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Europeanization of Industrial Policy: Towards Re-Industrialisation?

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Summary:

Following the period of fascination with services, European politicians started seeking ways to induce economic growth through backing the industry. The trend was launched in the times of economic crisis in the first decade of the 21st century; however, attempts to give it flesh were made in Europe 2020 Strategy. As a result of economic crisis, instead of introducing modern solutions that would facilitate the functioning of the EU internal market we witnessed reinforced protectionist and interventionist tendencies. Vague activities of the European Commission over the period 2010-2014 were framed in an idea of reindustrialisation as an active interference with the development of industry. Nevertheless, the proposal of setting a political objective of 20% share of industry in the GDP raises methodological and economic doubts. The new Economic Commission seems to be doing away with this approach by stressing the need to take a comprehensive approach to the internal market of goods and services and to link them into an integrated product market with business-friendly rights and obligations.

Keywords: Europeanization; European Union (EU); industrial policy; re-industrialization
JEL classification: F02, F15, D02, D79

4.1. INTRODUCTORY REMARKS

There are various definitions of industrial policy in the literature. According to McKenzie national industrial policy is a rubric for a broad range of proposed economic reforms that emerged as a unified political programme in the early eighties. Thus industrial policy proponents generally believe that government should be directly involved in establishing national industrial goals and in assuring that the goals are achieved (McKenzie, 1993). In so doing, policy-makers usually draw on extant ideas from economic theory, political economy, international experience and even conventional wisdom and common sense (Glykou & Pitelis, 2011, p.

461). One can observe that industrial policy seems to be a reflection of economic nationalism, with nationalism understood to mean giving priority to the interests of one's own nation but not necessarily involving protectionism, trade controls, or economic warfare (Johnson, 1982, p. 26). Another approach to industrial policy refers to it as a policy for economic restructuring in favour of generally more dynamic activities. The nature of industrial policy is that it complements market forces through reinforcing or counteracting the allocation effects that the existing markets would otherwise produce. The conventional approach to industrial policy consists in enumerating technological and other externalities and then targeting policy interventions on these market failures (Rodric, 2007, p. 100). The ubiquity of increasing returns and external effects in industrial production is usually cited in favour of government intervention, whilst the absence of entrepreneurship or a desire to prevent the concentration of economic power in a few private hands is taken to require the more direct involvement of governments to establish state-owned industrial enterprises. Moreover, the traditional task of the government in promoting industrialization is establishing and maintaining the country's infrastructure (Lal, 1997, p. 127). It is worth noting that the simplest form of industrial policy, that of subsidizing industrial activities directly (through tariffs and trade policy (protection), tax reliefs, subsidies of various forms, export processing zones) would follow from welfare economics if industry generated positive externalities (Robinson, 2009, pp. 3, 10-11). On the other hand, opponents would say that industrial policy consists of unneeded and very costly governmental interventions which disturb competition. Thus governmental failures are bigger than market failures. Economic neoliberalism refers to a variant of neoclassical economics based on the faith in a natural, spontaneous, self-organizing order in market economies. The corollary is faith in government incompetence to improve market outcome through 'interventions' (Wade, 2012, p. 224).

Seeking a theoretical base for a new industrial policy it should be noted that in recent years we can observe a servitization process, which is understood as adding value to the core corporate offerings through services. Modern corporations are increasingly offering fuller market package of customer-focused combination of goods, services, support, self-service, and knowledge. Thus the dividing line between traditional manufactures and service providers is much less clear (Vandermerwe & Rada, 1988, pp. 314-315). Moreover, servitization values asset performance or utilization rather than ownership and achieves differentiation through the integration of product and services that provide value in use to the customer (Baines et. al. 2007, p. 1547). It seems that servitization extends the reach of the manufacturer ever closer to the customers and the customer's underlying needs (Schmenner, 2008, p. 431).

Therefore the new concept of a new industrial policy in the European Union is worth analysing, taking into account liberal approach of the treaties, post-crisis interventionism in the EU Member States and servitization process in globalized world. The objective of our paper is to verify the thesis about the sense of reindustrialisation (i.e. adopting a new industrial policy in the EU) as an instrument en-

suring economic growth and new jobs. The idea of a new EU industrial policy emerged only recently (Aghion et al., 2011; Dhéret et al., 2014). Its foundations trace back, on the one hand, to the Treaty provisions (Art. 173 of the Treaty on the Functioning of the European Union), clearly strengthened after the adoption of the Lisbon Treaty, which also specified much more precisely the role of the European Commission. Simultaneously, the economic crisis of 2008-2010 intensified interventions undertaken by the EU Member States into their respective national economies, both through protectionist measures and by subsidising domestic entrepreneurs. On top of that, the new rules of the state aid policy for the period 2014-2020 launched a political debate on the role of governments in supporting the economy. Political attitude of the European Commission headed by J.M. Barosso with some commissioners openly favouring interventions into free market competition (Ambroziak, 2012a, 2014a, 2014b) did not go unnoticed. Although such postulates have been moderated by the new Commission of J.C. Junker (Junker, 2014a), Member States expectations vis-a-vis the EU industrial policy have remained unchanged and will be voiced both in the Council and in the European Parliament or in a parallel debate going on in other public fora.

In order to achieve the proposed objective we examined the evolution of the legal basis and the remit of EU institutions with respect to the industrial policy. Moreover, we analysed changes in political concepts over the years 2010-2014 as regards the new EU industrial policy highlighting the positions of the European Commission and interested Member States. Further on, we examined the goals and targets, as well as, proposed instruments of the industrial policy from the point of view of their economic rationale and potential effect on the EU growth. The paper seeks to test the validity of the following research hypotheses formulated in the course of political debate on the idea of the new industrial policy:

- **H1**: Manufacturing sector contribution to the GDP has been diminishing considerably in recent years posing a threat to growth and economic development.
- **H2**: By increasing the share of manufacturing in the GDP to 20% until 2020 we will ensure economic growth.
- **H3**: Economic crisis was less severe in countries with higher manufacturing sector contribution to the GDP.
- **H4**: There is a need for a sectoral approach (instead of a horizontal one) to industrial policy of the EU.

To test the above presented hypotheses we analysed changes in the GDP structure (share of the service sector in GDP) in the European Union (broken down into groups of Member States) against the background of other global economies (United States, Japan, China, Brazil, India, Russia, and South Korea) in the years 2000-2013. As a result, we were able to position the EU amongst leading global economies and to assess potential directions of proposed interventions within the framework of the new concept of the industrial policy. We also managed to grasp correlation between the change in the share of manufacturing

and industry-related services in Gross Value Added within the period covered by the study. Additionally, we identified changes in directions and trends, which emerged during and after the economic downturn of 2008-2010. An attempt was also made to answer the question whether, in the face of significant differences in economic development and GDP structure in individual EU Member States, adopting a new, common (unified) sectoral industrial policy that would replace national interventions makes sense at all. With a view to take account of the consequences of both the accession of new Member States after 2004 and the economic crisis of 2008-2010 the period covered by the study has been decided to include the years 2000-2013. Data originate from the World Bank and from Eurostat databases.

4.2. THEORETICAL BACKGROUND

Legal Framework for a New Industrial Policy

The first political documents concerning European integration did not provide detailed and advanced concepts of an industrial policy. The Schuman Declaration of May 9, 1950 stated that peace in the world would be achieved by placing Franco-German production of coal and steel as a whole under a common High Authority what should allow setting up of common foundations for economic development as a first step in the federation of Europe. Moreover, it was underlined that the Ruhr, the Saar and French industrial basins would work together for common goals. These statements are of an extreme importance to the EU today. They demonstrate that the coal and steel industry was treated as the basis for early European economic integration at the beginning of the 1950s. The above-mentioned Declaration also characterized the future organization as a powerful productive unit, open to all countries and established the condition that members of it should desire to take part and be bound ultimately to provide all the Member States with basic elements of industrial production on the same terms, which would lay a true foundation for their economic unification. The Schuman Declaration, although very political and general, nevertheless provided some detailed objectives, including:

- the modernization of production and the improvement of its quality;
- the supply of coal and steel on identical terms to the markets of all Member States;
- the development in common of exports to other countries;
- the equalization and improvement of the living conditions of workers in these industries.

