

Linking structural and technological change to industrial recovery in Greece

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Aim and structure of the presentation

- To propose how to overturn the crisis in the real economy in Greece in the context of industrial policy.
- Main argument: **To achieve industrial recovery structural change is required to enable technological development and induce the generation of competitive high added value activities.**

Structure of the presentation

- Main weaknesses of industrial system
- Implications to the 'long-tail' of recession
- Policy propositions

Industrial policy for a catching up process to reverse two distinct but interrelated cumulative trends

- the long-lasting productive and technological gaps vis-à-vis other advanced economies and
- the loss of production capacity after 2008, the consequent erosion of know-how and capabilities and in general the erosion of what is called ‘industrial commons’.

Shortcomings of the Greek industrial system (1/2)

productive

Low and decreasing contribution of manufacturing to GDP	Weak export orientation	Small size of firms	Service sector: low skilled activities of very small size, directed to final consumption	Limited digitization of industrial activities	High import dependency of production
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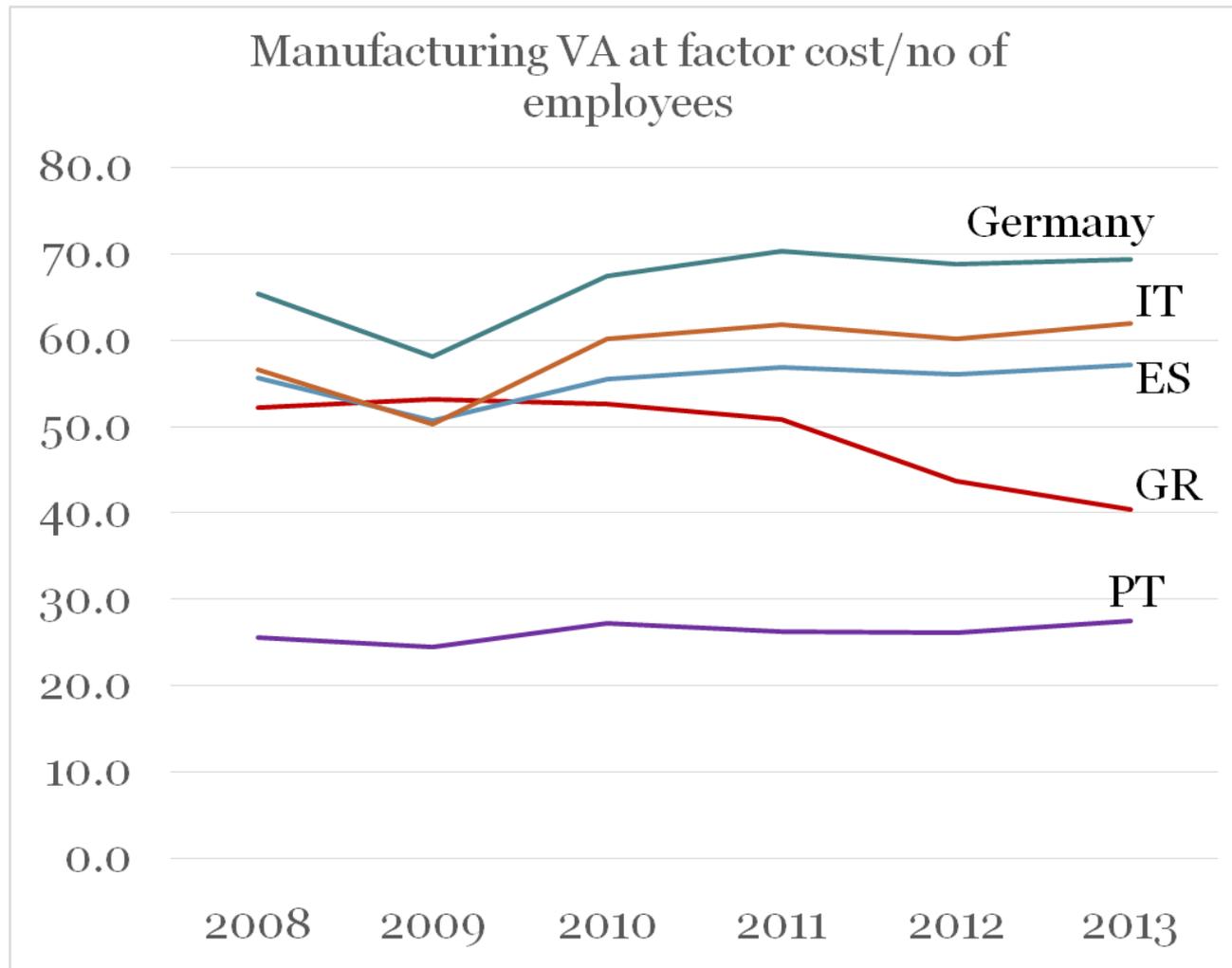
technological

