

Ministry Of Industry, Energy & Technology

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**INDUSTRIAL STRATEGY
FOR GREECE**

1. Introduction

The I.S. the Ministerium applies

The following paper summarizes the main points of the New Industrial Strategy (IS) for Greece. They are the outcome of a dialogue process between the social partners in Greece, namely representatives of the State, the employees and the firms.

*Well known price
not interesting
However not
accepted*

2. The framework of the New Industrial Strategy

Industrial Strategy comprises the set of state policies aiming at Industry and intending to achieve a long-term objective, namely the enhancement of industry competitiveness, thus the increase of employment levels as well as the improvement of the welfare of the people.

The term "framework" refers to tangible or intangible factors that favour or hinder the competitiveness goal. The tangibles include, among others, transportation, communication and telecommunications. The intangibles include institutional, legislative and cultural (such as the attitude towards work) factors as well as educational and civilization standards. Macroeconomic policy, too, is included in the "framework".

In many developed countries and the European Union (EU), the focus has recently been on intangibles, mainly on human resources, education and public administration. In Greece, however, it is critical to emphasize the need for improving the tangible infrastructure as well. Along with this, improvements must be sought of the cultural level, namely attitudes towards work and industry competitiveness, social dialogue and a long-term perspective.

Today, maybe for the first time after many years, there exists a multiplicity of factors, ¹whose interrelations produce the potential for a consensus IS in Greece, enjoying the approval of all social parties. These factors are political, social, economic-organizational, technological as well as cultural.

In the political field, the central planning systems' failure as well as the obvious cases of market failure in the Western countries, lead to the conclusion that the market and the state should be symbiotic. They should complement each other rather than being alternative mechanisms of economic and social organization. The state's main aim should be the creation of development prerequisites. The latter is achieved by formulating and developing a tangible and intangible infrastructure favouring development and increased employment levels.

In the economic and organizational field, it has become a common perception that the competitiveness of firms and many industrial sectors lies primarily on their ability to produce high quality differentiated products. This may be more easily achieved when there exist cooperation and dialogue-based relationships between the firm, employees, suppliers and customers. This kind of relationship is desirable in the context of an effort to exploit the "dispersed knowledge" that every one of them possesses. This implies that the firm-employees relationship (should) be one favouring cooperation, dialogue, safety of work and improvement of the employees' abilities and skills rather than deskilling and the threat of firing and unemployment. It also implies the need for productivity enhancement, which is mainly attained through innovations in products as well as technologies and methods of production, organization and management.

In the technological field, new technologies have drastically reduced the importance of economies of scale, thus big size as a prerequisite of economic efficiency. This enables the development of activities by relatively smaller firms which enjoy other advantages. Flexibility in the formulation and implementation of decisions and/or the direct contact between management, employees, suppliers and customers are some of these.

Finally, in the cultural level, the consumption patterns today tend to favour products maximizing "value for money" for the consumers, namely, the cheapest products for a given level of quality and service provided. Such products may be sold at prices many times above the production cost, as in the case of "brand name" ones (e.g. in clothing and cosmetics).

The above developments are interdependent and produce a new pattern of relations between the firm, the employees and the state. These relations aim at the achievement of new competitive advantages for the firms, not just the exploitation of the existing ones. It is in this way that dialogue, consensus and cooperation lead to enhanced economic and social efficiency as well as international competitiveness.

The afore-mentioned factors also imply that the state should favour market competition and the existence of a "pluralism" of institutional and organizational forms, such as the coexistence of big and small firms, in order to find out, generate and exploit new knowledge. All these point to the implementation of a competition policy that prevents the existence and utilization of oligopoly power exercised by firms of either the private or public sector, which prevents unfair competition, and, even more significantly, which creates the preconditions for making the most of the benefits of fair competition.

Competition, pluralism and the state's failure to undertake entrepreneurial activities, also point to the need for privatization of firms and sectors that

are judged as not being of strategic significance for the country, as well as to the need of opening up the state's monopolistic productive activities to competitive conditions.

