INDUSTRIAL POLICY IN THE EUROPEAN UNION

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Abstract: *The differences registered in the early 90s between the economy of the European Union as compared to the economies of the United States and Japan, in regards of growth rates, investment rates, R&D and innovation, international trade, etc., as well as the fast changes of the world economy determined the European Commission to issue the white paper on "Growth, Competitiveness and Employment", underlining the meaning of the European economy's competitiveness in the new conditions, and the legal frame for EU's industrial policy was settled through the Treaty of Maastricht. The document was setting the objectives, priorities and the six basic principles of the European industrial policy, in a unitary concept. In the spring of 2000, the European Council from Lisbon sets the objective of transforming the European Union in the most dynamic and competitive economy of the world, and, therefore, foresees a working agenda with specific actions going until the horizon of 2009. In December 2002, after EUs enlargement, the Commission forwards to the Council the document titled "Industrial Policy in an Enlarged Europe", in which the industrial development at the moment of new member states integration is analyzed, as well as the effects of EU's enlargement over the industry, and it suggests actions for the future development of the sector.*

The industrial policy of the EU must offer solutions for industrial development, by answering the challenges concerning globalization, the technological and organizational changes, the increasing role of innovation and entrepreneurship, and the sustainable development taking into consideration the new social requirements. The development objectives set at European level cannot be reached without a tight interconnection of the industrial policy measures with those of some complementary policies, such as the commercial policy, the single market policy, transport and energy policies, research and development policies, competition policy, regional and macroeconomic policies.

Key words: Industrial Policy, European Union, Competitiveness, Industrial Development, Growth, Innovation.

JEL Classification: E22, F15

The first unitary concept of an industrial policy for the European Union appeared after the European Commission's proposal from 1990's report „Industrial Policy in an Open and Competitive Environment: Guidelines for a Community Approach", as a confirmation on the necessity of adopting industrial policy measures in a free trade economy. In 1993 the Commission published the white paper on "Growth, Competitiveness and Employment", underlining the meaning of the European economy's competitiveness in the new conditions, and the legal frame for EU's industrial policy was settled through the Treaty of Maastricht.

The incentives for an official approach over an industrial policy of the European Union were the differences registered as compared to the economies of the United States and Japan, in regards of growth rates, investment rates, R&D and innovation, international trade, etc., as well as the fast changes of the world economy: the rise of the new competitors from South – East Asia.

Until reaching a unitary concept, the approaches on the European industrial policy passed through several stages. In a first stage, between 1958 and 1975, the national policies prevailed. Between 1975 and 1985 a general tendency favoring the interventionist policies was observed, as response to the unfavorable economic conditions. The Community measures were aiming to encourage the national efforts, and varied from subventions for the steel industry until granting some funds for research and development projects and introducing commercial barriers in the trade with the countries from the rest of the world.

The Single Market can be seen as a new stage in the process of defining a European industrial policy. The access to an enlarged market incented the companies to take benefit from the economies of scale, thus becoming more competitive.

The result of this evolution was the official document regarding the industrial policy of European Union, focusing on the competitive growth of the European industry and establishing the following ***objectives:***

- Accelerating the adaptive process of the industry to the structural changes;
- Developing an environment in the favor of initiative and development of enterprises;
- Encouraging the favorable environment for business cooperation;
- Favoring the industrial potential of the research, technologic development and innovation policies. (Dachin, 2006)

The industrial policy ***priorities***, according to the Commission report from 1994 titled "An Industrial Competitiveness Policy for the European Union", regarded the promotion of intangible investments, by encouraging the competitive advantages related to environment protection, the development of industrial cooperation, insuring loyal competition and modernizing the role of the public authorities by reducing the bureaucracy.

The industrial policy has been defined and it is implemented by respecting six basic ***principles***:

- The principle of subsidiarity – the European industrial policy is defined and implemented in cooperation with the member countries, so that the European Union is only responsible for solving those problems that can be better approached at European level;

- The public – private partnership - the responsibility of promoting the industrial policies should be shared between the public authorities and the private sector;
- Competitiveness, as main goal, by accelerating the structural adjustments, creating an environment favorable for initiative and cooperation and encouraging the R&D and innovation activities;
- Dominance of the horizontal model – the industrial policy should be based on neutral measures and aim for a favorable business environment, with free markets, by avoiding the defensive and protectionist policies;
- Correcting the market failures, by interfering in case of monopoles, public commodities, externalities, common property rights and discrepancies between the public and private sectors in regards to time preference;
- A compromise between efficiency and social cohesion.

The European industrial policy was thought as a neutral concept. However, while applying some measures at national level, the actions might become selective by aiming some sectors, regions or industrial objectives. Certain industrial sectors are more vulnerable internationally, due either to markets saturation, or to the insufficient development of the European industry compared to the world level. As consequence, sector policies were defined, aiming mainly the steel industry, naval industry, textile and clothing, aeronautic industry, automotive and pharmaceutical industries.

