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## **THE PROCESS OF REINDUSTRIALISATION – A STRATEGIC CHALLENGE TO NATIONAL ECONOMY**

The paper discusses issues related to Bulgaria's reindustrialization that are current for the country's economy. In this context the study justifies the necessity of the development of a long-term programme. The paper presents the author's views and settings on some key issues and approaches towards reindustrialization, the system of objectives of this process, the basic criteria for priority and policy definition of the suggested programme.

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A steady trend towards de-industrialisation of the national economy emerged and deepened in the country during the last quarter century. In 2014, even though timidly and motivated by the EU the strategic issues on reindustrialisation of the national economy were derived. It is scrupulous and worth noting that members of the scientific community in a number of research projects and publications in recent years justify the need for a strategic vision for the successful development of Bulgarian industry. Ideas and solid views in this direction by employers' organizations and trade unions are currently presented in the public domain.

It is undisputed that reindustrialisation is an extremely complex challenge of strategic nature. A challenge to change consistently over time the status quo in the industry, the direction of its development, the generation of increasing microeconomic competitiveness. It is difficult to predict how successful the reindustrialisation process in Bulgaria could be. The influencing factors (internal and external) are many and complex, and some of them are unmanageable. Undoubtedly, the stage of preparation of reindustrialisation will largely determine its results. In this context the symbiosis of ideas, views and expertise of business, government, trade unions, and the specialized scientific community is of particular importance. Expert knowledge, examination and targeted scientific justification for the forthcoming long-term Reindustrialisation programme might contribute to the success of the process of reindustrialisation.

The objectives that are set out in this paper are:

- To justify reindustrialisation as a long-term process of modernization of Bulgarian industry.
- To present the conceptual framework of the Programme and the reindustrialisation of the national economy, justifying its main pivots (respectively general issues).
- To justify the transition from a conceptual framework towards methodology, subsequent diagnostic analysis and definition of priorities of the reindustrialisation programme.

Outside the scope of the article<sup>1</sup> remain important issues such as: defining the priorities to be set in the Reindustrialisation programme and process; justification of government policies and measures in the process of reindustrialisation; justification of policies and mechanisms aimed at improving the management and operation of businesses by the industry and increasing microeconomic competitiveness.

### **General issues in reindustrialisation of national economy**

With the different and often conflicting views about what reindustrialisation is, the leading setting in the article is as follows: reindustrialisation is a long term process of modernization of Bulgarian industry, aimed at changing the status quo, generating increasing microeconomic competitiveness and industrial growth.

Accordingly, the main features (or attributes) of modern industry as a fundamental reference for the process of reindustrialisation are:

- Changed relationship between our traditional industries with high resource intensity and low value added products, on the one hand, and new medium and high-tech industries for which Bulgaria has comparative advantages and potential for development, on the other hand.
- Advanced research and development directly serving the industry and acting as a base prerequisite for innovations that increase production efficiency.
- Increasing share of industry in GDP and hence its growing contribution to economic growth with enriched interconnection and interaction between three main sectors: "agriculture – industry – services".
- Contemporary and corresponding to scientific requirements and best international practices positions, on the one hand, and the competences of all categories of staff in industrial companies, including of communities directly related to the industry, on the other hand.
- Industry and its business entities operating and developed in accordance with the environmental requirements and environmental protection; successfully performing in their unity business functions and social protective functions and responsibilities to the society and the country.
- Industry operating in an advantageous environment in the country (including political stability and security to all components of business environment); an environment that stimulates investment activity and new technological solutions.

These more significant features of modern industry, compared to the current state of Bulgarian industry give ground to several primary conclusions:

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<sup>1</sup> The perceived limitations in the article are dictated by the need not to "improvise" priorities and policies without conducting an empirical study in accordance to an appropriate methodology. A team led by the author is carrying out such a research, the results of which will timely receive the necessary publicity.

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*First*, the process of reindustrialisation and especially the required Programme, on which it should be based on for objective reasons, cannot be a one-sided problem of enterprises (business) or the state (government).

*Second*, the perceived need for reindustrialisation of the national economy already presupposes the next step – namely, the strategic vision on the development of the industry to be successfully specified in the Reindustrialisation programme.