Both theory and international practice have shown that for competitiveness to be sustainable, the latter has to be grounded, apart from consensus and cooperation, onto fair distribution of both the benefits and the costs of development as well as on respect to the environment. Fairness has to do with individuals, but it applies to the regions of a country, too. As is with every inequality, regional inequalities are not promoting cooperation. Regarding the environment, environmentally friendly products and technologies may nowadays enjoy even competitive advantages due to citizens' sensitivity and the related existence of legislative framework in their favour.

Industrial Strategy is implemented in a macroeconomic, institutional and socio-economic context. Stability, education, transparency in policy implementation, knowledge of the rules of the game and the securing of an entrepreneurship-enhancing macroeconomic context are sine-qua-non preconditions for this context to be promoting and not hindering development. Another precondition, moreover, is the continuity of policies and legislative acts and the existence of a modern efficient Public Administration. It should be stressed, however, that sustainable competitiveness enhancement may only be attained through continuous and sustainable productivity enhancement at the levels of the firm, the sector and clusters of firms.

Especially in countries like Greece, other vital competitiveness factors include the development of technological infrastructure, the promotion of investment (foreign and domestic), the existence of networks of firms and their cooperation, for example on issues of technology, management and organization.

Competition and cooperation between firms, foreign investment, technology and the promotion of competitive networks are all linked to the state policy towards foreign trade. While the benefits arising from free trade are generally recognized, the use of "strategic trade" (i.e., policies that favour the national firms of a country), provides for competitive advantages to a nation's firms. International agreements, however, are greatly limiting the range of such policies.

Taking all the above into account, the New Industrial Strategy of the Ministry of Industry, Energy and Technology of Greece, proposes social dialogue, cooperation, fair distribution of the benefits, market competition, pluralism in institutional and organizational forms, respect to the environment and the existence of a stable macroeconomic and social

environment, with known and consensually formulated rules of the game, and a continuity of policies and legislative acts as sine-qua-non presuppositions towards the inversion of the de-industrialization trends in the country, as well as for the increase in employment levels, the enhancement of competitiveness and, as a result, the achievement of actual convergence to the other member states of the European Union.

3. The Direction, Axes and "Dimensions" of the New Industrial Strategy

focus on
the main
points

The New IS' primary direction is to find and exploit the Greek Industry's existing comparative advantages while aiming at the creation of new competitive advantages, that is dynamic advantages. We

The incessant changes that take place in the international economic environment, the shifts in consumers' preferences, the emergence of new countries with competitive industry, all these bring about changes in the relative attractiveness of industrial sectors. Once competitive industries may no longer be such, new opportunities appear where no-one could have ever imagined. These never ending shifts along with the inherent inability of the state to foresee them, point to the need for the state to provide support as well as create preconditions that allow the firms to adapt and innovate. The firms should thus be able to find themselves the activities which create future advantages.

Better still, the creation of new competitive advantages does not necessarily imply the abolition of sectors and activities of which the competitiveness is endangered. The existence of relative advantages can function as a basis for successful adjustments, repositioning, restructuring and specialization, that can transform seemingly "looser" sectors into leading ones. The focus on dynamic advantages does not, therefore, question the need for the existing ones to be explored and exploited.

The axes of the New IS refer to the search for the appropriate solutions to a series of problems, for which theory and international practice show that where advantages exist, potential disadvantages may exist, too. As a result, to find appropriate solutions means to try to create the presuppositions that allow for the maximization of advantages. These are related to competition and cooperation between firms, firms' structure, size and strategy, industrial sectors' structure and organization, investment to and from abroad, technology, employment and foreign trade. What are How

3a. Firms' Competition and Cooperation

It is widely acceptable today that competition between firms is bringing about innovation and the enhancement of firm competitiveness. It follows that it is necessary to secure the functioning of healthy competition. Furthermore, it is obvious today that innovative attempts succeed when firms are cooperating, especially in issues of technology, organization, management and production. The state should promote such forms of cooperation, without however allowing the weakening of competition.

In Greece, it is of great importance that healthy competition and innovative cooperation is promoted. The benefits from competition can be very clearly seen in sectors like dairy products. However, lack of cooperation between firms is apparent. Moreover, there are difficulties with effecting mergers and acquisitions. Cooperation between Greek as well as foreign firms, for instance strategic alliances, in such a way that healthy competition and employment are not at stake, should also be encouraged.

