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Special analysis

Significance of European industry

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Introduction

Industry in the EU is clearly among the driving forces of the economy. However, the economic crisis **has harshly affected European industry**. After 2008, not only did the performance of industry decline, but the number of jobs did as well.

Several million workers lost their jobs. The European Commission is not disregarding this situation, and therefore in its appeal **"For a European Industrial Renaissance"** from last year, it has called on member states to recognise the basic importance of industry for creating jobs and supporting growth and to include issues related to competitiveness of industry in all of their policy areas. In our main topic you can read about how European industry has developed in recent years as well as about what types of criticism of shortcomings and proposed measures the Commission has come up with. These measures and priorities should bring not only strengthening of European industry and improvement of the situation on the labour market, but also support and sustainability of the forthcoming economic recovery.

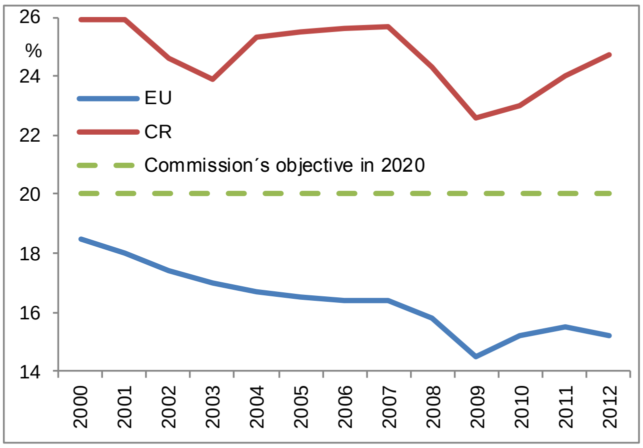
Significance of European industry, EC´s iniciative for supporting

According to the European Commission's latest prognoses, these should bring expected economic growth and lift the EU out of its long recession. Therefore, industry can expect a period of growth. Industry is very important for the EU, and its importance goes beyond the production sector and covers a range of developments.

Industry accounts for more than **80% of European exports and innovations of the private sector**, which only underscore the fact that the industrial sector has much greater importance than is apparent from its share of GDP.

The European Commission's goal is for the manufacturing industry's share, measured by gross added value, **to increase in the economy to 20% by 2020**. In 2012, the manufacturing industry's share of gross added value amounted to 15.2%. However, by the middle of 2013, this share fell even further, by 0.1% to 15.1%.

Development of the share of the processing industry in gross added value



Source: Eurostat

Gross added value represents a newly created value gained by institutional units using their own production capacities. It is set as the difference between overall production, appreciated in basic prices and consumption, appreciated in purchase prices.

It is calculated for industries or for institutional sectors/sub-sectors. The sum of gross (or net) added value for all industries in the national economy or for all institutional sectors/sub-sectors plus net taxes from products is the gross or net domestic product.

Secondary sector

If we speak about industry, we can look at this concept from a broader perspective as an overall secondary sector, which includes activities classified based on CZ_NACE in sections:

- B: **Mining and quarrying**;
- C: **Manufacturing industry**;
- D: **Production and distribution of electricity, natural gas, heat and climate-controlled air**;
- E: **Water supplying; activities related to waste water, waste and environmental restoration**;
- F: **Construction**.

It needs to be pointed out immediately at the beginning that the **Czech Republic** is among the most industrial countries in the EU. The importance of industry both in a broader and narrower context in the Czech Republic can be attributed both to creation of gross added value and the number of people whose jobs have been created by industry.

Even despite the growing importance of the service sector, the share of the secondary sector in creation of gross added value in 2012 in the Czech Republic did not change much compared to 2000. However, in the first place in an international comparison of member states, we were replaced by **Romania**, where the share of gross added value grew by just under 9%.

However, this growth was rather an exception, and in most other states this share declined at the expense of services. The greatest decline was in **Malta**, by 11%. No one will probably be surprised that the lowest share of gross added value in industry in 2012 was in Luxembourg, where main services are represented.

The strength and importance of industry's position in the Czech Republic is easily apparent from the share of employees working in industry.

The secondary sector (also referred to as the sector of production and industry), employs more than a third of the labour force. We have also maintained our first-place position in this indicator in time. Following the **Czech Republic** are other traditionally strong industrial states, **Slovakia and Poland**.