Low contribution of MHT and HT sectors to production and exports	Very low level of public and private R&D expenditure, weak innovative performance	Weak interlinkages among economic actors in technological activities	Limited private sector demand for domestic research and innovation activities
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Shortcomings of the Greek industrial system (2/2)

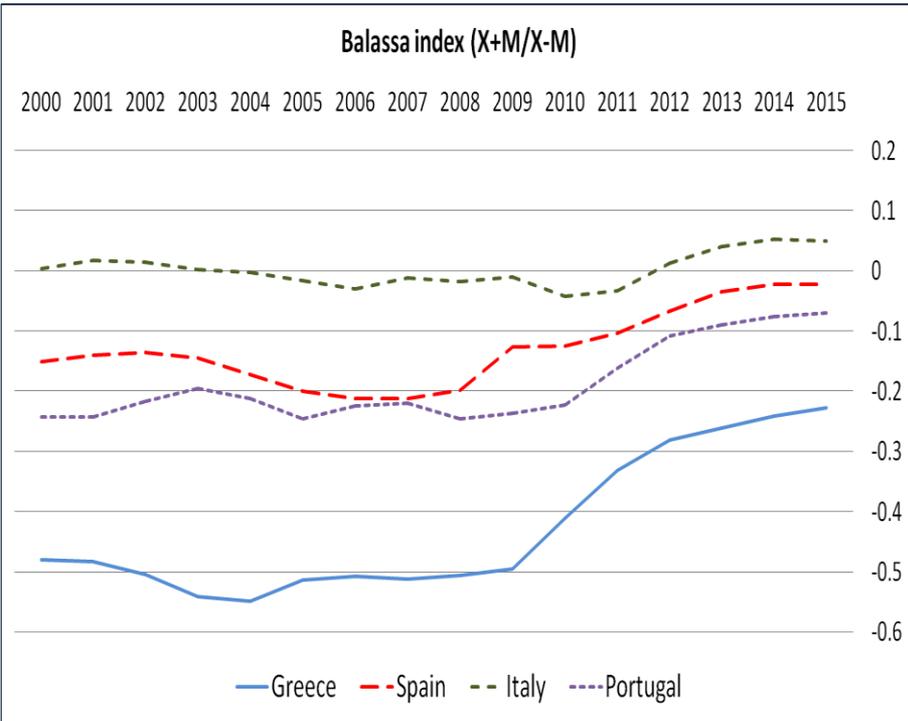
<p>Ineffective public administration and public management</p>	<ul style="list-style-type: none"> •Extremely volatile tax rules •Arbitrarial tax procedures •Ineffective tax evasion monitoring •Inefficient judiciary system 	<p>Inefficient framework for new funding schemes (crowdfunding, business angels etc.)</p>
<p>Risk avert entrepreneurial behavior (rent seeking attitude, low activity of venture capital etc.)</p>	<p>Incoherence of different economic policies</p>	<p>Limited demand-side measures (e.g. no specific measures addressing public procurement for innovation)</p>

