# Enlargement: industrial policy and competitiveness

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PURPOSE : to present the communication from the Commission on industrial policy in an enlarged Europe. CONTEXT : in 1990 the European Commission set out its broad strategy vis-à-vis industrial policy in the European Union. This strategy has been refined and re-examined in the ensuing years. Nevertheless, with the EU on the threshold of enlargement, the Commission recognises the need to open up a new debate on the future of the EU's industrial policy within such an enlarged Europe. Any considerations regarding industrial policies hinge to a large degree on the conclusions of the Lisbon Council in 2000. The then EU Heads of State set the goal of making the EU "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion." Manufacturing output has declined remarkable in the past years and yet it still accounts for a large share of the wealth generated in the EU. The share of the services sector in EU output has increased from 52% in 1970 to 71% in 2001, while that of manufacturing has decreased from 30% to 18% in the same period. None the less the Commission urges policy makers not to assume that the manufacturing industry no longer plays a key role. Services and manufacturing are inter-twined and inter-dependant. This applies not only to outsourcing (an increasing trend) but also to other services associated with products. Manufacturing innovations have opened the way for totally new service concepts, as with telecommunications and information technologies. It is, after all through manufacturing, those most new technological applications and introduced. Also, knowledge-based scientific breakthroughs only lead to new products if a solid and efficient manufacturing base exist to produce them. On the positive side, the Commission notes that most industrial sectors have made substantial effort to upgrade their production and integrate new forms of organisations. This process has led to an upgrading of the skill content jobs and accounts for the rising demand of highly skilled labour. Moreover with sustainable development an increasingly important factor in manufacturing the European industry has, for example, begun to break the link between production and emissions of airborne pollutants. In terms of international trade the EU's industry remains a dominant force. On the negative side, there remains a productivity growth gap between European manufacturing and those of its competitors in the USA and Japan. Although there has been a big increase in ICT investment this has yet to be translated into productivity gains. Similarly, EU innovative performance remains weak. Research investment in the EU is only 1.9% of GDP in 2000 compared to 2.7% in the USA and 3% in Japan. In terms of the implications of enlargements the Communication notes that most, if not all, of the candidate countries are ready to integrate into the EU's industrial economy. Some problems remain outstanding relating for the most part to the differences in manufacturing. Most candidate country's industry is less specialised and still centred on low-technology sectors including food and beverages, textiles, wood products and basic metal industries. Some countries are also having difficult implementingthe EU's acquis - in particular the high cost legislation relating to areas such as the environment. Bearing all of this in mind there are a number of challenges facing industry within the EU. Most important is globalisation, which requires EU industry to respond quickly to unforeseen developments and an increased convergence on regulatory issues. Other challenges include technological and organisational changes, improved innovation and entrepreneurship, improved investment in sustainable development and lastly the recognition of changing societal demands. The Commission proposes that all these challenges can be met through the promotion of innovation, knowledge and research, the promotion of entrepreneurship and the promotion of sustainable industrial production. To conclude the Commission believes that the EU's industrial policy has three key tasks that need to be implemented. - The first, to set out the boundaries within which industry and entrepreneurs can pursue their ambitions. - The second, to ensure that the conditions are present for industry to develop and to realise their competitive potential. - The third, to ensure that the framework, institutions and instruments

are in place and functioning efficiently allowing for a stable business environment. The newly established "Competitive Council" will play a key role in pushing forward the process started with this Communication.