Share of the industry (B-E) in gross added value in EU

	2000 (%)	2012 (%)
Romania	27.7	32.4
CR	**30.9**	**31.0**
Slovakia	28.8	27.0
Hungary	27.1	26.8
Ireland	28.0	26.3
Germany	25.2	25.8
Slovenia	28.1	25.2
Lithuania	23.7	25.1
Poland	23.3	24.6
Bulgaria	21.2	24.5
Austria	23.7	21.8
Estonia	21.6	21.2
Croatia	24.2	20.8
Sweden	24.2	19.9
Latvia	18.6	19.5
Netherlands	19.1	19.4
EU	**22.0**	**19.1**
Finland	28.0	19.0
Portugal	20.3	18.5
Italy	22.6	18.4
Spain	20.8	17.4
Denmark	21.1	17.0
Belgium	21.9	15.9
UK	20.8	14.6
Greece	14.0	14.3
Malta	23.3	13.3
France	17.8	12.5
Cyprus	12.2	9.1
Luxembourg	12.8	6.7

Source: Eurostat

Industry (B-E)

The secondary sector as a whole, however, is not monitored internationally very much. Activities considered industrial according to CZ-NACE are those classified in sections B (**mining and quarrying**), C (**manufacturing industry**), D (**production and distribution of electricity, natural gas, heat and climate-controlled air**) and E (**Water supplying, activities related to waste water, waste and environmental restoration**). Eurostat refers to these statistics as "Industry (without construction)".

The Czech Statistical Office also monitors, with consideration for Eurostat's requirements, also industry only for sections B, C and D.

In industry (without construction), the **Czech Republic** is again in the leading positions, where the share of this industry in creation of gross added value ranged between 2000 and 2012 from the lowest level in 2003, 29.3%, to 21.7% in 2006 and 2007. Since 2010, there has been a trend of gradual growth.

Romania is in the first place with a slight lead, and **Luxembourg** is in the last place with an insignificant share of 6.7%. In 2012, industry (B-E) in the European Union employed 16% of all workers, which amounted to approximately 36 million inhabitants.

The largest share of employment with a distance of a few percentage points from other member states is in the **Czech Republic**. This share has fallen in the Czech Republic by 2.7% compared to 2000. However, the situation was no different in other states.

The average for the **EU** fell by 3.5% between 2000 and 2012. This decline can be attributed both to the transition from industrial sectors to sectors involving services and to the economic crisis, which seriously affected industry.

The share of employment is the highest in the **Czech Republic**, and expressed in absolute figures it amounted to nearly 1.4 million employees.

However, the greatest absolute number of employees in industry (B-E) is in **Germany** (7.8 million employees), which represents more than a fifth of all employees working in industry in the EU.

Share of employees in industry (B-E) in overall employment in the EU (%)

	2000	2012
CR	**29.9**	**27.2**
Slovakia	28.2	23.8
Slovenia	29.5	22.7
Hungary	25.8	22.5
Poland	23.3	22.3
Estonia	26.2	22.0
Romania	22.0	21.4
Bulgaria	23.6	20.4
Italy	22.5	19.0
Germany	21.3	18.8
Lithuania	20.4	18.1
Latvia	20.0	17.0
Portugal	20.8	16.5
Finland	20.5	16.4
Austria	18.8	16.3
EU	**19.5**	**16.0**
Sweden	18.3	14.4
Malta	24.2	13.6
Ireland	18.7	12.8
Belgium	16.9	12.8
Spain	18.7	12.8
Denmark	16.2	12.0
France	15.4	11.8
Greece	12.7	10.5
Netherlands	13.0	10.5
Luxembourg	13.7	9.8
UK	15.0	9.7
Cyprus	12.5	9.5

Source: Eurostat; note: data for Croatia aren´t available

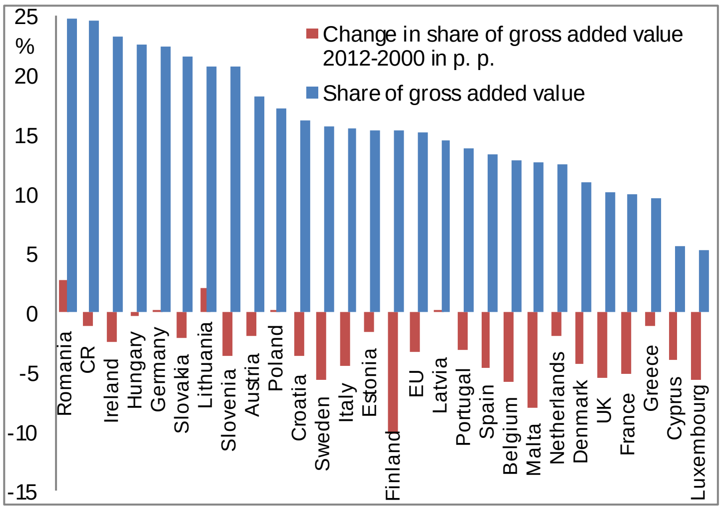
Manufacturing industry

A key part of industry both in added value and in the number of employees is made up of sector C, or the **manufacturing industry**, which is divided into 24 sub-sectors (parts).

