

EUROPEAN INDUSTRY REORGANISATION – AN IMPORTANT FACTOR FOR THE EU SINGLE MARKET DEVELOPMENT

Prof. Iskra Christova-Balkanska, PhD

Economic Research Institute at the Bulgarian Academy of Sciences

Abstract

The EU Single Market (SM) is a further stage of deepening EU integrity, of economic and trade integration. The EU SM is also a new stage of industrial development in the pursuit of achieving the double transition towards green economy and digitalisation. This objective is developed in the context of Europe becoming the first climate-neutral continent by 2050. Achieving the double transition, which is particularly important for the further evolution of European industry, is a task that requires the identification of major risks, which ought to be eliminated in order to strengthen European industries and the functioning of the Single Market. The development of new mechanisms and policies in the field of the new technologies implementation are needed for the successful double transition towards ecological friendly and innovative industries. The main idea of this article is the strengthening of the EU SM and the introduction of new industrial policies for transforming the real economic base and facilitate the double transition goals as well as the reforms on the SM.

Key words: European Union Single market, European industries, EU economy and trade during the pandemic crisis of COVID 19, New Industrial Strategy, Green industries and digitalisation.

1. Introduction

The main objective of this contribution is to reveal the role of the European Union Single Market (SM) in the restructuring of the EU industrial base and to what extent this market contributes to increasing the European industries' efficiency. The Single Market (1993) is a stage of EU economic integration and the main goal is to increase the productivity and the competitiveness of European industrial companies, by diversifying the product list and the quality of goods. The pandemic crisis related to COVID-19 has revealed the gaps and the contradictions encountered by the SM and the need for rapid overcoming of difficulties and risks. The aim is to enhance environmentally friendly production and digitalisation, to improve the competitiveness of EU processing companies on the internal market and abroad. The main topics in

the contribution are the necessity of further development and sustainability of EU SM, the rebuilding of the EU industrial sector towards green industry and digitalisation, the New EU industrial strategy.

2. The EU Single Market and the need to rebuild the industries

The EU Single market is a new stage in the development of economic integration - from an EU free trade area to full integration of the economic and production potential of EU member states. The Single market has the most significant industrial capacity in the world, covering over 2.3 million industrial enterprises, 32.7 million persons employed, EUR 2.24 trillion of value added.¹ The opening and/or closing of industrial enterprises is a variable quantity that depends on the macroeconomic situation, on the processes of mergers and takeovers of companies, on the acquisition of equity capital, on the restructuring of companies, and on a change in the EU and world economic situation.

The Single market is a positive project for the European integration and development of the industrial sector because of many reasons. *Firstly*, it met the European industrial production development in order to enhance the supply of European industrial goods to other markets. *Secondly*, the EU member countries shared common visions to strengthen the EU economies' cooperation. *Thirdly*, reaching an agreement on the production of certain specific goods. The free movement of „special“ (disputed) goods was regulated on the basis of mutual recognition of national legislation, but without harmonising the legal basis of countries, producing specific goods. This practice reduces the number of laws and allowed for more adequate management of mutual trade relations in the EU. *Fourth*, the SM's functioning and norms correspond to the developed industrial countries in Europe interests. The emphasis is on the certification of goods at the request of industrial enterprises and companies. The intervention of national governments, in attempts at covert or overt protectionist measures in the production and marketing of certain goods, was avoided. Higher norms and requirements were introduced in the production of goods, in conditions of more competition between companies and more opportunities for implementing innovative productions.

The Single market created a number of opportunities for European Multinational Companies (MNC) to develop and implement information and communication technologies (ICT) and to apply innovative approaches in the production and the management of companies, operating in a large highly competitive market. The Single market has contributed to improving the efficiency and profits of Western European industrial enterprises and expanded their opportunities to establish in other EU countries. The accession of the developed industries of the Central and Eastern Europe (CEE) countries also changed the regulatory framework of the European economic and trade space. The Single market facilitated business relations and the realisation of production. The efficiency and the competitiveness of European industrial enterprises ameliorate and volumes of products offered increase, along with the diversification of goods.