Low and decreasing productivity



Source: Eurostat

Weak competitiveness



Revealed Comparative Advantage, 1995-2013		IT	PT	ES
agricultural products-raw materials	1995-01	3.26	2.72	1.72
	2002-08	2.97	2.06	1.64
	2009-13	2.91	1.86	1.63
low-tech products	1995-01	1.77	1.51	1.60
	2002-08	1.53	1.20	1.38
	2009-13	1.67	1.14	1.49
low to medium tech products	1995-01	1.18	1.00	1.74
	2002-08	1.17	1.11	1.58
	2009-13	1.06	1.01	1.29
medium to high tech products	1995-01	0.37	0.31	0.17
	2002-08	0.47	0.38	0.22
	2009-13	0.48	0.39	0.25
high-tech products	1995-01	0.36	0.59	0.60
	2002-08	0.56	0.87	0.94
	2009-13	0.54	0.98	0.89

The negative trends in all significant indicators

	GDP at 2010 prices, 2009-2015	private final consumption at 2010 prices, 2009-2015	gross fixed capital formation at 2010 prices, 2009-2015	unit labour cost in the business sector, 2009-2014	exports of tradable goods at 2010 prices, 2009-2013
cumulative total change %	-28.9	-27.4	-88.7	-17.6	-6

Source: European Commission, Bank of Greece and OECD.

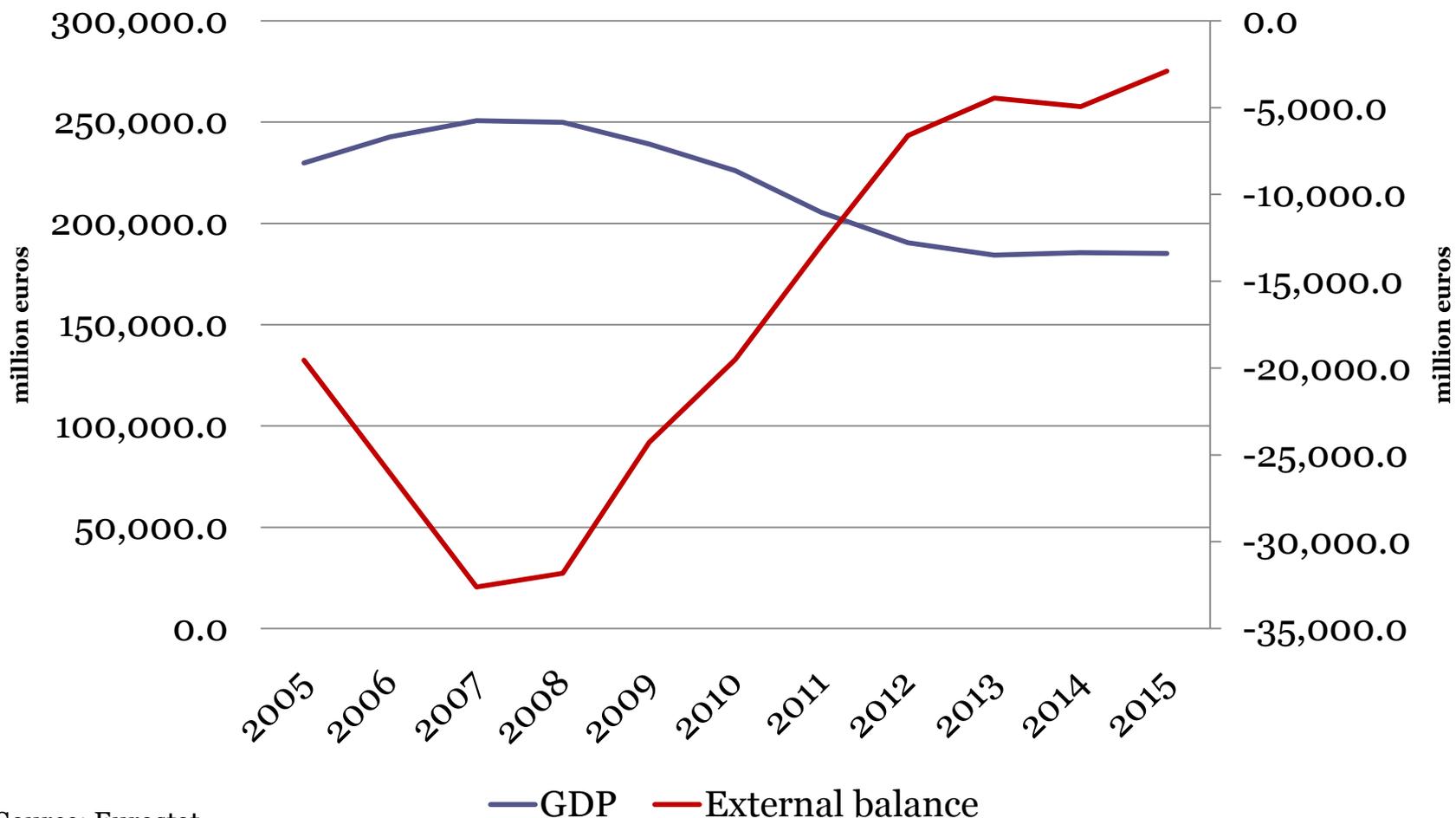
Divergence process during the crisis for Southern European countries

