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Industry in south-eastern Europe

Policy Recommendations¹

The findings of the SWOT analyses of the south-eastern Europe (SEE) countries confirm the need of targeted and consensual industrial policy. The concrete recommendations are provided below:

1. Need to establish an ‘authentic’ industrial policy

Background: in the SEE countries that were targeted in the project, industrial policy (IP) is often designed for the needs of the programming of European Union (EU) funds or in relation to EU membership or application process obligations (e.g. for drafting various national strategies), but those documents are almost always just ‘formal’ strategies on paper, without the back-up of the necessary resources and mechanisms needed for their implementation and the monitoring of their progress. At the same time, some existing trade unions strategic documents of industrial policy, such as the national and sectoral reindustrialisation strategies (in the case of Bulgaria or Croatia), are not taken into account by governments.

Recommendation: Governments in SEE countries should put in place consensual (after real consultations with social partners and other stakeholders) and effective (backed up with resources, responsibilities and mechanisms – including with social partners’ participation) industrial policy at national and sectoral level. This IP should be in line with insufficiently used European instruments such as the Juncker Plan (The investment plan for Europe, adopted in 2014).

2. Social Dialogue is key to a well targeted industrial policy

Economy tends to perform well in countries with well-established social dialogue systems and they tend to be more competitive. This was a key analysis by the European Commission in the aftermath of the economic and financial crisis. The implementation of a sustainable industrial policy is a shared responsibility of the governments in formulating an authentic industrial

¹ These industrial policy (IP) recommendations have been drafted in the framework of the project “Strengthening the industrial trade unions’ role in South East Europe (SEE) in shaping the industrial policy agenda in the light of the objectives of Europe 2020” (VS/2015/0238). They are based on the SWOT analyses carried out for six SEE countries and for the IP recommendations, elaborated for Bulgaria and Romania (by Vassil Kirov) on the one hand and on Croatia, Macedonia, Montenegro and Serbia (by Radmila Grozdanic), on the other. The first versions of those IP recommendations were presented and discussed at the Mid-term Conference for the affiliated trade unions of industriAll European Trade Union and the Mid-term Conference for the affiliated trade unions of EFFAT, held in Zagreb (24-26 April 2017). The feedback of the trade union representatives at the meetings is integrated in the present version. I would like to thank all the trade union affiliates for their valuable feedback in the working groups and plenaries. The final version of the IP recommendations was discussed during the project conference in Belgrade (17-18 October 2017).

policy strategy in consultation with social partners. It is the companies that need to respond to the national industrial strategy by introducing new technologies, creating quality jobs, and providing safe working conditions, as well as maintaining the professional level of employees as a basis for growth and corporate responsibility. There is a need for national industrial policy strategies to support and promote industrial development with clear criteria for sustainable development, innovation systems and financial resources for innovation, industrial technological integration, and active measures to improve the business environment and adequate industrial relations. Providing for information and consultation of trade unions is key in this process.

Recommendation: In order to achieve sustainable IP, there is a need to improve the industrial relations system for effective and functioning social dialogue between business and trade unions, protection of labour and social standards, decent working conditions, continuing vocational training, promotion of the freedom of association and collective bargaining for fair pay and competitiveness of the workforce. Industrial policy adopted with the support of social partners would also become their “ownership” and it would become a guarantee of the inclusion of the social partners in its implementation.

3. Move to high value-added industry and support wage increase

Background: in the context of relatively low competitiveness in general, lower productivity and outdated technologies (in most of the companies), the industry in SEE countries is in a vicious circle – the majority of wages are low, therefore industries cannot attract enough qualified workers (who often move abroad). However in some sectors (e.g. metal, automotive, ICT, electro industry), the value added of part of the production is already high and does not correspond to the low labour costs.

Recommendation: support industrial policy increasing competitiveness, productivity and innovation and connect economic performance and growth to policies oriented to income increase. In addition, there is a need to promote all countries as no-longer low-wage destinations and to upgrade their industries’ image.

4. Better connect smart specialisation and real economy challenges

Background: the existing strategic documents in SEEs focus on the need to develop new ‘high tech’ sectors, including ICT, nanotechnologies, green technologies, etc. However, the bulk of the existing industry is still concentrated in more traditional branches (some of them having the potential to upgrade). This move should be carefully analysed from the perspective of skills and jobs. At present, some of the companies experience not only deficit of qualified labour, but labour in general.

Recommendation: there is a need to better connect new segments of the industry with more traditional sectors and to develop the capacity to anticipate impacts on jobs and skills.