*Third*, the multidimensionality and scale of the reindustrialisation process imply that the development of the Programme and its subsequent implementation should be based on symbiosis of ideas, views and expertise of: employers' organizations representing industrial business; executive and legislative authorities (institutions) of the country; the two leading trade unions in the country; representatives of the academic and scientific community close to the industrial sector in their field of activity; representatives of the financial and banking institutions.

*Fourth*, the Programme and the process of reindustrialisation should "draw" experience and in particular support by mechanisms and instruments of the EU developed and should be used in the context of the development of the industries of the European community.

*Fifth*, without being formally accepted, the long-term nature of the Programme and the process of reindustrialisation of the national economy should not be underestimated. Embracing a ten-year period (respectively 2015-2025) is a reasonable duration, given the complexity of the challenges. The willingness and responsibility of the political class in the country is definitely required to reach a long-term consensus on reindustrialisation, thus "muffling" mandate thinking, behaviour and actions.

*A significant general issue* is that of the place and role of the state (the institutions of the country) in the development of the Programme and the process for reindustrialisation.

There are conflicting even extreme theses and views on this issue among analysts, experts and politicians. They are in the wide range "*from* competitiveness and growth of businesses is their strategic goal, but market forces and competition determine the restructuring of the industry", to "*the need of proactive policies and instruments of the state to support the development of the industry*".

Proponents of the neoliberal school and approaches limit the role and support of the state on business only to a properly conducted macroeconomic policy and systematic improvement of the business environment. There is no doubt that these are two important responsibilities inherent to the government in a functioning market economy. The essential question is whether this is sufficient support in the context of the large-scale and long-term reindustrialisation in Bulgaria? My thesis, based on lessons learned and experience gained from other countries, is that a significantly larger contribution of the state is needed and possible to support business in the process of reindustrialisation. The principal argument in this direction is the following: The extremely serious problems in the Bulgarian industry, on the one hand, and the challenges of reindustrialisation on the other hand, cannot be handled by the opportunities and potential only of enterprises and business as a whole.

Without an active industrial policy and the resulting government tools, the status quo of the industry is difficult if not impossible to change in the direction of achieving the features of modern industry.

The real problem in this country is not in the role and responsibilities of the government, which are inherent to it in a market economy. It is primarily the competence, behaviour and the actions of government and administration, which in the years of transition give no evidence that they are (or could be) a successful partner of business. Absence of evidence of previous successful partnership between "public administration – business" carries risks to be transferred also to the process of reindustrialisation where the partnership should be enriched with representatives of the scientific and expert community as well. Without excessive optimism about a significant change in the behaviour of public administration, decisions should be searched mainly in governing policies, instruments, measures and controls that severely restrict interventions outside the rules. In this line of thinking transparency and publicity of the participation and support of the government in implementing the Programme for reindustrialisation of the national economy are necessary. It is important to emphasize and especially to recognize that contribution of the state is needed for the process of reindustrialisation; that its contribution should be specified in the Programme through transparent policies and support measures; that business can and should assume its responsibility in the process of reindustrialisation.

*The next, and even primary general issue* is on the approach on which the development of a Programme for reindustrialisation of the national economy may be based. The Programme is not and cannot be an "improvisation" of views of stakeholders and a juxtaposition of views. The choice of an approach on which its development "steps" is a decision that will greatly affect the main components of the Programme, namely: its objectives; the necessary criterial basis for determining the priorities of the Programme; the appropriate policies and tools to be set in the Reindustrialisation programme.

The article offers *the approach of product orientation of the Programme for reindustrialisation of the national economy* to be leading, the rationale being as follows:

- product orientation is closely related to the competitiveness of products on international markets;
- product orientation means that the Programme relies on examinations, revealing potential opportunities for growth and / or high value added of products, including these resulting from new technological solutions;
- this orientation is based on the equality of sub-sectors and industries, taking into consideration the requirements and evidence of microeconomic competitiveness as well as the general basic criteria in determining the priorities of the Reindustrialisation programme.
- the product orientation approach facilitates correct "*parameterization*" of the participation and support of state institutions in the process of large-scale

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reindustrialisation – namely only through adequate policies, instruments and measures rather than through interventions that are an expression of corruption practices;

- product orientation of the Reindustrialisation programme will have positive effects on industrial companies, their owners and management. Putting a spotlight on microeconomic competitiveness as a basis for inclusion into the priorities and policies of the Programme will intensify business and companies to improve business processes and implement new innovative solutions.