GDP per capita as a percentage of the average in the E.U.-15, 2009 and 2014					
	Greece	Cyprus	Spain	Portugal	Italy
2009 (%)	85,1	94,8	91,8	73,3	94,8
2014 (%)	67,0	79,3	86,9	72,1	89,4
% change	-18,0	-15,5	-4,9	-1,2	-5,4
Fall back to the year:	<1980	2000	2002	2008	<1980

Source: European Commission, Statistical Annex of European Economy. Spring 2015.

Adjustments in external imbalances through recession and decrease of demand

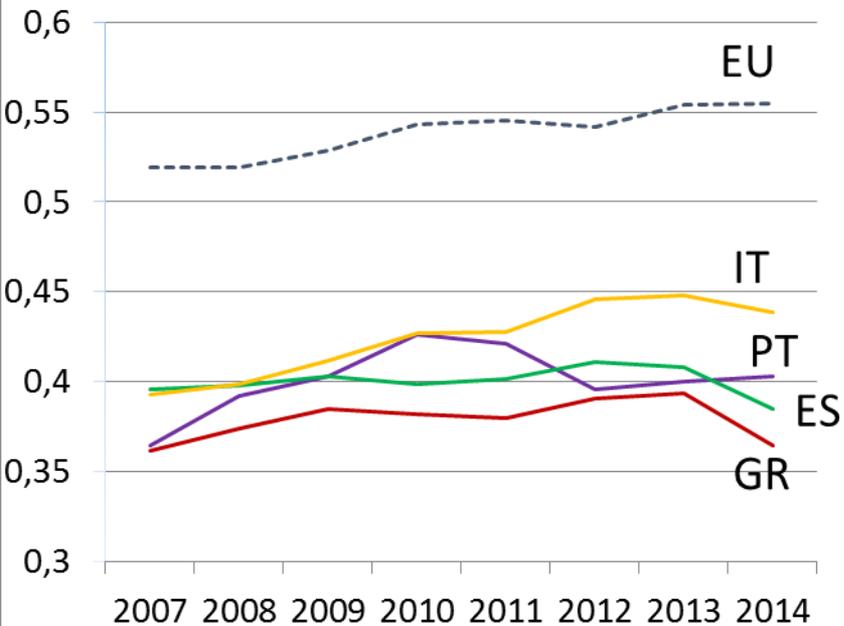
Evolution of GDP and current account balance



