European division of labour and the competitiveness of the automobile industry: An introduction

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The overall effects of automotive FDI in CEE

- FDI has led to increased specialisation in the automotive industry at European level > the reorganisation of the value chain in a way that has created bigger value added for MNCs
- Only a minority of activities have been relocated i.e. shifted abroad and local facilities closed
- The majority of internationalisation took the form of expansions and extensions which suggests that the EU enlargement has been a positive sum game in the automotive industry

The overall effects of automotive FDI in CEE II

- Those CEE countries that have attracted FDI in this industry have benefited through preserved employment, increased productivity, export and through great potential for development of a local supply base.
- The biggest beneficiaries of this change were consumers who benefited through increased variety of supply and reduced prices.
- EU accession has further ensured that these benefits are generated through increased competition and the abolition of tariffs and non-tariff barriers.

Unexploited value creation potential

- However, the value creation potential of CEE as global automotive location has not yet been fully exploited.
- This process has been the most developed in the Czech Republic and Hungary. It is faced with difficulties in Poland and has started in Slovakia and recently in Romania.
- While great changes have been made in assembly sub-sector we may expect further changes in car parts supplier sector through the further arrival of first tier suppliers and the deepening of the local supply base.
- Productivity in industry is well above the industry average and company evidence points to large productivity gains. In that respect, the arrival of large assemblers has produced quite substantial effects which in the next stage needs to deepen through further development of the local supply base.

Prospects for further industry restructuring

- Regarding prospects for further industry restructuring, they depend mainly on improvements among local suppliers > to ensure that local content is growing.
- A crucial policy issue is whether current national and EU policies are addressing this next stage of industrial upgrading in CEE automotive industry.
- Most of the CEECs have been active through FDI policy. However, this policy focus has become far from sufficient for industrial upgrading which requires integration between FDI and vocational training and innovation policies.
- CEE should take into account the network character of local and global companies. This has been already recognized (implicitly or explicitly) through the National Subcontracting programmes (Czech Republic) and the Hungarian *Integrator* programme (cf. recently abolished?), which aim to integrate domestic firms with foreign firms through supply linkages.

Enhancing inter-firm linkages

- Inter-firm linkages which have emerged through automotive value chains should be further deepened.
- Job and retraining grants as tools of FDI/subcontracting and innovation policy should be expanded throughout the region, possibly linked to Structural Funds programs.
- This should be complemented with clustering policies and promotion of ‘learning networks’ which would closely connect suppliers and assemblers > the best employment policies are those that support upgrading of local suppliers.