¹ Key figures on European business, 2023 Edition, Eurostat, p.36

Without doubt, the SM strengthens the economic and commercial ties between EU countries, but it was especially beneficial for the developed EU economies. Although, EU industrial producers were lagging behind in competitiveness on world markets. In some industrial sectors have been implemented partial restructuring, but not in some manufacturing and in the services areas, related to the industrial sector. The successive crises (the Global financial crisis (GFC), the Eurozone debt crisis, the COVID 19 pandemic crisis) had led to the fragmentation of the SM, an issue not underlined by the European Commission (EC). Five leading European business associations declared that the SM is fragmentated and EU regulations are not applied in order to enforce the uniformity across the trading area. The EU Commission identified problems in the transposition of EU legislation in EU member states. According to the scoreboard, the EU average conformity deficit was at a record high in 2020, and the transposition performance of 14 member states has deteriorated.²

The modernisation of EU industries is an important factor for the achievement of the EU double transition goal, green economy and digitalisation, and Europe becoming the first climate neutral continent by 2050. That is why for the EU Commission of primary importance is the identification of the main risks and challenges for the European economy and industry and the adoption of new EU mechanisms and policies. The highlighted risks are climate change, high energy prices, the unsustainability of the supply of the Global value chains (GVC), the food supply crisis. Other additional risks are the provision of social security, the education and health care.

Table 1. Potential future risks to the European economy and industry in connection with changes in the geo-economic and geo-political state of the world

Risks for the European economy and industry	Risk Mitigation Policies
Climate changes	Creating climate resilience
High energy prices	Strengthening Europe's energy security
Other pandemic crises	Better preparedness to deal with contagion
Growth of public debts	Economic sustainability and better strategic autonomy of the European industry.
Economic stagnation	Strengthening relations with strategic partners.
Disintegration of the chains for supply of semiconductors	Reducing dependence on „special“ goods import from China.
Possible Internet crash	
Food crisis	Protecting the EU from a food crisis and assistance for global food security

Source: Marcin Szczepanski and Guillaume Ragonnaud. *Future shocks, (2022), Establishing greater strategic autonomy for European industry. European Parliamentary Research Center.*

² „Businesses no longer experience the Single Market as a true free trade area,“ J. Allenbach-Ammann, (Jun 28, 2022), European businesses lament fragmentation of the EU Single Market, EURACTIV.

The strategic European industries are largely dependent on imports of strategic raw materials (critical raw material - CRM). About half of the materials, needed for aircraft production come from countries outside the EU. Public and private funds are not enough for the financing of the research and development (R&D) and this creates tensions and technological gaps. The insufficient investments affect the faster development of high-technological industries and the reorganisation of enterprise management, which is also an impediment for implementation of the double transition and risk for SM's fragmentation. Improving the strategic autonomy of EU industry means the overcoming financial and technological gaps and reducing dependence on import of strategic raw materials and intermediate goods from countries outside the EU.

European industry has comparative advantages in the field of green technologies, but it lags behind in the production of some important strategic goods, such as the manufacture of batteries. EU industrial production was 13.9 % higher in 2022 than it had been in 2005.³ Besides, by ending in 2022, the overall rates of change of the EU industrial production reflect the combination of the long-term developments and the downward impact of the COVID-19 pandemic in 2020 and rebound in 2021 and/or 2022.

The small and medium enterprises (SMEs) are major sub-suppliers to the industries. The difficulties in the digitalisation of SMEs affects the increase in the imbalances between governance of the company and the industrial and sectoral activities. Other limitations stem from the relatively low training and weak mechanisms for planning and monitoring of SMEs.

