

The share of the manufacturing industry in Europe has fallen from 30% in 1970 to 18% in 2001. In the same period the share of services has risen from 52 to 70%. No one dares to speak about “deindu-

What Kind of Growth is there Without Factories?

ENLARGEMENT 3

by Franco Mosconi

ustrialisation”, but this new trend certainly poses some strategic problems, in both the Union and individual countries also as a result of the Enlargement

Some crucial questions have returned to the very top of the European Union’s political agenda, as demonstrated by a wide array of community documents from recent years (three Communications have been issued so far by the European Commission in Brussels concerning industrial policies, plus a series of Competitiveness Reports and the Sapir Report). Here are two major questions: can an evolved economy prosper and continue to do so, without a strong and technologically advanced manufacturing base? Is industry something of the past which our modern economies can happily do without? In reality, these questions evoke fundamental issues such as structural economic dynamics. After all, just in the last few decades the share held by the manufacturing industry in the EU has decreased from 30% in 1970 to 18% in 2001, while the service sector has gone from 52 to 71% of the production value. As a matter of fact, these questions have a much wider scope, not only with regard to the specific content of our book, but also in relation to the community authorities and their actions.

By focusing our view on the position

covered by the manufacturing industry today in our modern capitalistic economy, we have tried to throw some light on the new developments occurring at community level in recent years, in that highly sensitive policy area known as “industrial policy”. It must be said that the so-called outsourcing of the economy has continued to move forward (as confirmed by the percentages reported above); it is also true, though, that there has been an increase in the level of interdependence between the service sector and the manufacturing sector, thus resulting in a wide range of advanced services being dependent on the industry. In this respect, the Commission has been good at taking a firm stance: “Most new technological applications are being introduced in the manufacturing sector where they are turned into economic value”.

As a first attempt to address the risk of deindustrialisation in Europe (EU with 15 countries), as pointed out by the European Council itself, also in light of the wave of delocalisation towards the East (both Far and Near), the Commission has devised an inevitably complex route.

The above-mentioned wide array of documents lends itself to different



interpretations though referable to one essential guiding line: the policies for the competitiveness of the European industry. These, in turn, are based on the following pillars:

■ a “horizontal” approach: that is a policy for companies aimed at creating the right conditions to enable entrepreneurs and firms to take initiatives, seize opportunities and turn ideas into reality, without foregoing “vertical” declinations (i.e. by single sectors);

■ centralised knowledge: the objective here is an investment in R&D equal to 3% of GDP by 2010 (a figure that the USA has already achieved to date), while the EU as a whole is at around 2% (and the gap from the USA means, in absolute terms, over 100 billion euro less a year in research expenditure);

■ very efficient markets: a form of competition that fully affects the single market means, on one side, improving the free movement of goods and services, and, on the other, creating by 2005 an integrated capital market and implementing the action plan on corporate law and governance;

■ emphasis on productivity: more than ever a key indicator of the development capacity of a production system.

In light of this general picture as well as based on detailed sector-by-sector analysis on employment and added value in the period 1979-2001, the Commission wrote [2002]: if deindustrialisation “is the long-term (not cyclical) decline of the manufacturing sector [...] there is no evidence that the EU economy is showing

signs of deindustrialisation. Nevertheless, it is possible that during a period of slow growth and poor productivity and innovation performance, conditions contributing to setting out such a process might emerge”.

And again, on the other phenomenon – that for many aspects is related to the previous one – the Commission wrote [2003]: delocalisation “has been limited to low-technology, labour-intensive activities. However, such relocation is often

accompanied by the retention of, or creation of new jobs in Europe in service areas such as design, marketing and distribution. This changing specialisation is a reflection of a changing comparative advantage where the EU retains those jobs that are human, capital and technology-intensive [...]”. Already in the following year [2004], however, concerns grew due to the delocalisation experienced “also in intermediate sectors [...] as well as in some high technology sectors [...]”.

The European industry has not hit rock bottom. Excellent products exist in sectors such as automotive, aeronautics and TLC equipment. More generally, when measuring the comparable advantage, the EU is specialised in medium-high technology and in capital intensive industries (machinery and electric equipment, railway equipment, chemical, etc...).

_The EU is specialised in medium-high technology and in capital intensive industries. Below left, an aerospace plant in Tolosa and, facing page, a Marzotto textile plant in Valdarno



1. A LOOK AT THE NEW GEOGRAPHY OF WORLD DEVELOPMENT

(BILLIONS OF \$ USA)

	"BRIC" COUNTRIES				G6 *				USA	BRIC**	G6***	
	Brazil	China	India	Russia	France	Germany	Italy	Japan				UK
2000	762	1.078	469	391	1.311	1.875	1.078	4.176	1.437	9.825	2.700	19.702
2050	6.074	44.453	27.083	5.870	3.148	3.603	2.061	6.673	3.782	35.165	84.201	54.433

* Goldman Sachs analysts removed Canada from the present G7 configuration due to its negligible weight in terms of total GDP

** It is the sum of Brazil, China, India and Russia as reported in the left hand column of the table;

*** It is the sum of G6 in its present configuration, as reported in the right hand column of the table (from France to USA). According to these projections of the GDP, only USA and JAP will continue to be part, from now until 2050, of this (hypothetical) club of the most industrialised countries in the world.

Source: Adapted from Goldman Sachs, Dreaming with BRICs: The Path to 2050, Global Economic Paper No 99, 1st October 2003..