These objectives were implemented into the Treaty establishing the European Coal and Steel Community (TECSC). It is worth noting that the TECSC identified some specific competences of the Community institutions, i.e. (a) to verify that there were conditions which would encourage enterprises to expand and improve their ability to produce and to promote a policy of rational development of

natural resources, avoiding inconsiderate exhaustion of such resources and (b) to promote the regular expansion and the modernization of production as well as the improvement of its quality, under conditions which preclude any protection against competing industries except where justified by illegitimate action on the part of such industries or in their favour. Moreover the Treaty allowed the High Authority (predecessor of the European Commission) to facilitate the carrying out of investment programs by granting loans to enterprises or by giving its guarantee to loans which they might obtain elsewhere. It is also interesting that the High Authority could assist by the same means in financing works and installations which contributed directly and principally to increase production, lower its costs or facilitate the marketing of products. However, if the introduction of technical progress or new equipment within the framework of the general programs of the High Authority should lead to an exceptional reduction in labour requirements in the coal or steel industry, special actions were allowed, including non-reimbursement assistance. It should also be mentioned that provisions concerning special arrangements for the coal and steel industry were justified by economic and social downturn during the Second World War. Moreover, they can be treated as a preliminary exercise and capability test of close cooperation in a given sector before widening the European integration in other economic and social sectors.

It is worth noting that the next Treaty establishing the European Economic Community (EEC) was based on a horizontal approach to economy, with the exemption of common agricultural policy, and thus comprised no provision on industrial policy. In the EEC Treaty of 1957 there were some references concerning the development of competitive conditions within the Community to the extent to which such development would result in the increase of the competitive capacity of the enterprises. However, they were mentioned in relation to the establishing of a common customs tariff and common commercial policy (some others were linked to the antimonopoly law).

Only at the beginning of 1990s, based on the Treaty on the European Union of 1992, some new paragraphs on industrial policy were introduced. One of them was a new article 130 of the TEC (Treaty establishing the European Community) which stipulated that the Community and the Member States shall ensure that the conditions necessary for the competitiveness of the Community's industry exist and all activities should be taken in accordance with the system of open and competitive markets, thus any measures should not lead to the distortion of competition and shall be aimed at, i.a.:

- speeding up the adjustment of industry to structural changes, which should direct all relevant actions to follow new trends (e.g. globalization, outsourcing, offshoring and servitization);
- encouraging an environment favourable to initiative and to the development of undertakings and cooperation between companies;
- fostering better exploitation of the industrial potential of policies of innovation research and technological development.

The Treaty provided that Member States should coordinate their actions and the Commission might take any useful initiative to promote such coordination. The aforementioned provisions were strengthened by the Treaty of Lisbon, which extended the EU competences to carry out actions to support, coordinate or supplement the actions of the Member States in the field of industry by giving more power to the European Commission. On the basis of art. 173 of the Treaty on the Functioning of the European Union (TFEU) it can establish guidelines or indicators, organize the exchange of best practices, and prepare the necessary elements for periodic monitoring and evaluation.

Apart from paragraphs of the TFEU directly referring to industrial policy there are some other provisions which can have an impact on the EU entrepreneurs. On the basis of art. 26 of the TFEU the Union shall adopt measures with the aim of establishing or ensuring the functioning of the internal market. Art. 114 of the TFEU provides that in order to achieve these objectives the European Parliament and the Council shall, acting in accordance with the ordinary legislative procedure adopt legislative acts for the approximation of the law, regulations or administrative actions in Member States. Although harmonised EU legal framework and liberalisation within the internal market can positively affect entrepreneurs' competitiveness, art. 114(3) of the TFEU reads that the Commission, in its proposal on aforementioned harmonisation concerning health, safety, environmental and consumer will take as a base a high level of protection.

This provision is in line with one of the main goals of the EU (art. 3(3) of the Treaty on the European Union): establishing an internal market which "shall work for the sustainable development of Europe based on a high competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It is worth noting that there are many detailed explanations and justifications for such a broad concept of public interest protection, while the concept of "competitive social market economy" is not described in details in the Treaty. This phrase is more than important as we understand competitiveness as an ability of entrepreneurs (from industry or service sector) to compete in the internal market of the EU and in global market, as well. There are two examples of using "competitiveness" as a mean of reaching other, sectoral goals, within:

- the customs union: the Commission should develop conditions of competition in so far as they lead to an improvement in the competitive capacity of undertakings (art. 32 of the TFEU);
- the social policy: Member States should implement appropriate measures which take account of the diverse forms of national practices and the need to maintain the competitiveness of the Union's economy (art. 151 of the TFEU).

It is worth mentioning, that there are only two areas of economic policy, where within shared competences, actions taken by the Union and/or Member States should be aimed at promoting competitiveness of Union undertakings:

- research and technological development: the Union should have the objective of encouraging it to become more competitive, including in its industry (art. 179 of the TFEU) and should draw up a European space policy to promote i.a. industrial competitiveness (Pelle, 2015; Bučar, 2015; Urbaniec, 2014);
- tourism: the EU should complement the actions of the Member States in particular by promoting the aforementioned competitiveness of Union undertakings in that sector.

Summing up, it can be said that the most advanced and most unified actions concerning industrial policy were included in the TECSC. This was justified by the specificity of the main goals of the ECSC and the political, economic and social problems prevailing just after the Second World War. However, the next Treaty establishing the EEC provided, on the one hand, for some very restrictive rules concerning state aid and the exclusive competence of the European Commission in the field of competition policy, while, on the other hand, it contained no provisions for mere coordination among the Member States in the policy addressing specific industrial issues. Only the Maastricht Treaty introduced some additional provisions concerning industry (strengthened by the Lisbon Treaty), which put industry among the spheres of Member States' actions supported by the European Union. While it did not give the EU sole competence to conduct industrial policy, it did empower the European Commission to support and coordinate governmental activities in this field. Moreover there are many provisions used as a basis for new regulations concerning health, social, consumer and environment protection, which effect entrepreneurs and can hardly decrease their competitiveness, while there are no any direct and strong legal bases to target Union's measures and Member States actions at improving EU industrial competitiveness.

Political Framework for a New Industrial Policy

All actions taken in the European Union ought to have a political acceptance of all Member States, especially, when there is no strong legal base or requirements in the Treaties. But even when there are precise provisions, there is a need for a compromise and a common political agreement on future actions. During the crisis period Member States faced many economic problems, which should be addressed not only at national, but also at the EU level. Meanwhile, some of them decided to hardly subsidise their national companies, which maybe was not illegal in terms of competition rules, but could distort competition in the internal market and pushed unsubsidised firms into difficulties. Moreover, the previous Lisbon Strategy, whose outcomes were disappointing or even unnoticed to the EU economy, expired. Thus the European Commission suggested a new program for growth and job creation: the Europe 2020 strategy (European Commission, 2010a; European Council, 2010). In that program, the European Council established a new strategic goal for the next decade: to boost Europe's competitiveness, productivity, growth potential and economic convergence. Moreover, five objectives guiding the actions of Member States and of the Union were agreed

upon: (1) increasing the employment rate; (2) improving the conditions for research and development; (3) reducing greenhouse gas emissions and increasing energy efficiency and the share of renewables in final energy consumption; (4) improving education levels; and (5) promoting social inclusion (European Council 2010) (however someone can have some doubts how, for example, higher employment (in the era of robotics and automatics), new more restrictive environmental requirements, a higher share of the EU population completing tertiary education, which increases job and salary expectations of new employees, or reduction of poverty can improve competitiveness of EU entrepreneurs). Moreover the conclusions of the European Council provided that all common policies, including common agricultural policy and cohesion policy, would need to support the strategy, which made it more difficult to establish effective and permissible instruments dedicated to improving the position of European industry in the world.

The first document dedicated solely to a new industrial policy was a special communication on "An Integrated Industrial Policy for the Globalisation Era. Putting Competitiveness and Sustainability at Centre Stage" (European Commission, 2010b). The Commission defined two areas of actions related to industrial policy: policies that have a direct and indirect impact on the cost, price and competitiveness of industry and individual sectors. As regards the first group, it consists of standardisation, innovation policy, while the second group refers to all other policies such as transport, energy, environmental or social consumer-protection. That approach should ensure a merge of a horizontal basis and sectoral application.

After two years the Commission proposed a partnership between the EU, its Member States and industry to "give Europe a competitive lead in the new industrial revolution" (European Commission, 2012a). The main aim of all actions was to reach 20% share of industry in the GDP by 2020. There were also four practical elements of a proactive approach to industrial policy, which suggested: (a) stimulating new investments in new technologies, (b) improvement of the functioning of the Internal Market; (c) making more available access to finance; (d) improvement of human capital and skills.

The third milestone on the road to a new industrial policy was a communication of 2014, where the Commission set out key priorities: an integrated, single European market, industrial modernisation, small and medium sized enterprises and entrepreneurship, and internationalisation of EU firms (Wach, 2011). Therefore it extended its actions to i.a. (a) mainstream of industrial competitiveness in other policy areas to sustain the competitiveness of the EU economy, (b) maximise the potential of the Internal Market by developing the necessary infrastructure, offering a stable, simplified and predictable regulatory framework for entrepreneurship and innovation, integrating capital markets, improving quality of human capital, (c) encourage investment, business require access to critical inputs, and in particular, energy and raw materials, (d) facilitate the integration of EU firms in global value chain. Moreover, what is of the most importance, it repeated a need

for integration of industrial policy and other EU policies (European Commission, 2014).