Because of COVID-19 crisis, there was a 5.9 % real terms contraction in the EU's gross value added (GVA) between 2019 and 2020.⁴ Economic contraction in 2020 with EU real GDP falling by 6.1% more than during the Global financial crisis (GFC).⁵ Public finances have taken a considerable hit and fiscal divergence between Member States has increased. Deficit and debt ratios have soared in all EU Member States.⁶ COVID-19 impact had a strong impact on EU enterprises, with 49% of EU firms suffering a drop in sales, compared to 21% that were able to increase sales. Investment was also affected, with 26% of EU firms reduced their planned investment.⁷ The number of firms carrying out investment in the 2021 declined to 79% from 86% in 2019.⁸ Investments in intangible assets (R&D, software, training and business processes) by European firms increased slightly in 2020 compared to 2019. Investment activities varied depending on the sector and size of the business. The firms that registered lower productivity, felt a sensible decline, while digital companies reveal to be more resilient.

The changed economic landscape after the pandemic crisis with COVID 19 is ushering the European firms to modernise their industries and apply measures to

³ Key figures on European business, 2023 Edition, Eurostat, p.40

⁴ GDP at regional level. May 2022, Eurostat Statistics explained.

⁵ Vervey M., A. Monks, 21/10/2021, The EU economy after COVID 19: Implications for economic governance, CEPR.

⁶ ibidem

⁷ European Investment Bank (EIB) Investment Survey 2021, European Union Overview, p.5.

⁸ <https://www.eib.org/en/publications-research/economics/surveys-data/eu-overview-2021.htm>

diminish the negative effects of the climate change. The modernisation was a priority because of the European companies' decrease of competitiveness on the world market, where the large trade part is dominated by Americans and Chinese companies.

The pandemic crisis increases the incentives of the European companies for investment in innovative technologies and digitalisation. 55% of them declared that their future is the digitalisation of the industrial processes, and 46% of firms became more digital. Among companies that are late to introduce advanced digital technologies, 34% included in their schedule to start digitalisation.⁹ 58% of the European companies are worried about the climate changes, particularly in regions with extreme weather. The share of firms that invest in planned climate change projects are increasing to 47 % (2021-2022) from 41% in 2020.¹⁰ However there are still European firms, which lack of skills, with high energy costs and poor transport infrastructure, that are hampering their ability to grow and to become more competitive.

3. EU new industrial model and sustainable ecological industries

The European Union develops new economic models which create a sustainable industrial base, capable of rapid adaptation and adoption of information technology's innovations. The implementation of circular economy requirements plays an important role for the enterprises, at every stage of their business process.

The role of the European institutions would be reduced to settlement of agreements for the purchase of electricity from renewable sources from the companies. A laboratory on the geography of energy and industry will be established, which will provide information to European companies and energy infrastructure. The revision of the EU's industrial strategy is targeted again, as in previous years, to improve the competitiveness of European companies on the world market and to promote public-private partnership for investments in large and important for EU countries projects.

In order to protect the integrity and the functioning of the SM, the European Commission introduces regulations for foreign investors' operations on EU territory. Those measures are essentially oriented towards Chinese investors penetration into Europe, which exhibit financial interest mainly in strategic industrial sites and infrastructural ones' projects. Regulations relating to foreign investors and the receipt of financial resources from multinationals outside the EU are important to guarantee the principle of equal treatment of the competition in the framework of SM.

The European Commission (10.03.2020) adopted a New industrial strategy for strengthening the strategic autonomy of the EU economies and to stimulate the economic growth. The industrial strategy goal is to achieve ecological competitive and sustainable industrial base, taking into account the gaps which were admitted by the EU during the COVID 19 pandemic crisis. The placement of the industrial policy at the heart of the European policy for the modernisation of business branches

⁹ <https://www.eib.org/en/publications-research/economics/surveys-data/eu-overview-2021.htm>

¹⁰ EIB Investment Report 2021-2022, Recovery as a springboard for change, The EIB annual report on Investment and Investment Finance.

is a new stage to overcome deindustrialisation in Europe, by investing in innovative technologies and modern ways of organisation and management.

