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## Industry in South-Eastern Europe

### Policy Recommendations<sup>1</sup>

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 ‘authentic’ industrial policy**

*Background:* in the SEE 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) obligations (e.g. for drafting various national strategies), but those documents are often 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. In the same time some existing trade unions strategic documents of industrial policy, such as the national and sectoral reindustrialization strategies (in the case of Bulgaria), are not taken into account by the 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

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<sup>1</sup> 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 was 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 to the 26 of April 2017). The feed-back 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.

used in European instruments such as the Plan Juncker (The investment plan for Europe, adopted in 2014).

## **2. 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 part of the companies), the industry in SEE countries is in a vicious circle – the majority of the wages are low, therefore industries cannot attract enough qualified workers (who often move abroad). However in some sectors (e.g. metal, automotive), 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 incomes increase. In addition, there is a need to promote both countries not anymore as a low-wage destination and to upgrade their industries' image.

## **3. Better connect smart specialization 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, part 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.

## **4. Skills development**

*Background:* despite the increasing share of highly educated population and the fact that general skills levels are good in SEE, 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, together with training providers and the state have a lot to do 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.

## **5. Tackling 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 the labour and trade union rights.

*Recommendations:* there is a need of continuity in the 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.

## **6. 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 former to the EU structural funds, including for technologies, competitiveness, human

resource development, modernization of infrastructure, agriculture and development of rural regions, the later to different specialized EU instruments. However till 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 modernization, 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 part of the companies are disappointed by the administrative burdens. 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.

## **7. 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 not always there is clear responsibility between different institutions and administrations. The tax level is low, but companies in SEE face a lot of other burden.

*Recommendations:* actions towards the optimization of the legal and administrative system, the move towards more transparent regulative framework (including the development of e-government - special efforts should be made for the development of e-government) 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 could 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.

## **8. Preservation of the environment and industrial development**

*Background:* The industrial companies in SEE still experience difficulties to comply with some of the EU environmental standards. Probably 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 the jobs.

## **9. Governance of companies with public participation**

*Background:* In the 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 depending on 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.