3b. Firm Size and Strategy

The new technological developments tend to reduce the relative advantages of the big size of firms due, for example, to economies of scale. This enables small and medium-sized firms that hold other advantages, such as flexibility and closer contact with the customers, to enhance their competitiveness. In many sectors, however, size is a powerful advantage. What should be sought, therefore, is the maximization of the advantages of both small and big size, wherever these are to be found. In our country, which lacks big firms, the support of the efforts of small and medium-sized firms comes naturally, ~~where possible, in coexistence and cooperation with big firms.~~

Besides the size, firms' strategy is also crucial. Innovative firms that produce branded, good quality and/or differentiated products tend to be those that achieve significant competitive advantages today. The state's role is to enforce innovative activities, providing assistance such as competitiveness promoting external services. These are financial, technological, research, consulting services as well as services for the education of the personnel, the promotion of cooperation between firms and Universities and the support concerning cooperation between firms.

3c. The Structure and Organization of Sectors & Clusters

The coexistence of big and small firms in the same sector as well as the clustering of firms of complementary sectors in certain areas tend

frequently to promote the creation of "networks" or "clusters" of firms. Countries or regions with developed such networks have achieved high rates of development. Typical examples are those of North Italy and regions of Germany and the USA. The advantages of clustering tend to increase when both cooperation and competition between firms take place; moreover, when the cooperation is extended to involve other firms, suppliers, buyers, Universities, local authorities and the state.

The existing clusters in Greece are few and weak. The state should support potential clusters. Through clustering, it becomes possible for the small and medium-sized firms to acquire advantages, such as access to research and technology and the new ways of organization, management and production. These advantages are difficult to acquire without clustering, because of the relatively small size and the lack of financial resources and information of small and medium-sized firms.

3d. Direct Foreign Investment from, and to Greece and Technology Transfer

Research and international practice show that foreign investment may be beneficial. These benefits are related to the import of technology, knowledge, skills as well as methods of production and organization and management of firms. In certain cases, investment from multi-national enterprises may have negative impacts, at least in the longer term. This happens when, for example, competition is reduced due to the power that a multi-national enterprise may exert over the market.

What is required, however, is to maximize the benefits. It is clear today that these occur in cases that a TNC uses the "host" country as a quasi home country. This means that the TNC does not use the country as a mere assembly plant, but also transfers functions such as research and technology. These are then diffused into the tissues of the "host" country's productive and economic structures. A problem today is that countries are competing against each other in order to attract investment from abroad. This leads to "competitive bidding" by countries to attract TNC's. These reduce a country's ability to maximize the benefits from these investments. It is crucial to understand that the only way to avoid this is the existence itself of the preconditions for investment of either foreign or Greek firms in Greece. The competitiveness of the country can be thus enhanced, which in turn will lead to the enhancement of its bargaining power. The state, should eliminate the mainly bureaucratic anti-incentives and examine the conditions and presuppositions for attracting foreign investment, with an eye to satisfying the country's needs for technology, skills and, importantly, employment.

Transnational
Company

One of the recently observed trends in Greece is that of investing abroad, mainly in the Balkans. Such investments may substitute or complement investments in Greece. When they are successful, they may enhance the Greek firms' position in these countries, create competitive advantages because of the lower labour cost in these countries and lead to the repatriation of profits to Greece. They may also broaden the Greek firms' horizons, cultivate the depth of Greek entrepreneurial activity and give support to the development of entrepreneurial activities of a relatively higher level (i.e., Research and Development) in the context of the international division of labour. State policy should create the preconditions that allow Greek firms to maximize the firms' and the state's interests, that is, support activities leading to cumulative benefits not only for the firms, but also for the country itself, e.g., in terms of employment. This means that the activities to favour are mainly those that complement and not substitute investments in Greece and that hindrances are not to be set against the development of entrepreneurial activity. However, simple substitution of Greek investments, may further the de-industrialization trend of the country. In such cases, other ways for the enhancement of the position of a firm which intends to undertake such activities ought to be examined.