*Another general issue* to solve in the upcoming reindustrialisation process arises from the strong dependence of reindustrialisation on the creation of conditions and terms to increase and sustain investment activity to and within the industry.

Without underestimating the key prerequisites for investment activity, namely political stability; macroeconomic stability; systematic improvement of the business environment, the Reindustrialisation programme should enrich and specify them. Several important considerations in this regard are:

*First*, policies and instruments set in the Programme in their nature and content should be encouraging, activating interests and activity both of strategic foreign investors and of the Bulgarian private business.

*Second*, the objectives, criteria and priorities set in the Programme should be aligned with the utilisation of financial resources in the new programming period including: innovation, energy efficiency and increasing competitiveness; research and smart growth; development of human resources and financing of investment and innovation by the Bulgarian Bank for Development for small and medium enterprises.

*Third*, increasing trust between "banks – industrial business," however difficult, could be sought in the direction of achieving consensus on the structure of lending by banks and its better correspondence to the priorities and policies of the Reindustrialisation programme.

*Fourth*, in terms of increased investment activity to and within the industry, it is vital that the Reindustrialisation programme with its priorities and policies should be adopted by the Bulgarian Parliament and should acquire wide publicity in the country and abroad. This undoubtedly is responsibility of the government and its institutions, and its implementation will provide for the necessary degree of predictability of the process.

A significant part of the industrial companies (mainly medium and small) have low or insufficient investment and lending potential. In the years of the crisis they came into a "vicious circle", "depreciation of the assets of the companies – significant decapitalisation of companies – real decline in the value of guarantees available – resulting in credit crunch". The formal conclusion is that they may be "off board", respectively may not correspond to the priorities of the Reindustrialisation programme. Without excluding the possible bankruptcy of companies, it is necessary to emphasize the following: It is imperative for the Programme and process of

reindustrialisation to have a social purpose. This is not about state aid to such companies, but about the achievement of unity between well designed state mechanisms and measures, on the one hand, and owners and management of companies on the other.

Reality shows that access to finance in the coming years (until 2020) will be mostly from European sources and programmes. In this sense the Programme for reindustrialisation of our economy, and in particular the policies set in it, must include evidence of successful integration in the context of integrated industrial policy. That, supplemented with increasing the professional capacity of public administration, its behaviour and actions in the performance of its functions under the Reindustrialisation programme will presuppose successful access to finance and real support for this large-scale process of modernization of the industry.

### **On the objectives of a long-term Reindustrialisation programme**

In a preliminary plan it is scrupulous to point out that this is a vision of the author on the objectives of the Reindustrialisation programme. There is no doubt that in this direction the views of all stakeholders involved in the Programme design and the implementation of the reindustrialisation process are important and should be taken into account.

My own understanding is that the Programme, including its objectives, criteria and resulting priorities and policies should be a common joint "product" of the stakeholders referred to at the beginning of the article. More clearly stated – it would be a mistake, if such a Programme is initiated by the government while the positions of the leading employers' organizations, trade unions, and representatives of the scientific community are underestimated.

The characteristics of modern industry "give" the landmarks to define the objectives of reindustrialisation. Further in the article an inclusive approach and a framework approach to the possible aims to be set in the Programme are adopted. Common ground is that they require to be strictly specified and connected in a single system, with realistic time horizons (implementation deadlines), and as difficult as it might be – with available resources.

*The main objective of Reindustrialisation programme* is to provide a sustainable process of successive structural changes aimed at technological and product modernization of the Bulgarian industry, which will lead to increased microeconomic competitiveness and increasing contribution of the industry to GDP and economic growth.

The decomposition of the primary objective of the programme, in my opinion, is necessary to include *sub-objectives* such as:

1. To ensure a consistent transition to specialization in industries and products with high technological complexity and value added, i.e. a gradual change of the proportion of "low-, medium- and high-tech level of production in industry".