All these initiatives, proposals and recommendations elaborated in consecutive communications of the European Commission got political answers from the Council. However, Member States in the Council represented sometimes extreme positions on the role of industry in the economy, admissibility of governmental interventions in the market, expectations of entrepreneurs, priorities of economic and industrial policy, and future directions of European Union development. Thus conclusions of the Council are predominantly "well-balanced" compromised texts which could be accepted by all Member States, thus often diluted, unambitious and without a clear message to stakeholders: politicians in governments, Members of the European Parliament, the Commission and entrepreneurs.

Political support for reindustrialisation of the European Union came from some Member States joined within the "Group of Friends of Industry". There were three special conferences organised by France, Italy and Spain, which provided a forum for discussion on the renaissance of industrial policy (Ambroziak, 2014). During the first of them, held in October 2013, only nine ministers of economy from France, Italy, Spain, Greece, Bulgaria, Luxembourg, Belgium, the Czech Republic, and the United Kingdom decided to sign the letter calling for the introduction of "measures commensurate with the situation, and preparing itself for new challenges". They suggested an approach contrary to the one represented by the Commission: all initiatives should take into consideration "the specific challenges faced by various industrial sectors" and "to this end, the European Commission should carry forward its sector-specific initiatives on important traditional sectors such as steel and shipbuilding". (Finances.gouv.fr., 2013). In the second conference of the "Group of Friends of Industry" eighteen Member States (Italy, France, Spain, Greece, Croatia, Romania, Bulgaria, the Czech Republic, Latvia, Luxembourg, Belgium, Slovenia, Portugal, Slovakia, Lithuania, Cyprus, Malta) agreed on signing a Joint Communication. Apart from issues raised in the previous document, they added a new element concerning the strengthening of industrial value chains. On the one hand, they recognised the important contribution of the manufacturing sector, including the energy-intensive sector, to the creation of added value and reindustrialisation, while, on the other hand, they declared that a new industrial policy should rely on the 2030 European energy and climate policy framework, which can be extremely costly for EU companies. Also the political objective for industry share in the European GDP to reach 20% by 2020 was recalled (Esteri.it, 2014). Only eleven ministers of economy (Spain, Germany, Italy, Portugal, Belgium, Poland, the Netherlands, Luxembourg, Latvia, Bulgaria and France) attended at the Third Conference of the Group of Friends of Industry in February 2015. The aim of that meeting was to identify factors that would mark the future of competitiveness for European industry. According to press release (the Joint Declaration was agreed only by seven ministers), Member States representatives, apart from previous requests, expressed their interest in J.C. Junker Plan of Investments for Growth and Job Creation and underlined that

ICT sector investments (the digitalisation of industry) can help achieve the highest level of competitiveness (Lamoncloa.gob.es, 2015; Andaluz.tv, 2015). It seems that the outcome of those meetings was exceptionally small due to some changes in the European Commission's approach to industrial policy and new initiatives concerning Junker Plan which should overshadow the previous conservative narrative on a new industrial policy of the EU, although constantly it referred to 20% target and relaxing of state aid policy of the EU.

The importance of the concept of a new industrial policy was proved by the European Council. The Heads of Government and State agreed that Europe needs a strong and competitive industrial base, in terms of both production and investment and this approach should be systematically mainstreamed across all EU policy areas. It underlined that a European industry base should be seen in relation to a coherent European climate and energy policy, including through addressing the issue of high energy costs, in particular for energy-intensive industries. It is worth noting that the European Council invited the Commission to present a roadmap for taking work forward in the field of a new industrial policy (European Council, 2014a).

A new president of the European Commission pointed out "A Deeper and Fairer Internal Market with a Strengthened Industrial Base" (Junker, 2014a) as one among 10 new strategic goals. He underlined that the EU "needs to maintain and reinforce a strong high-performing industrial base for the internal market, as it would be naïve to believe that growth in Europe can be built on the basis of service alone". In his Mission Letter to the Commissioner responsible for Industry, the President of the European Commission expressed his wish to develop ways of stimulating investment in new technologies, improving the business environment, easing access to markets and to finance, particularly for SMEs (Junker, 2014b). Although so many political statements, and desires, including the request made by the European Council in 2014 on a need for an industrial policy, were expressed by the new European Commission, it did not take into account a development of that concept in its working programme for 2015 (European Commission, 2014b). Only in some unofficial statements representatives of the Commission mentioned that industrial initiatives will be accommodated into Internal Market Strategy for goods and services provided in the aforementioned programme.

Goals and Targets of a New Industrial Policy

Every policy, including that conducted at the EU level or by the EU institutions within the exclusive competences of the European Union, should be identified by its main goals, instruments and receivers/stakeholders. Moreover, the EU should take all necessary steps to verify if it has enough competences provided by the Treaty, and whether there is a real need for common action in the interest of all Member States.

The main and broad goal of a new industrial policy was presented in the flagship initiative, where the Commission stated that "it is essential to increase productivity in manufacturing industry and associated services to underpin the recovery of growth and jobs, restore health and sustainability to the EU economy" (European Commission, 2010). So the main idea behind that goal was to accommodate industry in the EU 2020 strategy. But it is also interesting to observe two issues: (a) the proposed approach comply both sectors industry and services not making any distinction between them and (b) there were no artificial and economically unjustified targets at the early stage of discussion on a new industrial policy. It is also worth noting, in the context of the next discussion, that in the communication of 2010, the Commission underlined that "up to the onset of the financial and economic crisis, European industry had fared rather well in this rapid changing environment. It has successfully maintained its share of world trade (…) in the face of stiff pressure from new competitors" (European Commission, 2010). However, already two years later the Commission discovered that "Europe needs to reverse the declining role of industry in Europe for the 21st century" (European Commission, 2012a). The Commission defined the aforementioned role as a share of industry[1] in GDP and started seeking how to increase it from the level of around 16% to as much as 20% by 2020. It was also repeated in the communication of 2014, as the objective of revitalization of the EU economy and the Commission's aspiration (European Commission, 2014).

That concept was strongly supported by the aforementioned informal "Group of Friends of Industry". In the Joint Communication after the first conference in 2013 it expressed its desire to "boost industry's share in EU GDP", while after the second meeting in 2014 they reached an agreement to keep this target as "the political objective for industry". It was also repeated during the third conference of this group (although with reduced number of supporters). It should be underlined that the group does not comprise all Member States and its composition changes. Due to the fact that generally almost all other countries represented a completely opposite opinion on setting up such a target, the Competitiveness Council agreed in its conclusions that it only "takes note of the Commission's intention to see the share of industry at the level of as much as 20% of GDP by 2020" (Council, 2013). A year later, the Council was not able to move ahead with this target saying that it notes with interest this intention "as s political will to restore the proper place of industrial policy among other EU policies" (Council, 2014a).

The candidate for the position of the President of the European Commission became an unexpected ally and supporter of the 20% target. He identified one of his 10 priorities on strengthened industrial base as a "need to bring industry's weight in the EU's GDP back to 20% by 2020, from less than 16%" (Junker, 2014a). It was repeated in his Mission Letter to the Commissioner for Industry, saying that she should focus on "raising the profile and importance of industry in

[1] On the basis of the footnote note we can assume that the Commission instead of *industry* meant *manufacturing*.

economy (…) towards an aspirational 20% of EU GDP by 2020 (Junker, 2014b). For obvious reasons Bieńkowska, as a candidate for the Commissioner responsible for the Internal Market, Industry, Entrepreneurship and SMEs, repeated this statement during the hearing in the European Parliament in October 2014 (Bieńkowska, 2014), however, already during the 3rd meeting of "Friends of Industry" in February 2015 that issue was not raised by the Commissioner (Bieńkowska, 2015). Thus it seems that as regards mentioning the 20% target by the candidates for Commissioners, pre-election reasons predominated economic arguments.