The economic sustainability of the SM is based on the diversification of international partnerships, to guarantee the trade and investment relations. The reduction of the import dependence of strategic industrial products and the increase in manufacturing sustainability are a guarantee for the free movement of goods, the investment in SMEs innovative activities, and last but not least for the application of a regulatory system to settle outside legal disputes, in case of delays in payments between trading partners in the EU.

The strengthening of the strategic autonomy of EU industry is a combination of coordinated internal and external policy actions and measures. An „ecosystem approach“ is introduced, which is based on the careful monitoring strategic dependencies in 14 sensitive industrial ecosystems in order to remove the internal and external shocks. Every year, the Single Market is subject to a special monitoring of the 14 industrial ecosystems. Depending on the ecosystems, the crisis impact is different amongst the industrial sectors. The size of the industrial enterprises to fight the crisis also matter.

It has been revealed that there are strong ties between the GVC's supply and demand activities and the well-functioning SM, as well as the dependencies of European companies from foreign import. EU manufacturing based on remote suppliers operating on a just-in-time delivery model stopped to function, because of the closure of the economies and the disruptions due to the pandemic. The shortage of materials to deal with the pandemic, especially healthcare equipment, contributed to the recognition of the need to review production and distribution model, based on the dependencies on foreign manufacturers and suppliers. (Gereffi, 2020) Although, with the pandemic spread, the GVC operations adapted to the new economic environment and they started to deal with the new challenges. The GVC, originating from East Asia recovered relatively quickly their manufacturing processes to accommodate increased global demand for medical products and home office equipment. (Brenton et al., 2022).

The dynamic change in the geo-economic environment and the growing power of the main European competitors on the world market demanded the more special treatment of European industries through detailed information and the elucidation of the interrelationships between the companies at the regional and branch level. Imports of strategic goods are used in industries with high absorption on energy (such as raw materials), on ecosystems for health, on new technologies.

The European Commission identified a series of dependents industrial branches. Out of 5,200 goods imported into the EU, 137 goods were from sensitive ecosystems, whose imports make the EU particularly dependent on third-party suppliers' countries. These products represent 6% of the value of all imported goods in Europe.¹¹ Technologies identified as strategic areas for industrial future of Europe, are active

¹¹ https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/european-industrial-strategy_en

pharmaceutical ingredients, batteries, cloudy and ultimate computing, cyber security, hydrogen, IT software, photovoltaic panels, raw materials and semiconductors.³⁴ 34 goods have been identified, the lack of which, puts the EU in a strong vulnerability, since the European industrial sector does not have enough manufacturing capacity for their production and delivery.¹² About half of these products originate in China, followed by Vietnam and Brazil.

The strengthening of the SM is through the promotion of industrial unions in key areas in order to increase the Europe's strategic capacity to attract potential investment projects. Industrial unions will facilitate the dual transition on the basis of industrial ecosystems, especially in energy and in other branches of the non-financial economy. Industrial alliances include a wide range of partners in specific industries as well as GVCs. The formation of these unions is with countries from geographically close areas to Europe, with which the EU has developed trade relations. In the EU, 4 new industrial unions have been created (for processors and semiconductor technologies, industrial data exchange, cloud edge technologies (Edge&Cloud), for space carriers, for aviation with zero emissions). The industrial alliances accelerate SM dynamism, attract foreign investors, create new business partnerships, consistent with the rules of competition and new jobs in industries with high added value. In 2021 industrial unions were built in the field of raw materials, of clean hydrogen, peripheral and cloud microelectronics and cloud technologies. Industrial alliances are a base for European companies to expand and open up to other markets, with an emphasis on start-ups and SMEs.

Another topic is to support the implementation of strategic EU industrial projects of common interest (Important projects of common European interest, IPCEIs), which are an instrument for state aid, designed to stimulate timely market entry of the EU on innovative technologies and major infrastructure projects. In 2019 and 2021, 2 strategic industrial projects with the inclusion of GVC were approved for the production of batteries. In December 2021, in the context of the recovery plan, a new project in the field of microelectronics was presented to the EU.