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2. To ensure a gradual increase in the share of *investment goods (products)* in general and by groups, both in export and domestic consumption, based on the Bulgarian comparative advantages and potential competitive advantages examination.

3. To optimize the balance between investment of tangible material type and investment in applied research and development, including technology transfer and import of technology and innovative solutions.

4. To ensure continued investment activity, both of strategic foreign investors and Bulgarian private business to priority industries based on the support through policies, instruments and measures of the Reindustrialisation programme.

5. To ensure priority orientation of EU transfers from European programmes and other channels to support the structural modernization of industrial production, i.e. to the priorities of the Programme with the greatest possible impact on the economy.

6. To ensure consistent creation of new jobs in the priority sub-sectors and industries and a steady trend towards increasing the share of human capital within and for the industry with a focus on human capital development in priority sub-sectors and industries.

7. To reach the average basic comparative indicators for industries in the EU Member States through the Reindustrialisation programme, such as innovations in the industry; industrial exports; share of high-tech exports; investment in research and innovation; public spending on research and innovation; energy costs and energy efficiency.

8. To ensure *monitoring and assessment* to track the progress in: implementation of the Reindustrialisation programme; determination of necessary interventions; feedback for improvements in the policies, instruments and measures by the government.

The consistent implementation of the Reindustrialisation programme should provide results, respectively achieving the ultimate objectives, such as:

- At the level of "*national economy*" – a change in the ratio among the three main sectors "agriculture – industry – services", respectively a change of their contribution to GDP and economic growth towards increasing the relative share of the industry.

- At "*industry*" level – a significant change in the ratio between industry sub-sectors on value added, contribution to gross domestic product and especially to exports.

- At the level of "*industrial products*" – a significant change in the product structure of Bulgarian industry, characterised by increased share of products with high competitiveness at both the international and the local market.

An important consideration in relation to the defined objectives is as follows. The article deliberately avoids the quantitative aspect of the objectives. In my view this is the next step in developing the Programme for reindustrialisation of the national

economy. It requires expertise in the posture of the industry; highlighting the potential for competitiveness; necessary consideration of expert assessments and estimates of employers' organizations and trade unions; examinations and assessments of academic research teams.

### **From the objectives towards the basic criteria for priority definition of the Reindustrialisation programme**

The need for priorities for reindustrialisation is undeniable, and their reasoning and definition is a sufficiently complex task because different views exist that are often contradictory. In this context it is reasonable to reckon with some preliminary considerations:

*First*, current examples of utilizing selective industrial policy to support reindustrialisation from different EU countries show a variety of priorities adopted by different countries. Prevailing are vertical priorities (to sub-sectors, industries, products), often combined with horizontal priorities (education, R&D, infrastructure).

*Second*, the direct transfer and use of best practices from other countries on priorities is highly debatable, and could be seen even as a wrong approach. Different starting positions of industries in different countries, traditions and their advantages undoubtedly differ from the current "picture" of Bulgarian industry and its real and potential benefits.

*Third*, without being an expression of innovation, one may indicate that the scientifically correct approach to the argumentation and setting of priorities of the Reindustrialisation programme comprises the following steps:

- criteria and methodology to be developed in accordance with the objectives, based on which one can establish evidence for the necessary priorities of the Reindustrialisation programme;
- to carry out targeted diagnostic analysis of the Bulgarian industry in line with a developed basic criteria and methodology;
- analysis to identify the potential competitiveness in certain sub-sectors, industries and products as a basis for defining the priorities of the Reindustrialisation programme (including a combination of vertical and horizontal priorities);
- to reach a consensus among business, government and scientific community on the priorities of the Programme, based on consideration of convincing arguments of the three parties.

The basic criteria proposed in this article suppose the following considerations. It covers a framework definition of a wide range of criteria with an understanding that they can be refined and specified including in terms of opportunities for information provision in the implementation in the methodology and the analysis.

I think the basic criteria could cover:

1. Comparative long-term advantages in sub-industries and productions that are successfully "upgraded" with a competitive advantage – species, type and nature of the benefits.

