Dr. Paskal Zhelev, “New Trends in the EU Industrial Policy - Implications for Bulgaria”

On October 16th, 2015, Dr. Paskal Zhelev, a senior assistant professor at the University of National and World Economy, gave a lecture entitled “New Trends in the EU Industrial Policy – Implications for Bulgaria.” From the perspective of his background in International Economic Relations, he outlined industrial policy (“IP”) in general before describing the EU’s new IP, the state of Bulgarian industry since its transition to a free market economy, and his prescriptions for the implementation of a new IP in Bulgaria.

Dr. Zhelev remarked that while there is no commonly accepted definition of IP, it can be regarded as “any policy that shapes or influences the competitiveness of a country’s firms and industries.” IP involves concerted actions on the part of a national government to promote particular economic sectors via policy tools, in order to provide for economic growth. More broadly, IP is responsible for the modernization of an economy. The result of a successful IP would be improved specialization of high-tech, research-intensive, and skill-based sectors or industries. Because such jobs provide a higher standard of living, they improve a nation’s economic conditions. However, because IP involves direct government intervention, it is probably the most controversial issue in economics.

Dr. Zhelev described two conceptions of IP. The first is a neoliberal approach based on the “Washington Consensus,” which contends that the role of the state should be limited in order to “ensure a stable macroeconomic environment.” This approach relies on the role of free market forces, and thus prescribes deregulation and privatization of state-owned firms. The second is a structuralist approach, which places “less trust in free market forces as a driver on dynamic competitiveness and more in the ability of governments to implement effective interventions.” Depending on the approach, a given IP can have either a “horizontal” (“soft” or “functional”) or “vertical” (“hard” or “selective”) model.

According to Dr. Zhelev, the theoretical basis for IP is the failure of markets to produce optimal economic (and social) results, as well as the importance of the manufacturing industry in economic development. Examples of market failures justifying IP include information gaps, the existence of dynamic scale economies (which preclude newcomers in certain industries), and the need for government intervention in protecting the environment. In recent years, there is a general consensus that the question is not whether or not IP should be pursued, but rather how to do so.

The European Union’s IP was incorporated by the Maastricht Treaty in 1992 (which also led to the creation of the euro). It was formulated as a horizontal (or neoliberal) model, meaning that it only put conditions in place for driving the economy. According to the treaty, while the EU has the power to “support, coordinate, or supplement” the actions of member states, IP is pursued only at the national level.

The European Union has several other policies in place that affect the IPs of member states. One of these is the Internal Market Policy, according to which member states “cannot restrict free movement of goods, services, and people
between themselves for the sake of IP considerations." The EU’s Common Competition Policy, which (among other things) prevents businesses from price-fixing and forming monopolies, also affects the IPs of member states. In principle, state aid is incompatible with the common market – however, there are exemptions that allow member states with lower standards of living (below 75% of the EU average) to promote economic development, which is particularly relevant for former transition economies like Bulgaria.

However, the EU’s economic growth strategy for the present decade (“Europe 2020”) explicitly encourages EU-level IP initiatives. According to Dr. Zhelev, the key features of Europe 2020 include annual reports of the competitiveness of the EU and of member states, easier access to international markets, a “targeted approach” to economic sectors, and promotion of investment in innovation in six key areas: advanced manufacturing; KETs [Key Enabling Technologies]; bio-based products; clean vehicles and vessels; sustainable construction and raw materials; and smart grids.” The EU has also designated additional funds for the reindustrialization of member states: €2.3 billion to support entrepreneurship (COSME), €100 billion for investments in innovation and industrial competitiveness (distributed according to a “smart specialization principle,” whereby each country has to have a strategy showing where these funds will be channeled) (ESIF), and €80 billion for the commercialization of research (Horizon 2020), which has an emphasis on technology and is intended to stimulate innovation. In the latter case, though, the program is administered by the EU, and entrepreneurs from various member states have to submit proposals in English. This means that people from Eastern Europe aren’t really on equal footing with English or Western European entrepreneurs, which Dr. Zhelev argues is why so few Bulgarian projects have been approved by Horizon 2020 so far.

Bulgaria’s transition to a market economy in the early 1990s was accompanied by severe deindustrialization, which, according to Dr. Zhelev, was “triggered and exacerbated by trade liberalization and poorly executed policy reforms.” This deindustrialization included a huge loss of skills in qualification of labor and deterioration in the specialization of the economy. Additionally, the adoption of an active IP was regarded as a return to the detrimental former practices of the planned economy – the Bulgarian government instead adopted a neoliberal economic policy. As a result of these factors, Bulgaria’s industrial competitiveness has been deteriorating consistently since 1990.

Dr. Zhelev argues that the laissez-faire approach didn’t provide the needed results – therefore, the national interests of Bulgaria rely on the political elite realizing the need to develop a coherent, long-term strategy. He contends that this will require “adopting a systematic approach to integrate and coordinate efforts” in the fields of science, technology, and innovation policy, foreign direct investment (FDI) policy, human capital policy, as well as in the administration and allocation of resources provided by EU funds. According to Dr. Zhelev, such an approach will “support a new type of economic growth model, sustainable in the long run, that is pro-investment and export-oriented,” and will “achieve a gradual shift in the industrial structure from resource-based and low-tech activities to medium- and high-tech industries.” Ultimately, he contends, the adoption of a more active IP will set Bulgaria on the path towards reindustrialization.

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