

European Alliance Against Coronavirus

Wednesday 15th July 2020 at 8:30

“Open for business”: European Economy, the Recovery Plan and how clusters can help

Working format is based on “Gilles Rules”:

1. conceptual framework
2. needs and disruptions
3. solutions

Speakers:

- Veronica Elena Bocci, DITECFER

[Link to session's recording](#)

1. CONCEPTUAL FRAMEWORK

The role of the clusters in the European Recovery Plan

Veronica Bocci opened this session with some interesting questions: “What more can we say on the European economy and EU Recovery Plan when we have daily meeting with experts? What’s happening around us and how can this impact our plans?”

She offered to widen the perspective and shared insights from outside the EU. Some days ago, she followed an interesting webinar from Ohio Small Business Development Centers which analysed the Covid-19 consequences on China and its economy. It is clear that the US tries much more to understand what the pandemic’s implications for the global economy and the supply chain are.

In China, there has emerged an employment, hiring and training crisis trying to find new workers for the market, which has consequently generated a productivity and quality crisis. In the last months, 247,000 Chinese companies declared bankruptcy while 460,000 Chinese firms closed. This is the first time that the Chinese government has reported a contraction of the economy since 1976. This situation has consequences for the US, which reallocated \$750 billion of export of American suppliers.

Regarding the reallocation of business, she raised the point of a possible “attractivity war” starting with the EU and neighbor countries. So far, the reaction of the European Commission included two initiatives: The first is the “White Paper” on levelling the playing field with regard to foreign subsidies (consultation until September 2020), while the second initiative is the “Brussels plans attack on low-tax Member States” developed to stop unfair practices in EU tax havens.

The Recovery Plan is a great umbrella to face the pandemic consequences and as Veronica said, “the EU is really doing something great”. If we want to compare this one to the Marshall Plan, the EU Recovery Plan has much more resources and the clusters can play an important role an all of its parts to develop locally driven actions.

2. IDENTIFICATION OF DISRUPTIONS

First disruption: global supply chains dependence on Chinese market

Evidence: This trend has already been highlighted in many other sessions, because of the strong dependence of European markets on Chinese industries (this is not only a “EU problem”, since all the world is facing this issue). The Covid-19 crisis generated a sharp contraction in the Chinese market, which influenced supply chains all over the world. One of the strategies implemented by the US companies that had plants in Asia is to recover the crisis through re-shoring policies, bringing industrial activities back to the US. This is what the EU should also do. However, it is not a simple action. Many companies confirm that they do not want to leave China despite the crisis, especially for low-cost reasons. However, China doesn’t mean only “low-cost”. They are also strong from the innovation point of view (China is the country with the higher number of patents in the world). Reducing the dependence on their industries is crucial for EU.

Geographical impact: EU / worldwide

Stage of value chain: entire value chain

Character of the disruption: supply chain dependence on China

Time frame: mid – long term

EU action needed:

- **Funding:** more subsidies for EU companies

Recommendation:

- Be pessimistic regarding forecast of recovery from China
- Conserve capital and resource
- Expect large-scale simultaneous supply chain realignment

IDENTIFICATION OF NEEDS

1) Openness to investment is part of an economy’s resilience. To be resilient, companies need to invest more, especially in time of crisis. But to invest more in this difficult period, they need more support from the EU. More subsidies are needed.

2) Article 116 of the EU treaty gives Brussels the power to correct tax scheme distortions within the single market, but it has never been used. Bringing Article 116 into play could stop unfair practices in EU tax havens (for example, FCA requested to Italian Government 6.3 billion € for Covid-19 crisis; however FCA has partially production in Italy and it has legal seat in Nederland and fiscal seat in UK; it does not pay any income taxes to Italy).

3. SOLUTIONS

A) Role of Clusters in the Recovery Plan. The Recovery Plan foresees 750 billion € for the period 2021-2024, divided into several packages. Within these, clusters can play a very important role, they can be the “infantry” of the recovery. In particular:

- (i) draft recovery and resilient plans and (ii) more locally driven actions within the Recovery and Resilience Facility package
- Identify and draft territorial plans for Green and Digital transitions within the Innovation, Digital and Sustainability packages

In general, clusters can intervene increasing cohesion, creating shared values and strengthening collaborations. They are facilitators and accelerators of recovery. Then, the individual specific actions depend also from companies and reference sectors. Resilience is the keyword and clusters are the platforms to share best practices: they can help also to detect priorities for companies and to identify the right partnership to tighten.

Additional contributions brought by the examples given by Spain, Slovakia, and Portugal on how clusters are already acting to be included in the national recovery plans:

- In Spain, the national federation has started to speak with the Ministry of Industry and the national employment agency. In a general assembly, the Spanish clusters discussed how to move to be recognized. Important topics to act on have already been discussed in the morning sessions, like as skills, upskilling, reskilling, data and digitalization. In general, these are some areas where it is easier to speak with the stakeholders, while for other it is quite difficult to interact. The main goal is to recognize clusters as big players at the national level and, in this context, the challenge is to be heard by the government to be included in the green and sustainable strategies.
- In Slovakia, the main scope is to put cluster closer to the recovery plan and national level working to establish connection with new governments to have more trust, more responsibility, and more power. The proposal is to create a value chain support scheme implemented through and with clusters at different levels (EU, national, regional). This is possible for example by integrating value chains with circular processes, and supporting R&D with the help of EU programs (not direct financial support, but support value chains through cluster).
- Before crisis, the Portuguese association already had a connection with the government but after the crisis, this connection can be reviewed in order to solve some critical issue. The relationship is a good instrument to increase the visibility of clusters and the results of the activities carried on. The Ministry of Economy and Digital Transition signed a sectoral pact with 16 clusters. It is very important for the strategic point of view to cover several topics such as skills, digital transition, internalization, and the supply economy. Informal association meetings are held every two weeks to align the activities, talk about the sharing of skills through clusters in digital and green sector. These meetings are joint by a committee of different important entities, cabinet of internalization, employment and are basically thought for understand the problems and to find solutions. During the pandemic, they are focused on the problems generated by Covid-19.