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2. Value added in products – with high or a potentially growing value added.
3. Technological level of production and products – existing opportunities and potential for reaching a high technological level.
4. Investment attractiveness of sub-industries and products determined by the presence of sustainable competitive advantages and good prospects for growth.
5. Sustainable (not random or episodic) export orientation of the products – existence of an opportunity for a growing share of exports of investment goods (products).
6. Sub-sectors and industries with weaker (less) energy and material dependence, stable functioning and quality human resources.
7. Industries and products (in particular details, parts, units) operating in permanent cooperation with established and reputable global and European manufacturers – including the available opportunities and potential to expand their scope.
8. Products with permanent and continuous resource availability and continuous (wide) local and foreign consumption, including newly created products.
9. Newly created industries and products in small and medium-sized high-tech companies in "niches" with comparative and competitive advantages, in particular having human resources – bearers of human capital.
10. Industries that in short and long term will have a positive impact (influence) on the provision of new jobs.

In terms of the criterial basis several points need to be emphasized:

*First*, the introduction of the criteria in the methodology for diagnostic analysis of the Bulgarian industry will allow to establish convincingly enough priority sub-sectors, industries and products.

*Second*, the consensus about priorities among business, government and the scientific community will create a solid basis for the so-called government "vertical policies". Even though they are state responsibility, they should necessarily take under consideration the proposals of business and the scientific community.

*Third*, the success of the process of reindustrialisation, however, is highly dependent on the "horizontal policies" of the government as well. They should be both enriched and specified to a certain extent in accordance with the problematic fields in the current state of the industry. This applies to both education policy and a number of other policies (energy, infrastructure, regional, etc.).

There are several considerations on industrial policy and in particular why the article has identified as a central issue the development and implementation of a long-term Programme for reindustrialisation of the national economy, and not the policy itself.

Linking the large-scale process of reindustrialisation solely or principally to the industrial policy of the country raises questions and discussions in a number of areas:

- Is there an industrial policy, conducted by the Bulgarian state, even an active industrial policy?
- Is there a clarity on the scope, content and components of industrial policy and its mechanisms within the government and the public administration in particular?
  - Are there other government policies imbedded in the industrial policy (innovation, competition, trade, human capital development, regional, etc.), or policies rather interact, but in practice are frequently in conflict?

The questions and the discussions on these issues could be continued, but the pragmatic conclusion is as follows: Without underestimating or overestimating any government policy, it is undisputed that each of them has a place and role in the successful implementation of the reindustrialisation process. Thus, when the priorities of the Programme receive general support, an essential issue to be solved is the specification of policies, mechanisms and measures, addressed towards the priorities and aimed at achieving the goals of reindustrialisation. In other words, each of the government policies will "work" to support the process of reindustrialisation, not literally "attached" but adequately enriched or specified. The task seems complicated, but not impossible to solve. Especially when business and the scientific community are actively participating in its solution.

## Conclusion

The issue of reindustrialisation of the national economy is not only especially significant for the next ten years, but is multidimensional and complex. The views in the article do not cover it entirely. They actually reflect the author's views on the possible and necessary *conceptual framework* of the Programme and process of reindustrialisation in Bulgaria.

The years of transition in Bulgaria gave much evidence of conflicting decisions on fundamental issues of economic development, missed opportunities, wrong approaches, policies and actions. A large number of strategies at national and branch level did not achieve the expected results. The question "why things do not work" deserves serious attention and evaluation. Addressing the challenges of reindustrialisation and from the point of view "things to work", the lessons can be summarized as follows:

- Strategic visions on industry development are important, but they should find convincing specification and clarification in the long-term Reindustrialisation programme in Bulgaria.
- The Programme could be successful if the knowledge, experience and responsibilities of all participants are accumulated in its development, its adoption by the Bulgarian Parliament and its consistent implementation.
- The Programme implementation will require a much higher government activity in terms of both insuring the possible support of the EU as well as on new "breakthroughs" on international markets.

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- Industrial business will take over and fulfil its responsibilities when assessing the availability of evidence of stability, security and predictability of policies and measures to support reindustrialisation synchronized with its objectives and in line with its business objectives.
- The reindustrialisation process will definitely meet many countervailing factors, both internal and external for the country. One should not approach it too optimistic, or vice versa – with high negativity. One should just be responsible and highly professional. It is very important the political class and the government not to become a detention, or even counteracting factor for the reindustrialisation.

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