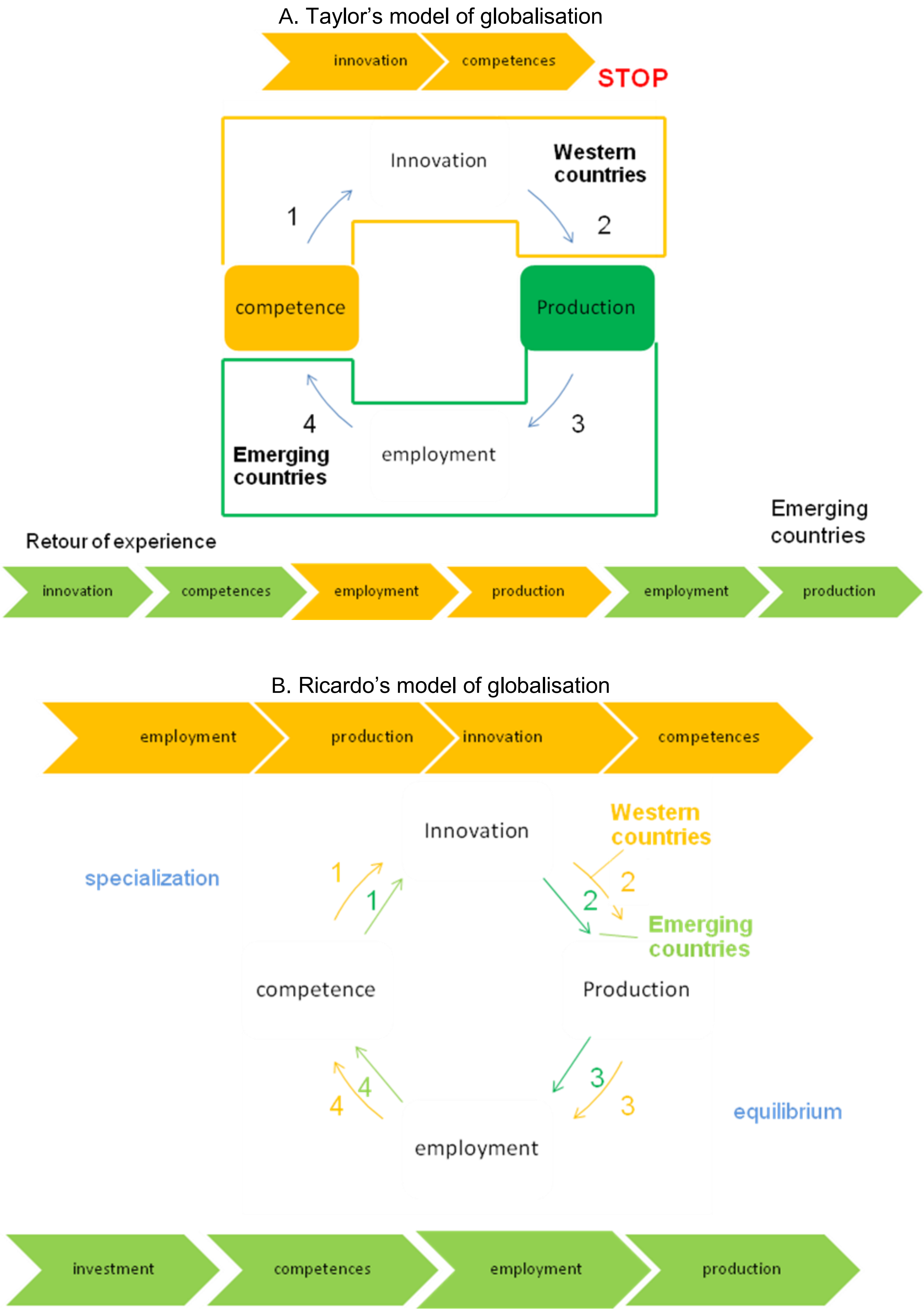


Source: CVC consulting: Leger Jacques, L'avenir de notre industrie! (…)

Such different models of the economic growth curry dangers. The next picture presents Taylor's model of globalisation (picture no 3 A). As we see 2 parts of the "puzzles" would be took over by the emerging countries and Western countries would save only innovation and competences domain. Ricardo's model of globalisation (picture no 3 B) presents a coexistence of the emerging countries and Western economies which results in specialisation and equilibrium.[7]

[7] For more detailed analyse of the models please refer to: Leger Jacques, L'avenir de notre industrie! (…)

Picture 3: Possible future's scenarios of the EU –change of the sector structure?