5. Skills development

Background: despite the increasing share of highly educated population and the fact that general skills levels in SEE are improving, there are indications for the existence of specific skills gaps. The vocational education and training (VET) systems are still in reconstruction, attempting to better connect labour market needs and the provision of skills. Social partners have a lot to do, together with training providers and the state to address the deficiencies at all the stages of the learning process. In addition, industry is not attractive to young workers and employees.

Recommendations: need to support policies aiming to address the skills gaps – including the development of the dual apprenticeship, life-long learning and continuous vocational training (CVT) in companies and eventually sectoral training funds (the state could support the development of sectoral funds for continuous vocational training). In this process, it is necessary to better target EU and national funds for training and re-training. Sectoral social partners could be better involved in the design/monitoring of sectoral and company level instruments through social dialogue mechanisms. In addition, governments should encourage and support young people to pursue their career in their countries of origin and not to lose human capital in these countries.

6. Tackling the informal economy

Background: SEE countries have large shares of informal economy and widespread practice of envelope wages, at least in some sectors. The informal economy represents a threat to loyal business competition and undermines the social security funds and the state budget and creates conditions for violations of labour and trade union rights.

Recommendations: there is a need for continuity in actions towards the limitation of the informal economy. From a labour perspective, the labour inspections, social security funds and so on could have a role here, together with trade unions. Countries should engage in better protection of labour rights that could be violated by informal economy practices. In some of the SEE counties, governments should reconsider tax pressure and take measures to make envelope wages less attractive.

7. Better use of EU funds for the development of technologies, skills and infrastructure in the industrial area and rural regions

Background: SEE Member States and candidate countries have access to different EU funds. The Member States have access to the EU structural funds, including for technologies, competitiveness, human resource development, modernisation of infrastructure, agriculture and development of rural regions. Candidate countries have access to different specialised EU instruments. However, until now the use of EU funds was not optimal (lack of targeting, low absorption, increase of the regional disparities).

Recommendation: Better programming, targeting, use and absorption of EU funds for technological modernisation, human capital and infrastructure and so on and linkage with the industrial policy objectives. In addition, the state administration should better support and encourage SEE companies to apply for EU funds as some companies are disappointed by the administrative burden. Moreover, in particular sectors, such as agriculture or food industry, there is a need to reorient the policies and approaches towards sub-sectors generating sustainable employment and incomes and for the modernisation of the production facilities.

8. Development of supportive and inclusive administration and regulative framework

Background: SWOT analyses identify the problematic regulative framework (including the risk of corruption) in different spheres related to the development of the industry (including public procurement, enforcement of the labour legislation, etc.) and weak judiciary system. This is further complicated by the fact that there is not always clear responsibility between different institutions and administrations. The tax level is low in some of the SEE countries and high in others, but companies in SEE face a lot of other burdens.

Recommendations: actions towards the optimisation of the legal and administrative system, the move towards more transparent regulative framework (including the development of e-government, for which special efforts should be made) and enforcement of labour and collective bargaining rights. Moreover, the decisions of the national administrations should be in compliance with the European and national legislation and regulations. Tax policy for specific products should be developed (e.g. lower VAT for food products). Public procurement shall include social clauses (as part of the best value for money), consulted with trade unions and not only be based on the lowest price bid.

9. Preservation of the environment and sustainable industrial development

Background: The industrial companies in SEE experience difficulties in complying with some of the EU environmental standards because they have to invest heavily, but do not always have the necessary financial resources. In the long-term, this will lead to further restructuring and closures of companies in some sensitive sectors.

Recommendation: long-term strategy of compliance with the EU environment legislation and development of long-term anticipation capacity (e.g. in the case of mining) in order to

address possible negative impacts on jobs. The EU funds should be used to guarantee the compliance with the EU environment standards whenever possible, and new investments must comply with EU environment legislation and standards.

10. Governance of companies with public participation

Background: In SEE economies, the public sector is still present in number of companies, even if its share varies among the region. The companies with public participation are often dependent upon political influence, the long-term strategies could be impacted by short-term political goals and lack of sound governance.

Recommendation: Reform of the state-owned structure to sustainable competitive companies in order to create the right framework conditions for state-owned companies to thrive. These framework conditions could include: independence from political influence and long-term strategy, sound governance, independent holding structures, respect for internal market and competition rules.

11. Improving infrastructure

The state of the infrastructure in SEE countries is problematic, even if some efforts have been deployed during the last years. Sustainable industrial development is not possible without a modern transportation and energy infrastructure.

Recommendation: Promote and support investment in infrastructure, including roads, railways, energy supply to ensure the reliability of industries and the logistics of goods. The diversification of energy sources is crucial for the SEE countries (regional grids for electricity and natural gas). The development of infrastructure should take into account the regional co-operation objectives and the better connectivity among SEE countries.