



Automobile MNC Strategies in Southern Europe and Maghreb Countries

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Main Ideas

- The automobile industry between global and regional strategies
- FDI in CEES countries
 - Contribution to industrial redeployment, creation of new specializations, networks and linkage
 - Hierarchy in the regional/enlarged EU: CEEC as a dependent capitalism?
- Proximity effects, processing, upgrading by the MNC in South East Europe (the Balkans), Maghreb (Tangier, Oran): rivalry or complementarity?
- Segmented markets: competition, risks?
- Maghreb: Imports vs. Production, a New Frontier: Southward?

The automotive industry: global strategy and regional choices

- An oligopolistic industry, few producers by big countries
 - Fifteen worldwide, biggest share of production.
 - Cooperation, Competition, Mergers & Acquisition
- One dominant producer by major countries; GM, VW, Toyota.
 - Global capacities. Overcome barriers to entry
 - But irreversible investments, divestments
- Emphasis on global / regional strategies
 - EU, N. America, Asia
 - Big groups: each present in more than 20/30 countries
- Recent Entry from Emerging economies
 - Europe, North America, Asia, developing economies: Algeria, Ukraine, Iran Uruguay, Russia.
 - Asset seeking: Tate/Jaguar, Dongfeng/PSA, Geely/Volvo

Cont'd

- Both capital, innovation and labor intensive
 - High degree of externalization (> 50%)
 - Very specialized (1st third) subcontracting, strong cluster effects for supplying final assemblers (2nd, 3rd third parties)
- Strong competition
 - Top (premium) : innovation, electronics, engine, safety
 - Bottom: low cost policies, competition from new entrants
- Overcapacities
 - Continuing restructuring, going out (Belgium)
 - Takeovers, north-north (Fiat Chrysler), North-East (Renault AvtoVAZ)
South North (Geely Volvo, Dongfeng/PSA ..)
- Dependence on macro fluctuations, currencies, income policies, direct incentives, indirect, innovation policies (electric cars)

Multinational strategies

- Multidomestic strategies
 - Foreign subsidiaries supply local markets accross national assembly or local integration
- Regional strategies
 - Development of a division of intra-group work at a macro region.
 - Integration of activities and specialization of foreign subsidiaries, more export-oriented
- Trans-regional and global strategies
 - Division of labor, intra group rationalization and integration of activities over a wider geographical scale involving two or more macro regions
 - Each regional network of subsidiaries tends to specialize in a lineof prodcuton or in a particular function

Case Study: FIAT's Strategy

- Multidomestic strategie
 - 1950s-1970s: subsidiaries oriented towards local markets: Spain, Argentina, Brazil
 - Joint ventures and industrial cooperation agreements: Yugoslavia (1954), USSR (1966), Poland (1971), Turkey (1972)
 - 1979-1990: divestment: Spain, Latin America (except Brazil)
 - 1990s: local assembly of mature models in several countries in response to incentives
 - Domestic incentives