Heaving in mind so many discussions on various fora on "the 20% target" it is crucial to analyse economic reasons behind it and its mechanism, as well as the possibility of its accomplishment within specified time. At the very beginning it should be underlined that there are two elements in the phrase "20% share of industry of EU GDP" which lead to some confusion. Firstly, the definition of industry is very broad. According to the common statistical classification of economic activities in the European Union industry covers three sections: (a) manufacturing, (b) electricity, gas steam and (c) air conditioning supply, and water supply, sewerage, waste management and remediation activities. Two latter sections are linked to energy and environment policy, respectively, (Regulation No 1893/2006) while all actions proposed by the Commission were developed to address some problems and difficulties of entrepreneurs from the manufacturing sector (not from the whole industry sector). Thus, calculating the relationship between industry and GDP, where the numerator (value added of industry) is wrongly overestimated, we get incorrect results. Secondly, there is an issue concerning gross domestic product. According to Eurostat definition, Gross Domestic Product is the final result of the production activity of resident product units and can be defined in three ways: output, expenditure and income approaches (Eurostat GDP). Due to the fact that we are talking about the output of manufacturing the output approach seems the most proper. It states that GDP is the sum of Gross Value Added of the various institutional sectors or the various industries plus taxes and less subsidies on products (which are not allocated to sectors and industries). Policies concerning taxes and subsidies, which effect GDP, are different in all Member States and there is no common EU solution for using them at national level. Thus calculating the relationship between manufacturing/industry and GDP with wrongly overestimated denominator (Gross Domestic Product) we also get incorrect results. However, it is worth observing that the aforementioned Gross Value Added is defined as the output value at basic prices less intermediate consumption valued at purchasers' prices and is calculated before consumption of fixed capital (Eurostat GVA). Therefore it seems that the most proper and correct reference of manufacturing added value should be Gross Value Added (used as a denominator).

Finally, there is a misunderstanding as regards the weight of manufacturing in GVA. GVA includes added value by agricultural, industry (including manufacturing) and service sectors. There is no suggestion in the debates or in the Com-

mission's communications as to which component's share of GDP (alternatively GVA) will be reduced to offset the increase in the share of industry within the sum total of 100%. Bearing in mind that agricultural sector has relatively the smallest share (according to Eurostat it reached 1.5% of GDP in 2013) only the service sector could substantially reduce its share in GDP/GVA in favour of industry/manufacturing. However, it is in contradiction to many analysis and declarations of political will, which stress the highest importance of the service market for growth and job creation in the EU (European Commission 2002, Monteagudo et al., 2012; EPRS 2014) and a need to complete the internal market in products and services (Junker, 2014a and 2014b). Moreover, the Council recognised the increasing importance of services to economic output and growth, including the 'servitization' of manufacturing industries and interconnection between goods and services (Council, 2015).

It should also be noted that central planning and fixing common indicators for all EU Member States' economies is not a good idea, because it does not take into consideration the specificity and structure of their economies, the quality of the available workforce, their accessibility to raw materials, and the presence of new technologies and science centres with the innovative solutions needed in manufacturing. The concept of central planning fell by the wayside along with the economic and political transformation of the communist bloc countries in the early 1990s. Summing up, different Member States of the European Union have their own different priorities for the development of their economy, and pushing them into industry would be a mistake.

4.3. RESULTS AND DISCUSSION

Position of EU Manufacturing in the World

With a view to test the hypotheses on the drop in the share of manufacturing in GDP and the accomplishment of its 20% target share in GVA, we took account of the EU performance, and that of its Member States, over the analysed period. Over the years 2000-2012[2] the share of manufacturing in EU GDP diminished from 18.6% to 14.6%. The direction of the change reflected trends observed in other high income countries, albeit in their respective cases the scale of reduction was significantly smaller (drop in high income countries from 17.9% to 15.0% in 2012, in the U.S. from 15.9% to 12.9% in 2011, and in Japan from 21.1% to 18.2%). The same could be concluded about rapidly developing countries like Brazil (drop from 17.2% to 12.9%) and, to a lesser extent, about less developed India (from 15.3% to 14.1%). It is worth noting that in the period covered by the analysis China managed to maintain high proportion of 31 – 34% of manufacturing contribution to GDP while for Korea the share grew from 25.2% in 1991 to

[2] Due to the missing data for some countries across the world, the EU global position was examined over a research period restricted to 2011 or 2012.

32.1% in 2013. The above confirms the increasingly prominent position of services in the economies of more developed countries, which, as a result of strong internal integration (USA) and within the framework of an international organisation (the EU internal market), enable the producers achieving higher business benefits from offering goods in connection with services. Due to the limited scope of liberalisation in international trade in services, countries such as China or South Korea are not capable of creating conditions for product servitization to their manufacturers (Figure 4.1.).

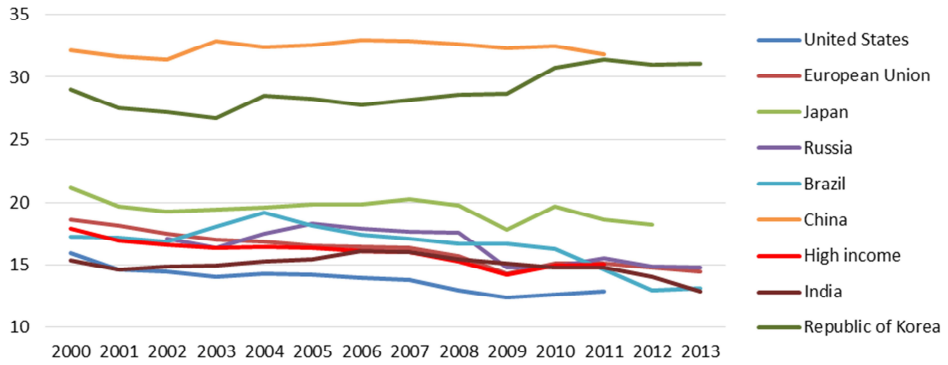

Figure 4.1. Share of manufacturing in GDP in the European Union and selected countries in the period of 2000-2013
Source: Own studies, WTO database.

Position of Industry and Manufacturing in the EU Economy

At the beginning of the period covered by the study, i.e., in 2000, the value of manufacturing output in EU-28 exceeded EUR 1.6 trillion, which at that time accounted for 18.8% of Gross Value Added (GVA). In subsequent years, the value of manufacturing had been increasing on average between 2% and 6% annually until the first years of economic crisis, i.e. 2008 and 2009, respectively, when the reported drop was 2% and 13% compared to the preceding year (Figure 4.2). However, already in 2010 a 8% increase was reported, followed by 5% increase in 2011, and in the period 2012-2013 the value added in manufacturing just managed to remain at the level of EUR ca. 1.85 trillion, which meant it stabilised at the level reported in 2006 before the economic downturn and accounted for 15.1% of GVA. The share of manufacturing in total employment also diminished by more than 3 percentage points from 17.8% in 2000 to 14.3% in 2013. Interestingly enough, the trend was not reinforced in the times of the crisis, which would suggest systematic shift of jobs to other sectors irrespective of the social and economic situation.

When analysing the concept of a new industrial policy we should consider its potential impact and importance for the economies of the EU and its individual Member States. For many years Germany (30.3%) has been a clear leader with

the highest share in total manufacturing (Figure 4.3). Significantly smaller shares are reported for France and Italy (11.6% each) and the United Kingdom (9.4%). Manufacturing in the five aforementioned countries together with Spain (5.0%) represents two thirds of the value of the sector in the EU. Countries such as: the Netherlands (3.8% share), Poland (3.6%), Sweden (3.4%), Austria (2.9%), and Belgium (2.7%) were also important industrial players but their effect on the EU economy was much more limited.