Source: CVC consulting: Leger Jacques, L'avenir de notre industrie! (…)

Having these facts and theories in mind we may discuss the problem of economic growth models and ask ourselves the question: **If convergence of the French and German model of economy is possible? And if yes, what are the obstacles and challenges in the area of industrial policy and governance in the EU?**

First of all **reindustrialization of the euro area countries which lost their competitiveness is difficult** due to the facts that import comes from the **foreign filial** of the country –importer (globalization) and delocalization of the industry is "the machine" maintaining the **purchasing power of the consumer** –country by the decrease in prices of consumption products and growth of the importers and distributors profits. The slowdown of the globalization process would mean the massive drop in the purchasing power of the Western societies. The Western EU countries have problem with **the lack or insufficient investment** in the domicile industry (no human and capital resources) which results in structural imbalances. We may point out the main shortages of the Western economies:
-lack of the adequate (technical) education (educational and intellectual equilibrium versus opportunities of new industries which can be explained by the theory of Schumpeter's "creative destruction")
-lack of the capital (global saving, "saving glut") which flows to the financial companies instead of industry sector (industrial and technological equilibrium, as the effect of globalization process economies are set now in the higher risk of the new kind of crises spurred out by the financial bubbles which might be more dangerous then "classical" crises appeared before)
-lack of the infrastructure (especially in the new EU member states!)
-too strong or poor position of the trade unions: wages are unadjusted to the productivity growth and economic cycles,
-problem with the unsustainable pension system and excessive employment and wages growth in public administration.[8]

The role of the society, enterprises and state in the reindustrialisation of the Southern countries is inappreciable. The poorer states of the EU must create conditions for the competitive and innovative industry and the employment for the whole society. It is already work in progress as with the support of the EC, IMF or WB most of the countries touched by the crisis have already introduced to some extend the structural reforms: reforms of labour market and administration (Pact Euro+), pension reforms (retirement age, pension pillars), their government increased of taxes (VAT) and lowered spending and as well introduced safeguard measures such as amendments to the constitutions concerning deficit (Fiscal Pact). They are also subject to the Procedures of Excessive Deficit, but the problems still persist. We may classify the scarcities as follow:
-administrative burdens, excessive litigiousness, insufficient cooperation & communication between social and business partners, government
-the CEE (Central Eastern Europe) and Southern countries of the EU have less influence in shaping of the EU policy (in this respect do the new EU –member states have any industrial policy or strategy?)
-the poorer countries of the EU have still the problem with the outflow of capital to the richest EU economies and are deprived from investment into their relatively most productive sectors i.e. industry
-the poorer economies of the EU do not dispose of the domestic capital and the national interests (for ex. French *national champions*, German *Standort)* often outweigh the common interests of the EU[9]

[8] Leger Jacques, L'avenir (...), Artus Patrick, Virard Marie Paule, Wielki kryzys (...)
[9] Confrontations Europe

In this context is worth to reconsider the future of the common EU (industrial) policy, common currency area and thus the whole EU integration and convergence process.

If the euro zone countries (together with the countries outside of the euro zone) are going to create the Finance Ministry at the supranational level, **the Plurinational Pact of the industrial cooperation and development** will be sooner or later on target. In this respect such questions as **the renovation of the internal market and the reform of the common policy** aiming to boost more coherent and non-split up market are crucial for the international debates. The project of the Eurobonds and the cooperation models of the market and financing go along together.[10]