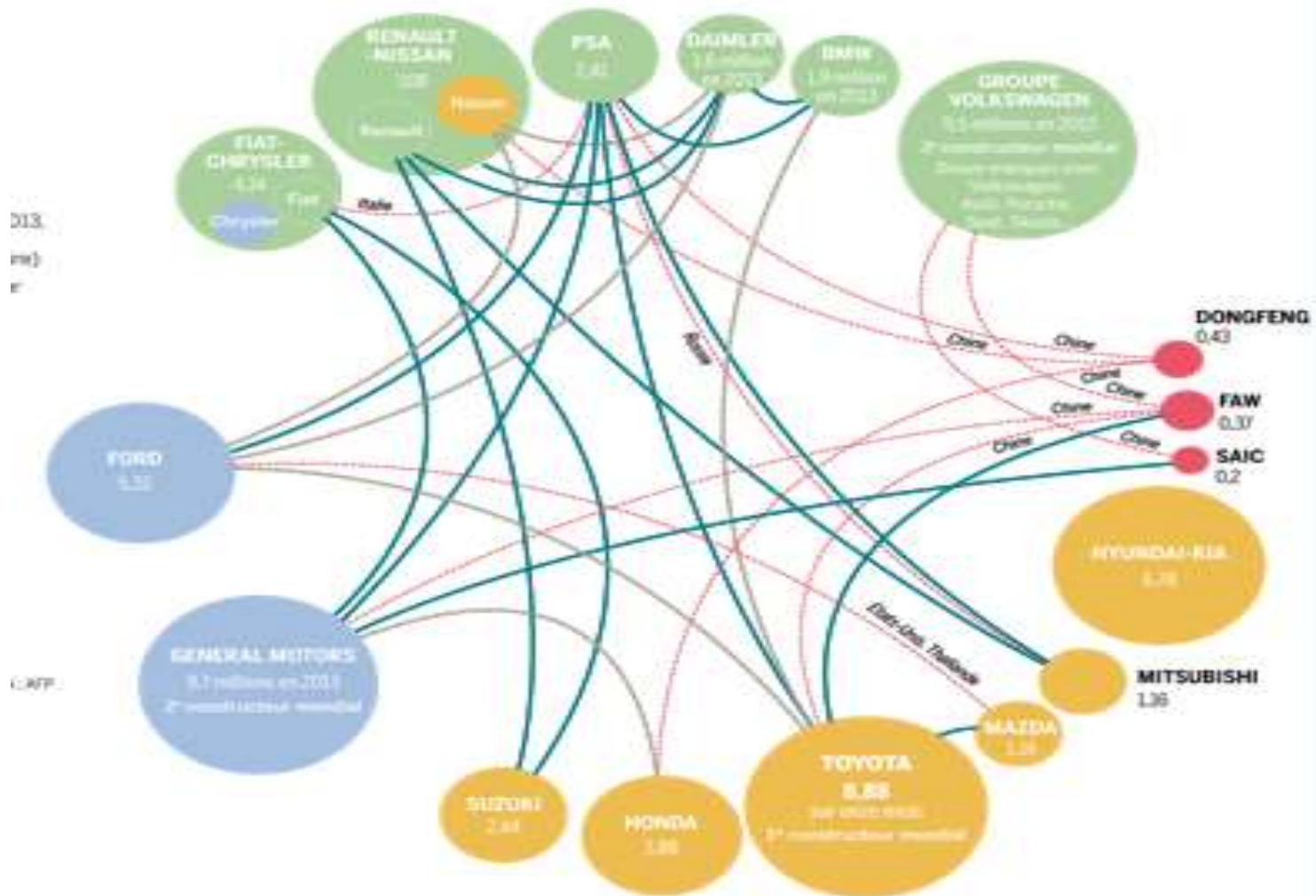
FIAT, cont'd

- Fiat Regional Strategies in Europe
 - Poland and Serbia in the European production network
 - 1980: Relocation to Poland obsolete model in cooperation with state enterprise, re-export to Italy
 - 1991-1992: Poland: Fiat 500 production after privatization
 - 1990s: Turkey produces light commercial vehicles
 - 2012s: Serbia joins the European production network
- Project of a global model, 1994-2005: Failed
- Global Strategy:
 - refocusing on USA (Chrysler-Fiat Agreement creating FCA)
 - Impact of the global crisis, concentration within the global oligopoly