3e. Free and Strategic Trade

The benefits from free trade are well known. Besides, developing countries, such as post-war Japan and the countries of Southeastern Asia, have benefited from strategic trade, too. The conditions and presuppositions of successfully exercising strategic trade today in Greece, for instance the existence of infant industries under quasi-protection by the state, are rather non existent. In addition, every means of protectionism in the framework of at least the European Union is not acceptable.

It is worth pointing, however, that some protectionism is often an essential condition for the attraction of foreign direct investment. Furthermore, in the EU the favourable treatment of national firms has also been practiced. Such policies may lead, however, to retaliation policies that are to no-one's benefit. Our country, partly because of its small bargaining power, has no alternative than pressing towards the development of free trade in the EU, while fully exploiting the existing possibilities for favourable treatment towards all small and medium-sized enterprises. These possibilities are provided by the EU typically to all small and medium-sized enterprises, in cases concerning the national interest of a country, but also in cases of less favoured regions. All these mean that there is scope for the favourable treatment of Greek firms, especially small and medium-sized, with measures of supporting their efforts, i.e., networking, access to capital

funds, development of human resources, product research and development.

3f. Ownership Structures

The wealth of theoretical knowledge and international practice on the issue of ownership structures, has shown that, globally, there are successful and non-successful public and private firms. The main issue is not the ownership structure, but rather the conditions of competition and state regulation.

The need for the change of the property status of some firms in Greece, i.e., ailing companies, which participate in the market and are subject to competitive conditions, is undoubted. This does not necessarily mean the simple substitution of a public by a private monopoly, nor should it lead to the private sector controlling activities that are widely recognized as of national strategic significance. In any privatized company, the state should try to solve the social problems that occur, mainly that of unemployment.

The last issue examined here has to do with the main directions of the New IS. There is, nowadays, a huge discourse, globally as well as in Greece, concerning vertical versus horizontal dimensions of the IS. Horizontal are these actions that affect all firms and sectors, as are, for example, infrastructure, education and the development of research and development. Vertical ones are those that aim at specific sectors or firms. In the past, vertical actions have led to poor results for reasons related to the state's inability to "choose leading sectors". Other reasons for the failures of vertical policies were the development of clientele relationships as well as the fact that favoured firms had lost their motivation to compete through innovations, due to the protection that they enjoyed.

While the above findings are true, there are three reasons that cast doubt on the distinction between vertical and horizontal actions. First, in small markets, as that of Greece, with activities in a limited number of sectors, every (meant-to-be) horizontal action has also a vertical dimension. Second, horizontal policies such as education and technology can be, and are, frequently used in a manner that has a vertical dimension, that is, the development of technologies or specializations that are compatible with activities in which it is intended to achieve competitive advantages are supported. Third, and most important, are the clusters. As we have already stated, they have gained a reputation and have been recognized as a significant factor of competitiveness. In the case of clusters there does not exist any conflict between horizontal and vertical actions. The clusters often involve a multiplicity of sectors and activities.

It follows that horizontal policies are crucial, especially for Greece, and must be seen as the state's first priority. Such policies include tangible and intangible infrastructure, public administration, education, technology and "culture". The focus on horizontal policies, however, does not imply that it is not possible or desirable for the state to create preconditions that favour clustering. As for purely vertical policies, interesting is that countries, such as Portugal, use purely vertical policies (with the support of the EU), for example through the PEDIP program for the enhancement of the competitiveness of Portuguese industry. In Greece, the unpromising effects of vertical policies imply the existence of consensus on horizontal and cluster-supporting policies. The latter does not exclude the possibility of exploring purely vertical policies where and when consensus can be reached concerning where and in what way these vertical policies can be successfully implemented.

4. Concluding Remarks

This paper constitutes the first consensus-based Industrial Strategy in our country and for that reason is a first good step. It should be stressed, however, that it is no more than the first step. It provides general strategic directions and not specific actions or initiatives to be practiced. The elaboration of the above is another procedure, running in parallel, which the Ministry has already undertaken under the "Project on the Future of Greek Industry".