European industrial strategy, based on **"cooperation, convergence and complementarities"** could have three main dimensions:[11] share of training and industries; mutualisation of resources; joint long term investment. In this respect the effective valorization of the investment projects of the common strategic interest, role of the institutional investors and identification of the strategic European industries play a crucial role.[12] A current challenge of the EU countries is **the renovation of the internal market** and the Commission had made 60 proposals to lift all points of blockage of the internal market but "implementation of country specific **recommendations to strengthen competition in services markets and network industries** is so far overall rather poor". Of the 12 Member States which received recommendations on competition issues, 7 have taken some action and "their actions remain generally rather partial, and so far clearly insufficient to reach the objectives". The recommendations of the EC have called inter alia for enhancing competition in retail services, removing unjustified restrictions in certain regulated professions and crafts, to reform regulatory frameworks, improve competition in network industries, and strengthening the administrative capacity of the competition authority and judicial authorities entrusted with the protection and promotion of competition at all levels (EU, national, regional and local) at a limited cost for Member States. Among the actions taken by a number of Member States are additional powers to agencies monitoring price developments in energy networks, reports issued by relevant agencies, and political agreements that may form the basis for future legislative action. The Commission recommends as well to improve **access to finance by the innovative financial instruments** (ex. for SME-s through the venture capital).[13]

In the area of industrial innovation, the High-Level Group on Key Enabling Technologies presented its final report with concrete recommendations on development and deployment of these technologies. These technologies have enormous market potential with annual growth rates between 5% and 16% per year up to 2020 and also provide crucial spill-over effects to key downstream industry sectors in terms of innovation and growth. The Commission has put forward some **sector-specific initiatives**, such as adoption of a strategy for space policy aiming at strengthening of the European space sector or relaunching or of the strategy for clean and energy efficient vehicles. The Commission also continues its efforts to address the concerns of energy-intensive industries, in particular through initiating the Sustainable

[10] The strategies encouraging the socio –economic actors to the common initiatives, for example in the form of the « social entreprise » (fr la société civile) are already promoted by the EC. There is however still « the need of judicial infrastructures, which could facilitate the creation of the new forms of socio –economic organisations (market structures, public –local as well natonal, european and international structures of the collective cooperation » It could as well constitue the base for reflextions over the administration management and industrial projects: Confrontations Europe

[11] as recommend by the Confrontations Europe

[12] communication of Tajani, rapport of Jean Therme

[13] www.europa.ec.eu

Industry Low Carbon Scheme (SILC), and by promoting ultra-low carbon production technologies and through developing a **private-public partnership to stimulate innovation in the energy-intensive process industries**.[14] Worth mentioning is the fact that "the American reindustrialization is related with the exploitation of the shale gas in contradiction to the EU. The defense sector might be another key sector which the EC could take into greater consideration. The EU misses two policies: the policy of the energy and of the raw material while the USA and China have such policies.[15]

In the EU –budget for the years: 2014 -2020 there is a brand new scheme to fund pre-identified transport, energy and ICT priority infrastructures of pan-European interest[16] and it will be centrally managed by the European Commission. The Commission proposes as well to conclude **partnership contracts with each Member State** in order to achieve a more results-oriented programming. These partnership contracts may also include macroeconomic conditions to improve the coordination of Member States' economic policies. The priorities and conditions for funding, including a system to monitor progress in achieving the targets set, will be part of the partnership contracts to be agreed between the Commission and each Member State. Some growth enhancing structural reforms were initiated in the areas of research, development and innovation, in transport and in energy. "In the areas of competition, services and network industries, most bottlenecks remain unaddressed", we read in the EC reports. Worth to discuss would be the main challenges and solutions taken by the particular states (the best practices) and as well obstacles met by the implementation of structural reforms. For example the policy of the concurrence does not cope with the global competition and the implementation of the recommendations encounter in many countries difficulties due to excessive litigiousness (*fr. Judiciarisation*) in contradiction to Germany –the country in which the political government can call into question the decision of the *Bundeskartellamt*.[17]

Another important issue is the deepening of the European social dialogue. A great public debate must be opened to feed a **'European social contract'.** The progress of the single market may be worn if concrete answers are offered to citizens as the structural reforms might be experienced as regression so they must go along with the cohesion programs and reindustrialisation of the European economies which lost their industry share in their GDP creation. Another challenge of the common policy is to find and elaborate the points of convergence on the social and fiscal questions in the **dialogue with Germany.[18]**

To conclude, I think that there is the evidence**, that the Sustainable industry (under economical, ecological and social dimensions) would extend the stability of the EU economic system**

[14] www.europa.ec.eu
[15] Report of Louis Gallois
[16] the Connecting Europe Facility
[17] www.europa.ec.eu, Confrontations Europe
[18] Confrontations Europe

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