The amelioration of industrial competitiveness and strategic autonomy is based on the EU Standardization Strategy (February 2022) aiming to use the impact, the size and the integration of the SM to determine global standards. Regulatory frameworks targeting key industries are proposed, such as the semiconductor sector (microchips), which are particularly important for digitalisation. In the event of supply disruptions and shortages it will be activated a 'crisis stage', which means that the European Commission will apply a range of the following emergency measures:

1. The European Commission requires information on production of microchips capacity of the company at every stage of the manufacturing and the main causes of market disruptions. A coordination mechanism is established in a short period of time between Member States and the Commission to monitor chip supplies.

¹² https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/european-industrial-strategy_en

2. The European Commission may act as central authority for public procurement for certain goods purchases from the name of certain member states. Under certain circumstances, an export control regime is introduced.
3. Recommendation of the Commission on a common set of tools to deal with the shortage of semiconductors.
4. EU Mechanism to Monitor the Semiconductor Ecosystem includes crisis response measures which Member States may apply before the entry into force of the new regulation.

The additional investment needed to achieve climate and digital goals amounts to EUR 650 billion per year over the next decade (public and private combined).¹³ A new regulatory framework for batteries aims to improve turnover and resource efficiency through recycling and recovery of strategic raw materials. (December 2020) The European Commission proposed a market package for hydrogen and decarbonised gas - a key raw material for industrial processes. (December 2021) The package aims to strengthen energy security and global industrial leadership of European MNCs. The EU hydrogen strategy 2020 is oriented towards the production of 10 million tonnes and import 10 million tonnes of renewable hydrogen in the EU by 2030. The aim of these actions is the decarbonisation of industries, such as transport, energy-intensive industrial processes.¹⁴

In order to improve the strategic autonomy of the industry and sustainability of the SM, EU funding programs have been upgraded. The EU's long-term budget, coupled with NextGenerationEU (NGEU) to boost the recovery, form the largest stimulus package ever financed in Europe. A total of EUR 2.018 trillion in current prices are helping rebuild a post-COVID-19 Europe.¹⁵ Under the Multiannual Financial Framework (MFF) 2021-2027 and NGEU significant funds have been earmarked for the development of the EU SM, amounting at EUR 149 billion from MFF and EUR 11.5 billion from NextGenerationEU.¹⁶ The financing is directed towards improving the resilience, the cohesion, the strengthening of values, and for the amelioration of EU countries' adaptive capacity and growth potential. The countries have the right to choose to finance cross-border and multinational projects.

The EU4Digital Facility (2019-2022) initiative aims to develop core areas of the digital economy that would have a wide resonance in European industry in accordance with EU norms and practices. EU support is in the following areas: telecommunications, e-commerce, ICT innovation, e-upgrading of healthcare and e-skills. The aim of EU4Digital is the increase of the economic growth, increasing jobs in the digital economy, improving the business conditions and living standards. Through the initiative EU supports the reduction of roaming tariffs, the development of high-speed broadband Internet access to stimulate economies and expanding e-services,

¹³ Vervey M., A. Monks, 21/10/2021, The EU economy after COVID 19: Implications for economic governance, CEPR.

¹⁴ europa.eu. <https://energy.ec.europa.eu> > topics > hydrogen_en

¹⁵ https://commission.europa.eu/strategy-and-policy/recovery-plan-europe_en

¹⁶ The total funding from MFF 2021-2027 amount to EUR 1 210.9 billion, and from Next NextGenerationEU - EUR 806.9 billion https://commission.europa.eu/strategy-and-policy/recovery-plan-europe_en.

coordinating cyber security and the harmonisation of digital frameworks from logistics to healthcare that will have a strong influence on the development of the European industry and the economic relations of the EU member states.

The main goal of the EU is the digitalisation of the European industry and economy and aligning the SME with the new digital economy as well as the inclusion of the EU member states to a single rulebook governing the regulations conditions of digitalisation of the economy. The EU's strategy towards creating a Digital Single Market is based on three ladders: better access for consumers and European businesses to innovative digital goods and services in Europe; the creation of suitable and equal conditions for the spread of digital networks and innovative facilities in the context of the preservation of the environment; increasing the potential for economic growth, essential for the development of the digital economy. The expectations are that the digitalisation will increase the economic growth, will stimulate the creation of new jobs, will have a favourable effect on the competitiveness of European companies, will lead to an increase in trade and investment.