What is certain is the new reference horizon for all European firms to work in: in this respect the enlargement towards the central-eastern European countries (CEEC) must really be highlighted – as Carlo Salvatori wrote in his essay *An unmissable opportunity of growth for Europe*. The main data he presents (GDP performance, business trends, direct foreign investments) tells us a great deal on the growing integration between the founder members of the EU and the countries of New Europe. The internal market, 25 countries strong (soon 27) and with almost 500 million inhabitants, has expanded and is offering both industrial and financial firms a huge opportunity to reorganise their business on a truly continental scale. In this respect, the launch of UniCredit into the countries of New Europe will definitively prove successful.

It is not by chance that the return of an issue like industrial policy in the European agenda coincides with the approaching expansion: *Industrial policy in an enlarged*

Europe was the title of the first (December 2002) of the three new Communications on this topic, deliberately examined in this book. The enlargement explains the reason behind the cover: an old map of Europe, which gives the idea of how huge it was in the past and how it will be again. There is another reason why the reference horizon in which European companies must operate is new. The world economic development has a new geography: the one described by Goldman Sachs through the image of the "BRIC Countries" – where BRIC stands for Brazil, Russia, India and China – and that Filippo Maria Pandolfi recalls in his writing. At the beginning of the new millennium, the wealth in the four "BRIC Countries" was about an eighth of that produced in the G6 countries. The G6 will have a whole new face when in 2050, Brazil, Russia, India and China will have taken the place of the four largest European economies.

Goldman Sachs' exercise gives us a chance to introduce the big issue underlying the European economy: the issue of growth. *Europe, an agenda for growth* is the title of the Sapir Report (July 2003): the data presented by André Sapir, Chairman of the study group that wrote the report, is self-explanatory. The data in the table, coupled with the growth rate in the EU, which in the early years of this new century has ranged from 1 to 1.5%, give us a full picture of the severity of the growth issue.

Microeconomic stability, accumulation of capital (physical, human, and knowledge), market regulations and the EU budget reform all contribute to restoring a satisfactory rhythm of development for the European economy. One should bear in mind that industrial policy, even when considered in its new form, is only one of

THE WORDS OF AMATO

In his essay dedicated to the reinterpretation of the relationship between industrial policy and competition policy, Mr. Giuliano Amato stated: "If the world has penetrated our common market, we must reposition and measure the competitiveness of our companies no longer within the European borders, but within the global economy. Competition rules become a component but they are not sufficient for development". It will be interesting to look at the shape that the "triangle" will actually take in the coming years.

the ingredients, though a very important one.

Of the many aspects emerging from the new community industrial policy, we believe the idea of the “European champions” deserves to be brought forward. Already in 1987, the prominent and recently deceased economist Alexis Jacquemin, in one of the most influential essays of the last few decades for our discipline, *The new industrial economy*, wrote about an “organised European industrial policy that overcomes sectorial strategies along national lines”. Two European champions already exist: Airbus and STMicroelectronics, big corporations that for years have been able to achieve high performance in highly technological sectors. When President Prodi in the Communications of his Commission indicated the sectors most suitable for the creation of new champions, he mentioned biotechnology and life science, ICT, defence, aerospace and the so-called “hydrogen economy”.

Therefore, if we try and generalise, the natural candidates appear to be those sectors where significant efforts in R&D are made and/or those sectors characterised by significant economies of scale of various nature.

With this we do not mean to underestimate the importance that small or very small enterprises (“micro enterprises”, that is those with less than 10 employees and a turnover of less than 2 million euro) have for the European economy. As stated in *Capitalism of the small – 1st Report by UniCredit Banca on Small Companies* (Bologna, December 2004), these account for more than 90% of all the companies throughout the EU. What is at stake, however, is their real growth opportunities, on which the destiny of the European economy mainly depends.

As explained above, the modern industrial European policy has a new reference horizon, which has its keystone in the enlargement of the Union eastwards. There is more: at institutional level, this policy is no-longer attached only to the State-nation (and its geographical structures), but rather serves purposes that need to be shared at community level (first of all with regard to scientific research and excellence centres). A new substance is also needed. Let’s put it

2. THE PROBLEM OF GROWTH IN EUROPE

	1950-1973	1973-1993	1993-2000
GDP Growth (average annual rate)	4,6%	2,4%	2,4%
Cohesion			
Unemployment (average annual rate)	2%	8%	9%
Public spending (on GDP)	<35%	37%-51%	51%-46%
Stability			
Inflation (average annual rate)	4%	8%	3%
Public deficit	<2%	0%-6%	6%-0%

Source: adapted from A. SAPIR, report presented to XXVII Conference on “industry”, Parma University, September 2003.

like this: the French, who have always studied this topic in great detail, stated that, in the European tradition, the industrial policy results in a “triangle” formed, here quoted, of “competition policy”, “commercial policy” and “technological policy”. The new industrial policy pushes for the strengthening of the third aspect (more research, technology and training), without simultaneously weakening the first two (which significantly contributed to the creation of a “well levelled playing field” where firms are setup and developed).

A GUIDE TO AN ENLARGED EUROPE

The new industrial policies in the enlarged Europe is the title of the book by Franco Mosconi (published by Monte Università Parma, 2004, 16 euros), which contains texts written by Giuliano Amato, Filippo Maria Pandolfi, Carlo Salvatori, Antonio de Lecea and Matteo Colaninno as well as the writer himself.

east requested Mosconi’s article the day after the book was presented in Bologna, at the Sala dei Carracci of UniCredit Banca. The conference, presented by Antonio Calabrò, was attended by Giuliano Amato, Aristide Canosani and Roberto Nicasro, President and CEO of UniCredit Banca.