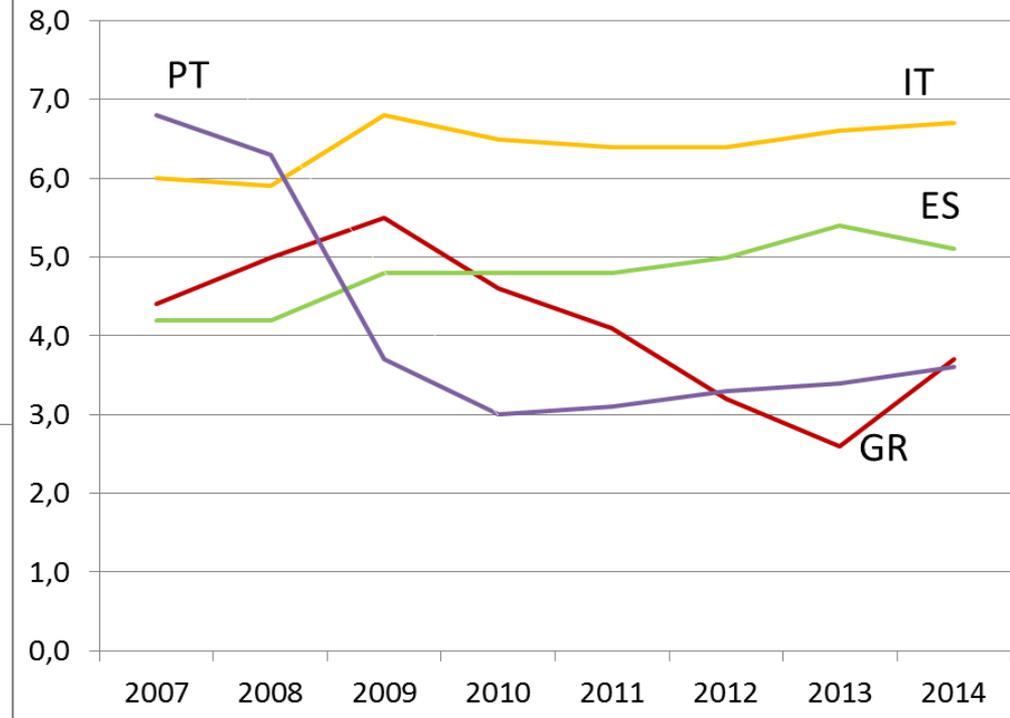
Source: Eurostat

Interruption of pre-crisis trends

SII evolution of innovation scoreboard



exports of HT products, % of total exports



How to overturn: industrial policy in three directions (1/3)

- Structural transformation and development of production capabilities
 - Develop, enlarge and/or keep upstream components of the production and innovation cycle
 - Enhancing the high-skilled human resources
 - Enhancing the manufacturing base
 - National demand as a learning factor
 - Raise productivity
 - Digitisation of production processes
 - Increase of firms' size
 - Export orientation
 - Higher quality production standards
 - Networking and integration into GVCs
 - Guarantees to export oriented firms

How to overturn: industrial policy in three directions (2/3)

- Development of absorptive capacity and demand competitiveness
 - Selective policy initiatives for high impact knowledge-intensive new firms in all sectors and activities
 - Promotion of knowledge sharing
 - An investment plan for University-Industry joint R&D addressing an important challenge
 - Public procurement to raise demand for innovative solutions

How to overturn: industrial policy in three directions (3/3)

- Institutional change and governance
 - Effectively apply existing rules
 - Simplification of legal and tax framework
 - Improvement in the efficiency of the justice system
 - Development of new funding schemes
 - Decentralised institutions supporting and advising private agents in undertaking research and innovative activities and networking in specific areas
 - Transparency and minimising corruption in the public procurement mechanism

Conclusions

- Investment is one key issue for recovery but the policy framework to implement structural and institutional change is of equal significance
- A mix of an investment push and institutional and governance change
- Industrial policy is a core element for a path of sustainable growth
- ‘Out of the box’ policy design and governance mode at the national and European level

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