4. Conclusion

The intensified process of delocalisation of European industrial enterprises outside the EU and mainly in Southeast Asia brought to the fore the claim that deindustrialisation in Western Europe is a process that cannot be mastered even by the SM. The development of industrial production in the SM has shown that the industrial capacity of the EU is high and the main goods that are in demand in the EU are goods with medium and high added value.

One important topic is the fact that the fluctuating growth of industrial production and other impediments influenced the SM's functioning and it has had a more limited effect in insulating European industrial production from the external shocks following the successive crises.

In the course of functioning of the SM, a number of spheres of trade and industry emerged, which did not benefit from the removal of economic and financial restrictions on European companies. This led to the fragmentation of the SM, with some sectors being liberalised, while in others a series of restrictions remain, and this acted as a deterrent to the SM's economic and commercial deepening and for its further development.

The orientation of EU policy and the European Commission Directives towards the completion of the double transition (environmentally friendly and digitalisation), as well as the financial facilities delivered for the covering of this main goals are a base for a broad reorganisation of European industries and their modernisation.

The implementation of the EU's goals in this direction is progressing, but the question is whether the stagnant years during the COVID 19 crisis and because of the war on the territory of Ukraine will not be reproduced again due to the uncertain political and economic environment, despite EU policies oriented towards the reduction of its dependency from external energetic sources and the efforts for the attainment of strategic autonomy in most of the EU industries.

Bibliography

- Key figures on European business, 2023 Edition, Eurostat.
- Marcin Szczepanski and Guillaume Ragonnaud. Future shocks (2022), Establishing greater strategic autonomy for European industry. European Parliamentary Research Center.
- J. Allenbach-Ammann (Jun 28, 2022), European businesses lament fragmentation of the EU Single Market, EURACTIV.
- GDP at regional level. May 2022, Eurostat Statistics explained.
- Vervey M., A. Monks, 21/10/2021, The EU economy after COVID 19: Implications for economic governance, CEPR.
- EIB Investment Report 2021-2022, Recovery as a springboard for change, The EIB annual report on Investment and Investment Finance.
- EU industrial structure A publication prepared by The Directorate General for Enterprise and Industry Unit B2 „Competitiveness and Economic Reforms“
- L'Union européenne: combien a-t-on gagné à la faire (et combien perdrat-on à la défaire)? Juin 2018, La Lettre de CEPII (Centre d'études prospectives et d'informations internationales) N° 389
- La Commission européenne publie une mise à jour de la stratégie industrielle de l'UE (25 mai 2021) République française.
- European Industrial Strategy, European Commission - https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/european-industrial-strategy_en
- Gereffi G. (2020). What does the COVID-19 pandemic teach us about global value chains? The case of medical supplies. *Journal of International Business Policy* 3(3), p.287-301.
- Brenton P, Ferrantino MJ and Maliszewska M (2022). Reshaping Global Value Chains in Light of COVID-19: Implications for Trade and Poverty Reduction in Developing Countries. World Bank. Washington, D.C.
- Christova-Balkanska I., (2023) *Bulgarian and Romanian industrial potential in the European Single Market*, Single Market at 30, Coordinator E. Dijmarescu, Academia Romania, Institutul Național de Cercetări Economice „Costin C. Kirilescu“, Institutul de economie mondială, Bucuresti, p.79-108.
- <https://www.eib.org/en/publications-research/economics/surveys-data/eu-overview-2021.htm>
- https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/europe-fit-digital-age/european-industrial-strategy_en#latest
- https://commission.europa.eu/strategy-and-policy/recovery-plan-europe_en.
- europa.eu. <https://energy.ec.europa.eu> > topics > hydrogen_en