The most important sub-sectors in the Czech Republic in terms of gross added value and the number of employees include:

- **C29**: Production of motor vehicles (except motorcycles), trailers and towing vehicles (already in the June and September 2013 issues of our monthly, you were able to read an analysis of the automotive industry in the EU);
- **C25**: Production of metal structures and metal-part products, except machines and equipment;
- **C28**: Production of machines and equipment.

Share of the manufacturing industry in gross added value in the EU



Source: Eurostat; data for Bulgaria aren´t available

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Although in terms of the number of employees, the section **Production of Motor Vehicles** is second behind **Production of Structures and Metal-part Products**, in the gross added value it is dominant in the manufacturing industry.

The situation in the manufacturing industry in EU states is similar already like in the aforementioned secondary sector and industry (B-E).

The first place in the share of gross added value in 2012 was held by **Romania**, which with a share of 24.8% was ahead by 0.1% **compared to the Czech Republic.**

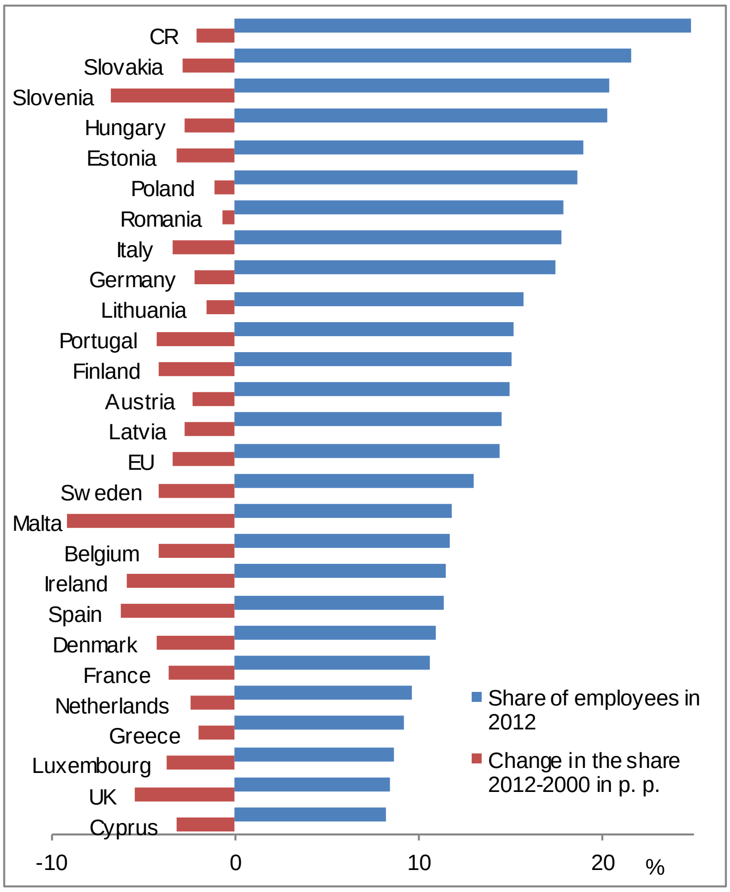
Finishing in third place was **Ireland**, where the manufacturing industry is one of the most important sectors, with a 23% share of gross added value. In most member states, the share of gross added value in 2012 declined compared to 2000, but absolutely in euros and regular prices it grew in all but 5 states.

In **Romania** it grew until 2012 even more than 2.5 times from 8 billion euros in 2000 to 28.4 billion euros. In the Czech Republic, this growth amounted to approximately 125%. The importance of the manufacturing industry in the **Czech Republic** is fully clear in the share of employment of this sector in overall employment, where the Czech Republic has long remained first among member states. However, a trend of gradual reduction of this share is well apparent in the EU.

Between the monitored years of 2012 and 2000, just nearly 6 million workers in the EU were lost from the manufacturing industry. Besides **Luxembourg**, which remains at approximately 32,000 employees, the absolute number of workers in the manufacturing industry has fallen in member states.

Year-to-year increases in relation to the EU average were registered only for the years preceding the economic crisis and for 2011. The final figures for 2013 have not yet been published, but it can be anticipated that they, too, will not be very optimistic.