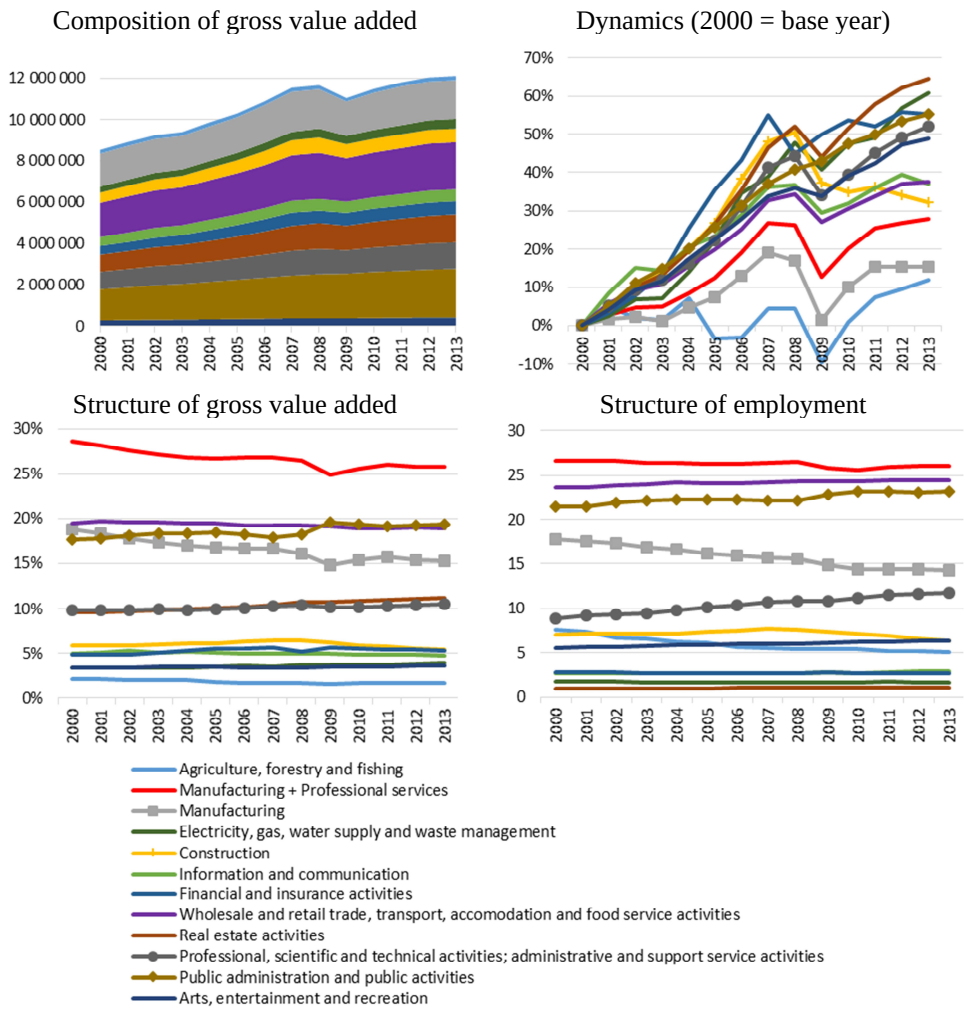

Figure 4.2. Composition and changes in Gross Value Added and employment in the EU-28 in the period of 2000-2013
Source: Own studies, Eurostat.

In the examined period, the share of manufacturing in GVA (in current prices) exhibited a clearly decreasing tendency in favour of services and dropped

from 18.8% in 2000 to its lowest level of 14.8% in 2009 to slightly increase to 15.3% in 2013. Besides servitization, outsourcing and relocation of manufacturing plants outside of the EU, the phenomenon could be attributed to a combination of factors: on the one hand, substitution effect resulting from higher real income and, on the other hand, lower prices of products of the manufacturing sector caused by its higher productivity compared to the economy as a whole. It means bigger drop in manufactured goods (in relation to services) as a consequence of productivity growing more in manufacturing than in services (European Commission, 2014c).

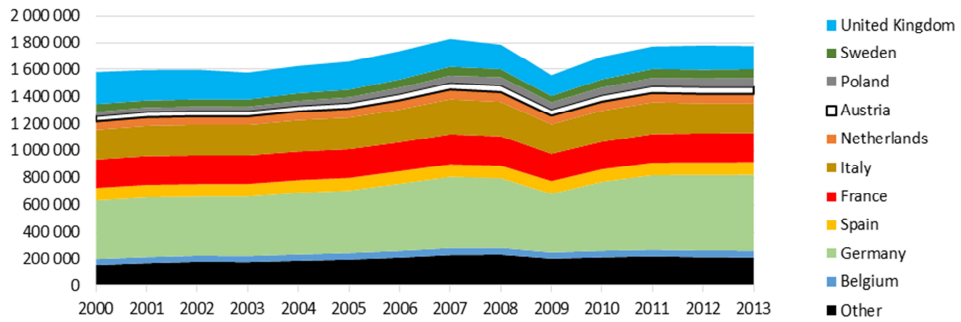

Figure 4.3. Changes in geographical structure of manufacturing production in the leading Member States of the EU in the period of 2000-2013)
Source: Own studies, Eurostat.

We should also bear in mind that the EU's enormously restrictive regulations concerning the environment, climate, energy and the social sphere had a substantial influence on the position of manufacturing in the EU economy. Requirements harmful to economic activities were imposed on European entrepreneurs and resulted in offshoring, outsourcing and the relocation of industry to other parts of the world. These are structural changes which are captured by the relative price effect. The European Commission noticed that the decline trend in current prices is not irreversible.

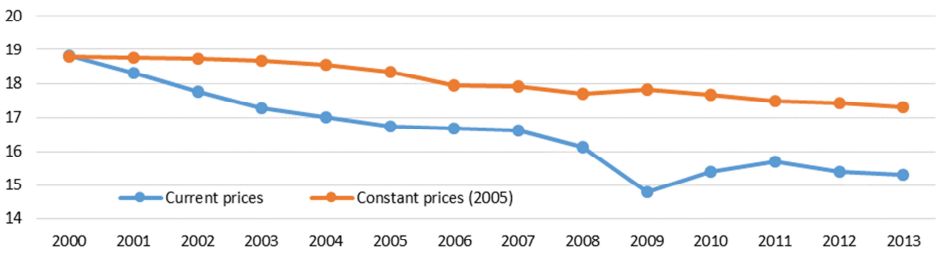

Figure 4.4. Changes in manufacturing share in GVA in the EU (in current and constant prices for 2005 – base year)
Source: Own studies, Eurostat.

It means that reindustrialization would lead to an increasing value-added share of manufacturing in constant prices but may not be strong enough to outweigh the effect of falling relative prices when measuring the value-added share in current prices (European Commission, 2014c). As a result, although the share of manufacturing in GVA fell down from 18.8% in 2000 to 15.3% in 2013 in current prices, the share of manufacturing in GVA decreased slightly to 17.3% of GVA in constant prices (Figure 4.4). The aforementioned analysis negatively verifies the first hypothesis that a share of manufacturing in GDP dramatically dropped in recent years.

When it comes to directions of changes in individual Member States it is worth noting that over the period 2000-2013 slight increase in the share of manufacturing in national GVA (in current prices) was recorded only in three Member States: Poland (by 0.7 p.p. to 18.8% in 2013), Hungary (by 0.4 p.p. to 22.8%), and in Latvia (by 0.1 p.p. to 20.2%) (Figures 4.5 and 4.6). That resulted in a slight increase of their share in the total EU-28 manufacturing. For the rest of the Member States we observed a significantly diminished importance of manufacturing in national economies; the highest in Finland (where the ratio dropped by as much as 11.1 p.p.) and in Bulgaria (by 10.5 p.p.). Relatively big drop in the share of manufacturing in national GVA (between 4-7 p.p.) was reported for some Member States with the highest share in EU-28 manufacturing: Spain, France, the United Kingdom, Sweden, Belgium but also Ireland, Luxembourg, and Portugal. Attention should be drawn, however, to Germany which, despite a minor reduction of the importance of manufacturing for its economy (by 0.6 p.p. to 22.2%), increased the share in the total value of the sector in the EU (by 3.2 p.p. to 30.3%).

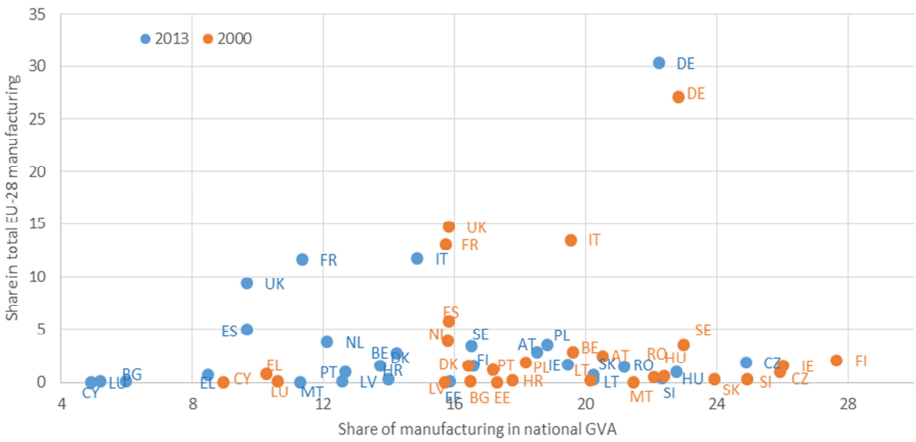

Figure 4.5. Share of manufacturing in national GVA and in total value of the EU28 in 2000 and 2013
Source: Own studies, Eurostat.

Summing up, in the case of some industrialised countries the share of manufacturing/industry in GVA/GDP is much higher than in other countries, which are

not equipped with production factors needed for industry. Thus, some countries are more prepared to increase the share of specific services, which are not and will not be developed in countries without an appropriate infrastructure. These findings negatively verify the second hypothesis that a 20% share of manufacturing/industry in GVA/GDP is a target for all Member States to increase their growth.