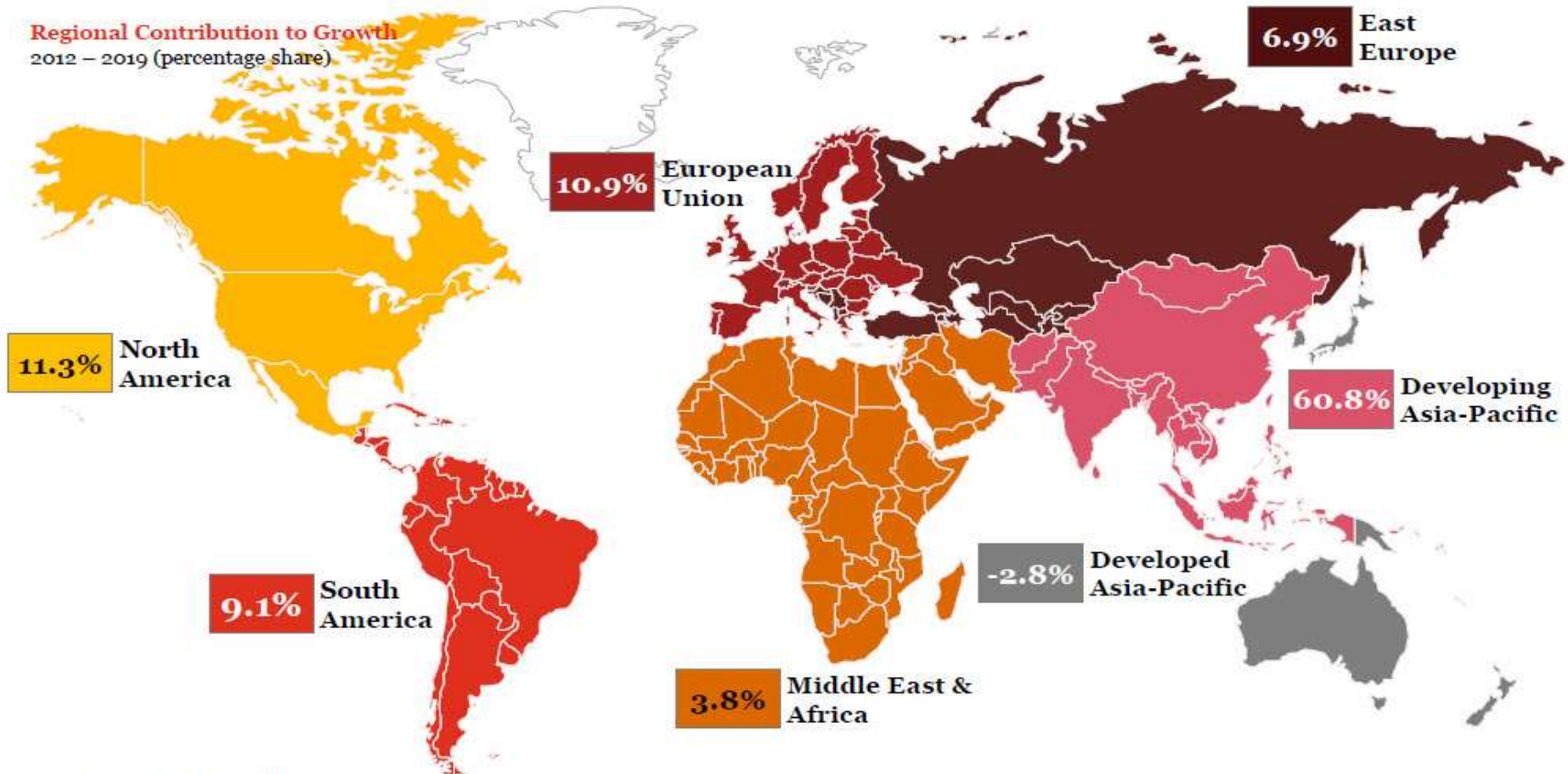
Other makers: VW, PSA, Renault

- Similar strategies with different results:
 - Seeking European markets
 - Looking for regional Integration
- Success of a global model from a new member country, Dacia/Renault, Romania
- Eastward: Alliance strategies and penetration of Asian markets:
 - Japan: Nissan-Renault,
 - China: VW-FAW, PSA-Dongfeng..Fiat, late comer