Share of employees in the manufacturing industry in proportion to overall employment in the EU



Source: Eurostat; data for Croatia and Bulgaria aren´t available

European Commission initiative for supporting European industry

Maintaining and strengthening the strong European industry sector is essential for **boosting growth and competitiveness.** Therefore, the Commission has presented to the European Council for approval the priorities necessary for supporting the competitiveness of European industry.

The Commission has called on the Council and the European Parliament to adopt proposals related to **energy, transport, space and digital communication networks**. There is also the challenge of implementing and pushing through legislation to finish the creation of the internal market. The modernisation of industry must also be supported by investments into innovations, effective use of resources, new technology, skills and access to financing, which will increase in intensity thanks to the use of specialised EU funds.

Last September, the European Commission issued two reports related to competitiveness.

These reports showed that EU states have achieved progress in these areas:

- **the main engine of industrial activities was exports; the EU in this area surpassed the USA and Japan**. In 2012, Europe achieved a surplus of 365 billion euros;
- improvement of **innovative performance**;
- **the business environment** improved in most member states, but it also did for other parts of the world;
- in most member states, **skills improved in the labour force**.

However, besides these positives, the European Commission also discovered several problems and weaknesses:

- **weak internal demand**;
- **innovations and investments** remain very low, which is putting the brakes on further modernisation of the industrial base and preventing further technological progress;
- even despite improvement of the business environment in the EU, in some member states something that is still key for renewal of growth is an increase in the effectiveness and efficiency of public administration. The lack of flexibility of administration and the regulatory environment as well as other aspects can reduce the **growth potential of companies** (particularly small and mid-sized companies);
- **high energy prices** facing companies in the EU represent a major problem for industry and competitiveness;
- **access to financing** has worsened in many member states.

For the purpose of appealing to member states to recognise the fundamental importance of industry from the point of view of job creation and support for growth, this January the Commission published a document called "For a European Industrial Renaissance", in which it set several key priorities:

- Greater consideration of **aspects related to the competitiveness of industry** in all areas of policy, including with consideration for the importance of industry for overall economic performance in the EU.
- For supporting and boosting European industry, there needs to be **access to financial resources**. With the new financial framework for 2014-2020, regions will have at their disposal finances for supporting industry and small and mid-sized companies. This includes investments into **six strategic areas** defined by the Commission (environmentally friendly vehicles and transport, organic products, key technology, advanced manufacturing industry, construction and smart networks).
- European small and mid-sized businesses must overcome **obstacles limiting their growth**. The smaller companies are, the more difficult investments into innovation, export and other areas are for them, which jeopardises their competitiveness.
- Ensuring access to basic inputs, whether **financial resources, raw materials or energy sources**. In relation to access to raw materials, the European Commission will attempt to continue using all means at its disposal to ensure access to them. Moreover, during 2014 the Commission will introduce technology capable of replacing certain problematic raw materials and will improve recycling. In its approach to energy sources, **industrial competitiveness and energy efficiency** remain the EU's main objectives, as specified in the Europe 2020 strategy.
- Maximisation of the internal market's potential by **creating necessary infrastructure, a stable, simple and predictable legal framework** that is beneficial for business and innovation, integration of capital markets, improving of opportunities for professional education and mobility of citizens and finishing the creation of the internal market with services as one of the main factors contributing to the competitiveness of industry. The European Commission is also calling on member states to take steps such as speeding up the development of environmentally friendly vehicles and liberalisation and integration of the internal market with energy for cost reduction, etc.
- **Internationalisation and integration** of European businesses into global value chains with the aim of increasing their competitiveness and ensuring access to global markets under more favourable competition conditions. The EU's exports and its surplus have played an important role in easing the effects of the economic crisis.
- **Access to markets in non-EU countries** will remain crucial for Europe's competitiveness, and therefore the Commission will continue with negotiations regarding free trade and bilateral agreements with key business partners.

Conclusion

Industry is very important for the EU and individual member states. However, its condition is not like what top officials desire. Industry's performance declined especially after the economic crisis.

Therefore, the European Commission is calling for restoration of European industry, so that **sustainable economic growth is again ensured and so that the situation on the labour market is improved**, since European industry in a broader extent employs 16% of the labour force, while over 14% of the labour force work in the manufacturing industry.

Fulfilment of individual priorities set by the Commission undoubtedly should help achieve these objectives.

However, it is difficult to say whether the European Commission's goal to increase the **share of the manufacturing industry in creation of gross added value** by 2020 is too optimistic or even perhaps unrealistic.

The declining trend of this indicator in the EU in recent years, where the Czech Republic is towards the top in this indicator as one of the most industrial states, perhaps speaks for everything.