Industrial Base and Crisis

One of arguments put forward in favour of the adoption of a new industrial policy in the European Union invokes positive effect a substantial industrial base may have on alleviating negative outcomes of the economic crisis of 2008-2010 (third hypothesis). To verify the hypothesis we examined the relationships between the size of the industrial base (calculated as a share of manufacturing in GVA) and its change (calculated as a difference between the share of manufacturing in GVA in 2013 compared to 2009), and consequences of the crisis (calculated as a change in GDP in 2009 compared to 2008) and the dynamics of economic recovery (calculated as GDP change in 2013 compared to data for 2009).

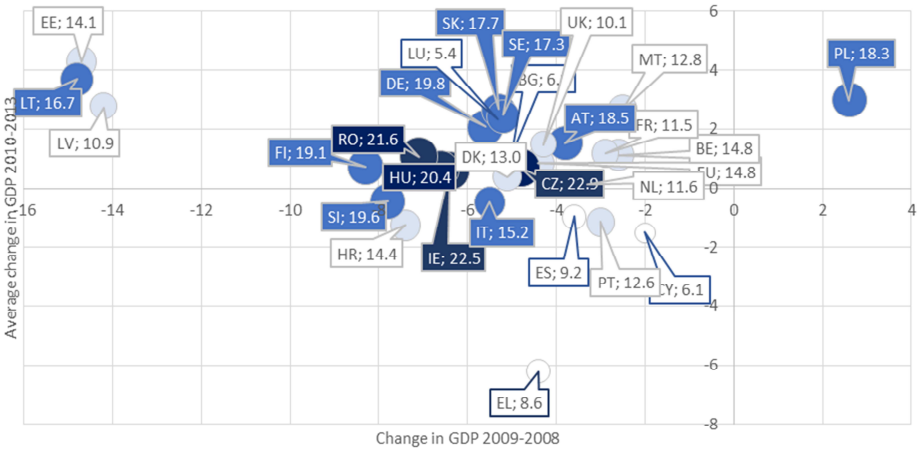

Figure 4.6. Changes in GDP and ratio of Manufacturing to GVA in the period 2008-2013
Source: Own studies, Eurostat. Man.

Financial crisis started in the autumn of 2008 and its economic consequences were felt mostly in 2009 when real GDP reductions were recorded. In 2009 the highest share of manufacturing in GVA was reported for the Czech Republic (22.9%), Ireland (22.5%), Romania (21.9%), Hungary (20.4%), and Germany (19.8%) with simultaneously the same Member States recording drops in GDP in 2009 compared to the previous year by, respectively, -4.8% and (bigger than the median for all Member States) -6.4%, -7.1%, -6.6%, and -5.6% (Figure 4.5). Estonia, Lithuania, and Latvia demonstrated clearly the biggest drop in GDP in 2009

compared to 2008 (by ca. 14-15%) with the respective share of manufacturing in GVA of 14.1%, 16.7%, and 10.9% (the median for all the Member States was 14.7%). In other Member States with a similar proportion of manufacturing in GDP, the latter dropped within a rather broad range between -2.6 and -8.3%. Similar range of GDP drops was also identified in Member States where manufacturing is a much less important sector of the economy (below 10% GVA). At the same time, the highest growth, both in the times of economic crisis and in the years following it, was recorded in Poland with its 18.3% ratio of manufacturing to GVA in 2009. Hence no unambiguous link was detected between the share of manufacturing in GVA and economic growth or quicker economic recovery (GDP increases in years following the crisis). It means, the third hypothesis on positive impact of industrial base upon economic growth during and after the crisis of 2008-2010 was verified negatively.

Internal Market as an Attractive Place for EU Industry

It is interesting to study how the Commission wants to reach the aforementioned unreachable goal. It seems that the EU internal market became one of the crucial mechanisms to exit the crisis and an engine of reindustrialization (Ambroziak, 2011 and 2012b). The Europe 2020 strategy reminded that the internal market, besides financial levers and external policy tools, would be fully mobilised to tackle bottlenecks and deliver the Europe 2020 goals (European Commission, 2010a). The Commission suggested that there is a need for a substantial recovery in investment level and an expansion of the trade in goods in the Internal Market (European Commission, 2010b). But in 2010, the Commission did not have any new idea how to strengthen the single market and link it up with a new industrial policy. It seems that this issue has been addressed by one of the most important tools increasing the visibility and understanding of the importance of the internal market: the Single Market Act I and II (European Commission 2011, 2012b; Ambroziak 2011; 2013b). Both documents consisted of crucial initiatives to foster growth of Europe's economy, however, some of them have not been introduced or implemented up till now.

Taking the above into consideration, there are not doubts that the deepening of the EU Internal Market should be the most important instrument of a new industrial policy. According to recent research studies, the EU internal market is still one of the main destinations for EU exporters of both goods and services. However, it should be noted that the dynamics of extra EU-trade is increasing much faster in comparison to intra EU-trade. Also trade in services improves its position in relation to trade in goods. It demonstrates that: (a) the internal market is still a powerful tool with a huge unexploited investment and trade potential and (b) an increase in the trade in services, in particular within the EU internal market, is the evidence of servitization of EU manufacturing (Ambroziak, 2015). Also the Commission observed that there is a clear imbalance between the level of integration in goods and services market, and for industry to be able to modernize effec-

tively the functioning on the internal market for services must be further improved (European Commission, 2014a).

Existing Barriers

The Commission found that the internal market had provided EU industry with considerable reductions in cross-border trading costs, increased competition, and produced considerable economies of scale and scope as a result of the availability of a Europe-wide market. However, many barriers still remained: divergent national rules, duplication of procedures and difficulties with accessing some market sectors (European Commission, 2010b). Therefore one of the most important problems of the internal market is its fragmentation due to lacking, incomplete and inadequate transposition and implementation of the EU directives, as well as, wrong interpretation of EU rules. All these actions pose difficulties to economic operators and consumers, increase transaction costs, do not allow to enjoy benefits from the four freedoms and, in consequence, due to nonoptimal allocation of production factors, decrease the competitiveness of EU entrepreneurs in the internal market and globally.

As the Commission noticed, prior to the establishment of the single market, each EU Member State imposed obligations on business in the interests of safety, health and consumer protection. This meant that there were considerable regulatory barriers to trade in products because of the different rules and requirements, meaning that business had to treat each Member State as a separate market and offer different products (European Commission, 2014d). Although this problem was identified and investigated by the Commission, Member States were not interested in the elimination of all existing barriers. Although in its conclusions the Council recognised that deepening the Single Market would be a key factor to boost growth, at the same time it mentioned removing only "unjustified or disproportionate barriers" (Council, 2014a). The Council also asked the EU institutions to ensure the consistency and quality of the EU legal framework without "unnecessary regulatory burdens" in order to enable business to sell goods and provide services without "unjustified or disproportionate barriers" (Council, 2013b). The problem is a lack of precise and unambiguous definition of "unjustified or disproportionate barriers". It is not clear who and on what basis can decide which barriers in the internal market are justified and proportionate. The Treaty on the Functioning of the European Union does not answer this question. As regards the internal market, it uses only the term restrictions, while speaking about (a) elimination of quantitative restrictions on import and export between Member States, (b) abolition of restrictions imposed on employees within the free movement of workers, (c) prohibition of restrictions on the freedom of establishment, (d) prohibition of restrictions on freedom to provide services (e) prohibition of restrictions on freedom to the movement of capital. The Treaty uses also the word obstacle, while speaking about (a) an obstacle to liberalisation of the movement of workers or (b) an obstacle to the functioning of the internal market. Therefore the word "barriers" mentioned in the aforementioned Council conclusions did not fit the

wording of the Treaty and left a room for Member States to introduce barriers justified and recognised as proportionate by their governments.

There is also no clear evidence of political support from the European Council to eliminate all obstacles existing in the internal market. On the one hand, the Heads of Governments or States agreed (not adding any misleading adjectives) that there was a need to deepen the Single Market, by removing remaining barriers. But, on the other hand, as regards services, the European Council agreed to remove barriers which are unjustified (European Council, 2012 and 2013a) or unjustified or disproportionate in order to ensure a level playing-field on the service market (European Council, 2013b). However, analysing the latest political documents one can state that a liberal approach to the internal market is slowly coming back. In December 2014 the European Council called for enhancing efforts to remove barriers and complete the internal market in products and services, and the Council in March 2015 changed its narration towards the elimination of unjustified or disproportionate restrictions, what has a link to the Treaty provisions and should limit Member States discretion in justification of introducing any barriers in the internal market (Council, 2015).

Quality of Legal Environment

One of the instruments eliminating the above mentioned barriers is the approximation of laws. However, we should bear in mind some consequences of that process. On the hand, as the European Commission noticed, the differences in legal environments at national level hamper efficient allocation of resources in Europe and the competitiveness of European industry. Thus new acts should be adopted and properly implemented to ensure a common legal framework in the EU. On the other hand, as it was already mentioned above, article 114 of the TFEU often serves a basis for new laws concerning health, social, consumer or environment protection, without considering their real impact on competitiveness of EU industry.