The World Car Industry



Differences in Growth, Profitability



Source: ASEAN = Association of Southeast Asian Nations

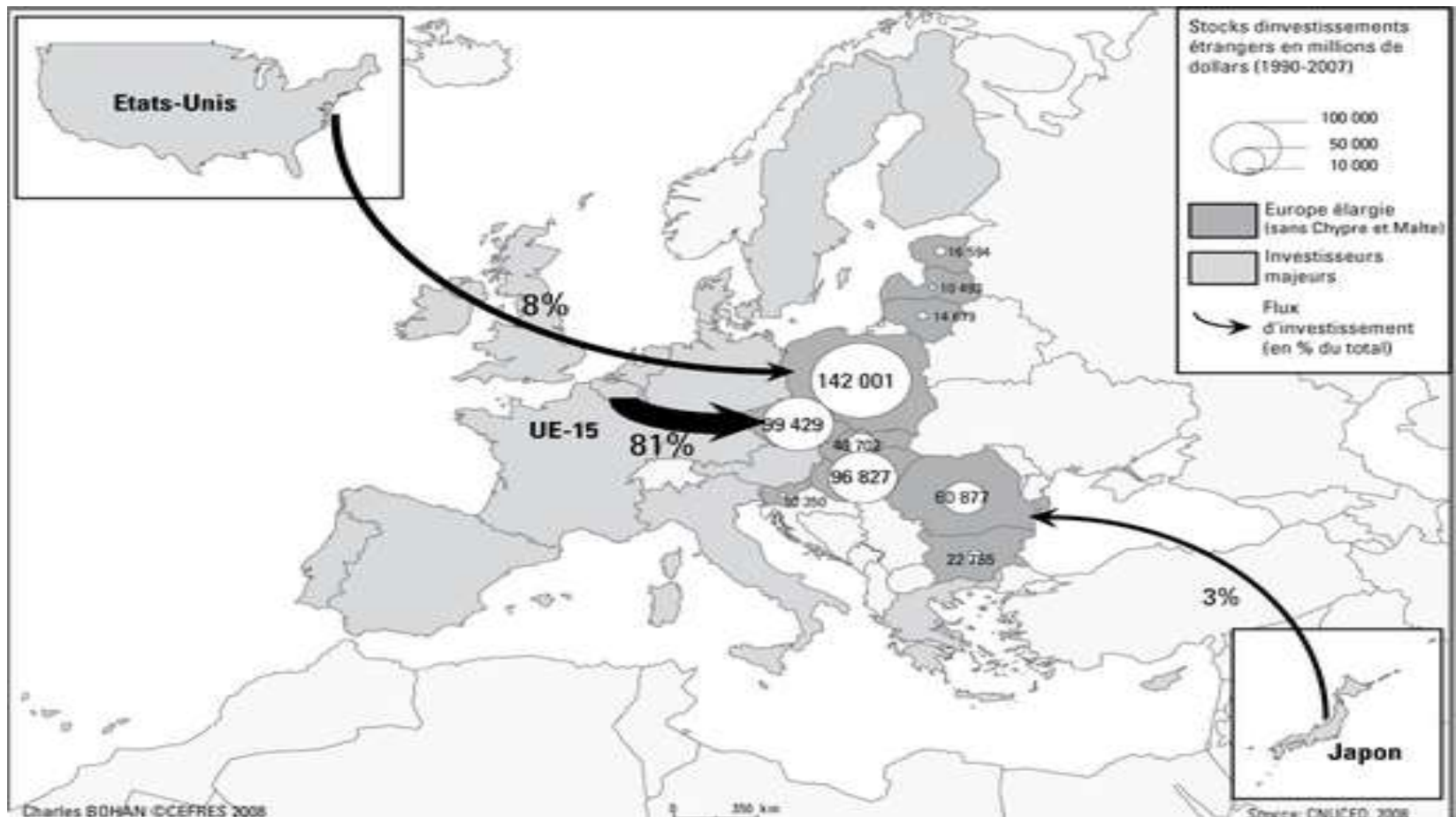
FDI in CEES Car Industry

- Before the fall of the Berlin Wall
 - Undeveloped area: a national brand Skoda, cooperation agreements (J.V.): Fiat in Poland and Russia (Fiat fiatovitch model), Renault in Romania; Fiat, Renault in the former Yugoslavia (Slovenia, Serbia)
 - industrial legacies (workforce, technical training, defense, heavy industries some electronics)
 - Further East: Former location of Renault and Fiat: Turkey
- After the fall of the Wall
 - Privatisation / Investment: VW buys and restructures Skoda in the Czech Republic
 - Greenfield in Slovakia: Toyota, Peugeot, Kia, VW. Towards a new hub
 - Brownfield (restructuring and expansion of existing businesses): Renault bought Dacia, up scale
 - Opening / restructuring / institutional changes: Renault in Russia (Moskovitch Avtovaz), Fiat in Serbia, Great Wall (China) in Bulgaria.