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EU's enlargement through the integration of the Central and Eastern European states represented a bivalent challenge for the European policy, as the newly integrated states were to align to the industrial level of the European Union while maintaining and increasing the competitiveness of EU at a general level. As consequence, in December 2002 the European Commission forwards to the Council the document titled "Industrial Policy in an Enlarged Europe", in which the industrial development at the moment of new member states integration is analyzed, as well as the effects of EU's enlargement over the industry, and it suggests actions for the future development of the sector. After the first enlargement of the European Union, in 2004, the Commission establishes the main action lines of the industrial policy in the new geopolitical conditions, through the communication titled „Fostering structural change: an industrial policy for an enlarged Europe".

In this document the Commission underlines the important role of the industry in the economic development of the region, even though the industry's share in the European GDP decreased from 30% in 1970 to only 18% in 2001, while the tertiary sector grew from 51% to71% in the same period of time. This trend can be explained by the improvement of labor productivity, on one hand, and by the general improvement of the quality of life, on the other, which led to increasing demand for services. The evolution underlines the interdependent relation between industry and services.

The European industry remains a force in the international trade, even though the European exports have been affected by the rise of the under-development countries from East and South-East Asia. EU's contribution to the world trade dropped from 19.3% in 1991/95 to 18.4% in 2002, while the contribution of the United States and Japan was affected even more dramatically. Even in these conditions, the European companies maintained their position in key sectors such as automobiles, aeronautic industry or telecommunications equipment.

Even if the commercial balance of the European Union has been constantly positive in the last ten years, industrial labor productivity in EU grew in slow paces, as compared to United States, while in other economic sectors the labor productivity growth rate is even lower, thus making the future economic development possibilities uncertain.

In the same time, although the newly integrated states made considerable efforts for restructuring their industrial systems, there are still visible differences between the industrial structure in the old and new members of the EU. Most of the new member states detain industries specialized in low-technologies activities.

The industrial policy of the EU must offer solutions for industrial development, by answering the challenges brought by the changes in the structure of world economy. Such challenges concern globalization, the technological and organizational changes, the increasing role of innovation and entrepreneurship, and the sustainable development taking into consideration the new social requirements.

In this context, the industrial policy is redefined with the purpose of increasing EU's competitiveness. The Commission identified the instruments meant to facilitate the structural change process, and it suggested three types of action:

- „Better lawmaking" – approaching the regulatory process so that the industry takes benefit from an integrated market, without excessive limitations;

- Engaging other European policies for the common purpose of increasing competitiveness, without losing sight of their specific objectives;
- Approaching differently the specific needs of various industrial sectors.

In the same time, the main factors determining economic and competitive growth have been identified: a stable politic and economic environment, transparent legislation, a single market, a high level of social cohesion and qualified and adaptable workforce, a continuous and stable dialogue between the social partners, combining the interests of employers and employees, developed services, of general interest and well developed telecommunications and transport networks, as well as a strong energetic industry.

One of the main concerns of industrial policy regards the encouragement of innovation, knowledge and research (Ciupagea et al., 2008). Within the Council of Barcelona, there was settled the objective of increasing the investments for research and development up to the level of 3% from the European GDP by 2010. For this purpose, a frame must be created, that should encourage private investments in R&D, and that should insure an optimal use of the public resources for industrial research. ERA (European Research Area) initiative was launched in the same time, aiming to avoid excessive fragmentation of the research activities in Europe. Furthermore, encouraging investments in intangible assets and human capital is crucial, in order to maximize the efficiency of the current technology and its effects.

Supporting entrepreneurship and developing the sector of Small and Medium Enterprises is an objective that goes beyond the limits of the industrial policy, by joining actions of the educational policies, internal market, financial services and tax policy.

Sustainable development is a key concept in the new industrial policy of the European Union. The companies can aim for profits and “sustainable value” by using design and innovation for creating products that do not affect the environment. The key elements for the sustainable development policy, in order to reach the commitments assumed during the Johannesburg summit, concern the efficient use of resources, promoting the recycling activities, implementing a life-cycle concept and some environmental standards, encouraging the development and spreading of clean technologies, extending the use of environment management schemes and encouraging the social dialogue.

Since adopting the document concerning the European industrial policy, significant progresses have been made in regards to improving the political-economical frame, the Monetary Union thus being the best evidence. Still, in some fields specific intervention is required, in order to improve the internal market, such as the financial or services markets, where the technical barriers and the legislative differences limit the free trade. In the same time, the regulations concerning intellectual property must be aligned; an unitary tax policy must be adopted as well as a common policy regarding public acquisitions.

The Commission suggests a more systematic approach from the European authorities, in order to improve the economic environment, the key actions concerning the product policy, limiting the essential requirements to the ones regarding the product's safety, a global approach on the product's conformity, with increased freedom for the producer, and encouraging the European organizations to continue to implement some European standards, with special meaning in areas in which the fastest technological progress.

The development objectives set at European level cannot be reached without a tight interconnection of the industrial policy measures with those of some complementary policies, such as the commercial policy, the single market policy, transport and energy policies, research and development policies, competition policy, regional and macroeconomic policies.

While in these fields the policies are already coordinated, the sustainable development requirements, with the three development pillars: economic, social and environmental, require supplementary measures for coordinating the industrial policy with the social and consumers protection policies, with the public health policy, the environment protection and increased social corporate responsibilities requirements.The European policy must also address a new field, directly related to competitiveness and entrepreneurship, which concerns justice and internal affairs.

Thus, the European Union must insure the balance between the different policies, and this balance must be followed at national level, within the limits of competency of the different member states.

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