Within the discussion on the improvement of the quality of EU legislation, the Commission postulated to choose regulations instead of directives in order to eliminate differences in the timing of national legislation entering into force and reduce the risk of divergent transposition, interpretation and application (European Commission, 2014d). Moreover the Commission underlined its role in improving the quality of legislation and the regulatory framework by implementation of the Regulatory Fitness and Performance Programme (REFIT), which became a part of the concept of a new industrial policy of the EU in 2014 (Council, 2014a). This Programme is aimed at eliminating red tape, regulatory burdens, simplifying and improving the design and quality of legislation to reduce unnecessary regulatory costs and ensuring that the body of EU legislation remains fit for the purpose. Under REFIT, the Commission is screening the entire stock of EU legislation on an ongoing basis to identify burdens, inconsistencies and ineffective measures and identified corrective actions (European Commission, 2012c and 2014e).

At the earlier stage of preparing a legislative act the Commission conducts an impact assessment, as a set of steps identifying the advantages and disadvantages of possible policy options. It also addresses all significant economic, social and environmental impacts of possible new initiatives. It is worth noting, that from the industry point of view, the guidelines provided that a new legislation should achieve its objectives while avoiding or minimising potential negative impacts on European competitiveness, for example analysing similar regulations which already exist in the EU's main trading partners (European Commission, 2009). It seems that the suggestion was not strong enough because the impact assessment process was extended by adding a special Competitive Proofing Toolkit in 2012. Its main aim was to deepen the analysis to allow policy makers to see better the impact of the proposal on business competitiveness (European Commission, 2012d).

Also the Council noticed a need for a strengthened focus on political priorities for comprehensive impact assessments, with the aim of ensuring that legislative proposals respect the principle of subsidiarity and proportionality, as well as comply with competitiveness proofing criteria and innovation and better regulation standards (Council, 2014a). However, this message becomes a bit unclear when read together with other Council requests to ensure that any new legislative proposal or revision reflects smart regulation principles and should always take into account proper protection of consumers, health, the environment and employees (Council, 2015). Thus often the outcome of the legislative work depends on lobbing and a political power of individual actors (EU institutions, Member States and stakeholders) in the EU decision-making process. It is also worth noting that the Commission, while preparing a draft, should consult it with stakeholders at every stage of a decision-making process in the EU.

Technical Harmonisation vs. Mutual Recognition

As regards legislation directly linked to manufacturing goods, it is worth mentioning an issue concerning placing goods in the market. One of the crucial documents which elaborated that issue was a special Commission communication on internal market for industrial products of 2014. The main component of it consisted of a revision of EU legislation on industrial products, especially in the field of technical harmonisation. The Commission found that in a number of areas within professional products, national legislation applicable at the use phase imposed additional barriers on EU industry and service providers. Therefore strengthening the implementation regime for technical harmonisation legislation, including the mechanism of cooperation and the exchange of information was proposed to reduce i.a. administrative burdens (European Commission, 2014d).

On the other hand, the Commission found that twenty years after the 1992 strategy and the establishing of the internal market, a wide range of products where still unharmonised and mutual recognition clauses in Member States legislation were not always correctly applied (European Commission, 2012a). In 2013

Council underlined the importance of the principle of mutual recognition and its evident benefits already brought to several important areas such as the free movement of goods and professional qualifications (Council, 2013b; Council, 2014a). Afterwards the Commission was invited to prepare a report on the application of that rule and to issue relevant proposals where shortcomings were identified (Council, 2015).

Summing up, eliminating all barriers in the internal market, as a continuation of the Programme 1992 on the introduction of the single market, should improve the quality of legal and administrative environment for economic operators and consumers in the internal market. Thus, it should strengthen the position of manufacturing sector based in the EU, who, following servitization process should be able to expand their production by combining goods with services. That shows a need for a horizontal approach, although it does not exclude the sectoral one, of a new industrial policy of the EU, which partly negatively verifies the fourth hypothesis.

Combined Approach to Goods and Services (Servitization)

Improvement of Industry-Related Services Environment

The Service Directive of 2006 removed many administrative barriers to cross-border service provisions; however there were still other areas where they remained. Thus industrial users of external services are confronted with a market which is heavily fragmented, non-transparent, and often lacking well-defined quality standards (European Commission, 2010b). Therefore in 2012 the Commission announced that the immediate priority was the full and complete implementation of the Service Directive in all Member States (European Commission 2012a), while in 2014 it requested zero-tolerance campaign actions addressed to Member States acting against the Directive (Bieńkowska, 2014). The Commission underlined that full implementation of the Service Directive would significantly improve the smooth functioning of the internal market (European Commission, 2014a). Although a fully free movement of services could improve competitiveness of the EU industry (manufactures and service providers), it is worth noting that, the Council was only able to call upon the Member States to set up efforts to remove remaining unjustified or disproportionate requirements on service providers (Council, 2014b), leaving the explanation of their introduction to governments.

Other important initiatives concerning the service sector were the revision of the legislation on European standardization system to extend it to services and make standardisation procedures more effective, efficient and inclusive. Thus the Commission suggested that in order to avoid the emergence of new barriers and to facilitate the cross-border provision on services, particularly business-to-business services, standardization should be developed at European level. Moreover the Commission proposed an initiative to combat unfair business-to-business commercial practices because they jeopardise the viability of business and limit com-

petitiveness of the various operators in the supply chain (European Commission 2011).

Full implementation of the freedom to provide services on the basis of, at least, the Service Directive, should bring more benefits to both manufacturers and service providers. Due to servitization process, more frequently both functions are in the hands of one economic operator. This concept has been implemented also in a new Junker's Commission merging two directorate-general ("Enterprise and Industry" and "Internal Market") into one Internal Market, Industry, Entrepreneurship and SMEs (GROW). As a result, there is only one proposal (among 23 new initiatives) in the working program of the European Commission for 2015 concerning Internal Market Strategy for goods and services, which is relatively loosely connected with a new industrial policy concept. Thus the Commission did not fulfil the recommendation of the European Council to present an industrial roadmap (European Council, 2014a), however the Luxembourg Presidency of the Council of the European Union declared special focus on the implementation of the Commission's plan for industrial competitiveness in the second half of 2015 (Luxembourg, 2015). Moreover, the Commission decided to name some sectors of economy of the biggest interest: business services, construction, retail, regulated professions and advanced manufacturing. It means a green light for servitization – the process which has been observed in the internal market since the 1990s. – as the Commission proposed work on a combined service/goods provisions (European Commission, 2014b).

Position of Industry-Related Services in the EU Economy

When examining political and legal space for servitization, it is worth analysing the position of selected industry related services in the economies of the EU and its individual Member States. Industry-related services include practically all services used or provided by entrepreneurs from the manufacturing sector. The proportion of services in GVA was increasing in the EU in the examined period from 75.6% in 2000 to 79.1% in 2013. Special attention should be paid to what happened during the economic crisis when as a result of substantial drop in the value of manufacturing and little diminishing absolute value of services, the share of the latter increased even to 80% in 2009. In 2013 the highest share (24.5% of the total value added in services) was reported for the services of the public sector (public administration, defence, education, human health and social work activities) and trade related services (wholesale and retail trade, transport, accommodation and food service activities – 23.9%).

In the analysed period of 2000-2013 services related to real estate sector (14.1% share in GVA in 2013) as well as professional, scientific and technical services (professional, scientific and technical activities; administrative and support service activities – 13.3%) increased their importance for the economy (calculated in relation to GVA). When it comes to the latter group of services, they provide the basis for broadly understood industry-related services, which, as it

seems in the face of advancing servitization, should be considered together with manufacturing. Thus, adopting the European Commission combined approach to goods and services we added data for manufacturing industry and professional services. The analysis of aggregated data revealed that in the period covered by our analysis the decrease in cumulated share of manufacturing and professional services in GVA (in current prices) was relatively smaller, from 28.6% in 2000 to 25.8% in 2013, compared to the drop in importance of manufacturing only. Whilst considering the values in constant prices, the cumulated share of value added of both product groups increased from 28.6% to 29% GVA (Figure 4.7). It means the manufacturing sector together with professional services are still responsible for more than one fourth of gross value added in the EU. We should also remember issues connected with the creation of new jobs. When the share of manufacturing in total employment was decreasing, the relevance of professional, scientific and technical services for the labour market was gradually increasing from 8.9% in 2000 to 11.8% in 2013. To some extent that is the effect of outsourcing, i.e. the identification of functions within the organisational structure of a parent company to be delivered by other economic operators. According to many researchers, outsourcing has become an ever more popular mechanism for differentiation and the realizing of competitive advantage or even just ensuring survival, due to cost reduction. Moreover, it has moved from efficiently attending to a single function process or activity, to reconfiguring whole process in order to realize greater value across the enterprise (Kakabadse and Kakabadse 2002; PriceWaterhouseCoopers 1999).

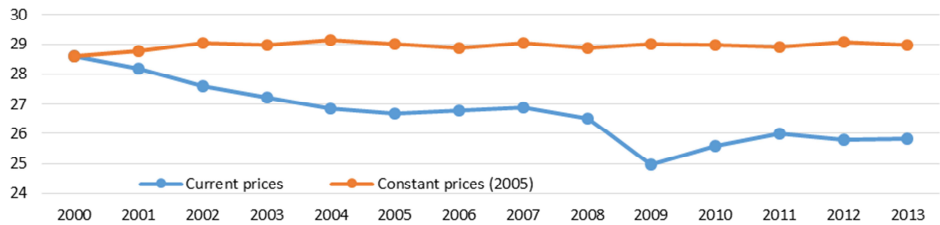

Figure 4.7. Changes in manufacturing and professional services share in GVA in the EU (in current and constant prices for 2005 – base year)
Source: Own studies, Eurostat. Man.

By analysing the situation at the level of individual Member States, we may conclude that between 2000-2013 the drop in the share of manufacturing in GVA was accompanied by the increase in the share of professional, scientific and technical activities; administrative and support service activities (Figure 4.8.). That was true of almost all Member States, in particular those, in which manufacturing was losing in importance in recent years. In 2013 the highest share of the above mentioned services in GVA was recorded in the Netherlands (13.4%), Belgium (13.2%), France (12.8%), the United Kingdom (12.2%), Germany (10.7%), and in Italy (9.5%). Clearly lower dynamics (not exceeding 4 p.p. in 2000-2013) and on

average by half lower share of the services in question in national GVA by the end of 2013 were recorded in Member States which joined the EU in 2004 and later. It means entrepreneurs from the EU-15 managed to adapt well to global trends (globalisation, servitization, and outsourcing), while relatively new members still remain a base of broadly understood industrial manufacturing and have just started to develop industry-related services.

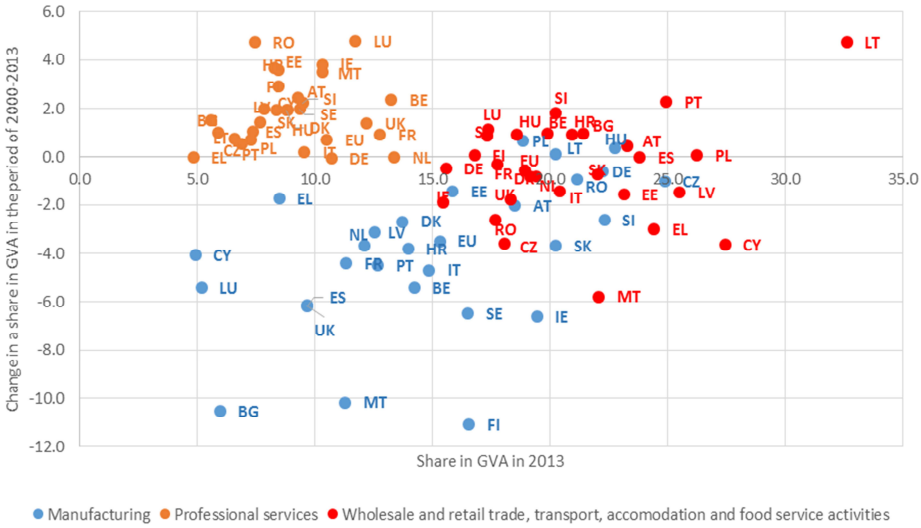

Figure 4.8. Change in share of manufacturing and selected services in national GVA in the period of 2000-2013
Source: Own studies, Eurostat.

Throughout the entire period of 2000-2013 the share of other services (with the exception of real estate related ones) in GVA slightly decreased, above all due to a bit higher dynamics of their growth following the times of economic crisis. Deteriorating position (calculated as a share in GVA) of wholesale and retail trade, transport, accommodation and food service activities (Figure 4.2.) is a reason for concern. These services are fundamental for smooth exercising of all of the freedoms of the EU internal market. Any decrease in the growth of trade or transport may translate into restricted movement of goods and services or distortions in optimum allocation of production factors which, consistently, may negatively impact manufacturing in the EU. At the same time we need to stress the increasing share of the services in question in employment structure, from 8.9% in 2000 to 11.8% in 2013. That may provide evidence of relative decrease in the cost of such services caused by intensified competition in the market, which, in turn, leads to increased employment in the sector.

In most Member States wholesale and retail trade, transport, accommodation and food service activities are relatively relevant section of the economy reaching the ratio to national GVA ranging from 32.6% in Lithuania through 26.3% in

Poland, 25.5% in Latvia down to 21.4% in Bulgaria. With some exceptions (Greece, Spain, Italy, Portugal), the phenomenon can be observed mainly in Member States, which joined the EU after 2004. Also in their case services in question reported a slight increase in their share in GVA in 2000 – 2013. Member States in the South of Europe owe their slightly better position to tourist and accommodation services. However, data for the new Member States demonstrate benefits of integration, trade opportunities and the provision of transport services within the EU internal market. Taking account of deteriorating position of manufacturing and still insufficient share of industry-related services, entrepreneurs from those Member States should gradually integrate their goods with sales and transport services. Requirements concerning the minimum wage in Germany (WSJ, 2015) and France (Emigra.com, 2015), which may substantially undermine the competitive position of transport companies and the manufacturing firms who offer product-related services, are a separate issue.

Summing up, we may conclude that, first of all, our analysis confirms the increase in the share of industry-related services, in particular professional services, in GVA, its resilience to economic crisis and, indirectly, servitization of manufacturing in the European Union. As a result we have come to yet another negative verification of the second hypothesis on the need to increase the share of manufacturing in GDP to achieve economic growth.

4.4. CONCLUSIONS

Based on the study at hand we may formulate some conclusions of legal, political and economic nature. With regard to legal aspects, currently binding EU regulations offer the EU institutions the possibility to pursue industrial policy at the EU level without interfering with Member States competences.

From political point of view it is worth noting that the group of supporters of the Europeanization of industrial policy, i.e. its common (integrated) implementation, is not stable and their numbers are falling. Member States – participants of conferences of the „Friends of Industry" group were changing and not all of them are ready to sign up to final conclusions. That is a sign of differences in the approach to presented ideas of market interventions and the adoption of artificial, unrealistic indicators, which, when achieved would most probably hamper the development of the sectors of the economy, which produce the highest value added (services).

Economic analysis of proposed postulates leaves no room for doubt that decreased share of industry in GDP and GVA is observed in all richer and more developed countries in the world (with no exception of the EU). That can partly be attributed to methodological errors consisting in calculating industry to GDP ratio instead of manufacturing to GVA ratio. Leaving that aside, we must stress that artificial identification of optimal GDP structure in the EU has got no economic or social rationale. Decreasing importance of manufacturing is due to globalisation – which helps seeking cheaper locations for industrial manufacturing and

relocates it to countries where environmental, social or health related requirements are much less stringent than in Europe or in North America – but also servitization understood as offering industrial goods together with services. Hence we should rather consider the ratio of cumulated share of manufacturing and industry-related services to both GVA and employment. It reflects economic reality of the beginning of the 21st century including effects of globalisation, outsourcing, offshoring, and progressing servitization. These phenomena should be treated as challenges rather than obstacles to the EU growth.

In principle, the analysis allows us to negate all four research hypotheses formulated at the beginning:

- recent years did not witness any substantial decrease of industry share in GDP since in constant prices the drop was minor and together with industry-related services within servitization we may even observe an increase in the share of manufacturing and professional services in GVA;
- there is no economic or political rationale behind attempts to artificially impact the share of industry in GDP as that would eliminate the benefits of free market and free competition based on the most effective specialisation that takes account of the cost of production and quality of offered goods and services. From the viewpoint of statistics, such indicator would restrict the share of agriculture , as well as services, which have the biggest and the fastest growing impact upon value added in the economy;
- economic crisis of 2008-2010 was the least felt in the service sector and hit industry and manufacturing the most, which contradicts the thesis on the need for Member States to have manufacturing base as a basis for their competitiveness;
- due to extreme differences in the structure of the economy of individual EU Member States, there are no reasons for introducing unified solutions and indicators for all the Member States or for all of the European Union; that could provide grounds for discrimination in the approach to various industries and distort competition in the market.

The above presented considerations provide evidence that the EU needs an open approach based on free market competition to the EU internal market and a comprehensive approach to the sector of goods and services within the new industrial policy of the EU instead protectionism and interventionism.

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