Entering New Markets

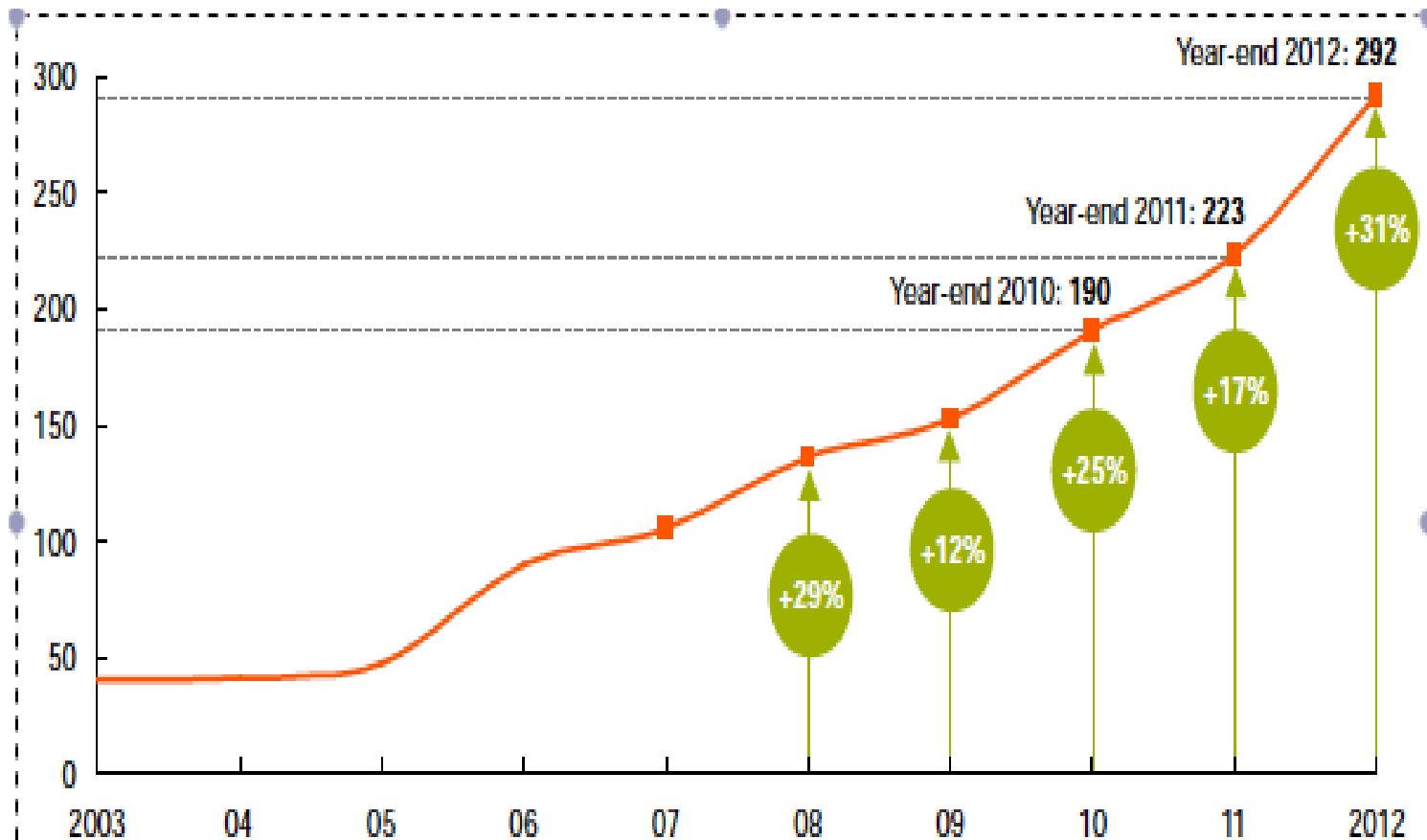
- Growth in demand linked to system change:
 - Higher Purchasing Power
 - Limited supply, low quality, little innovation
 - First ownership
- New markets, proximity to EU-15 markets
- Cost of labor: 1/4 of hourly cost compared to Germany, France
- Technical skills A regional value chain ...CEES both a new market and the backyard of EU-15 car makers..

CEEEs: a new destination for FDI



Offsourcing and Offshoring job growth in the CEE area

(1000 Full time employment equivalent, cumulative)



SOURCE: Eastern European Services and Technology Committee analysis; McKinsey Business Technology Office; McKinsey Global Institute analysis

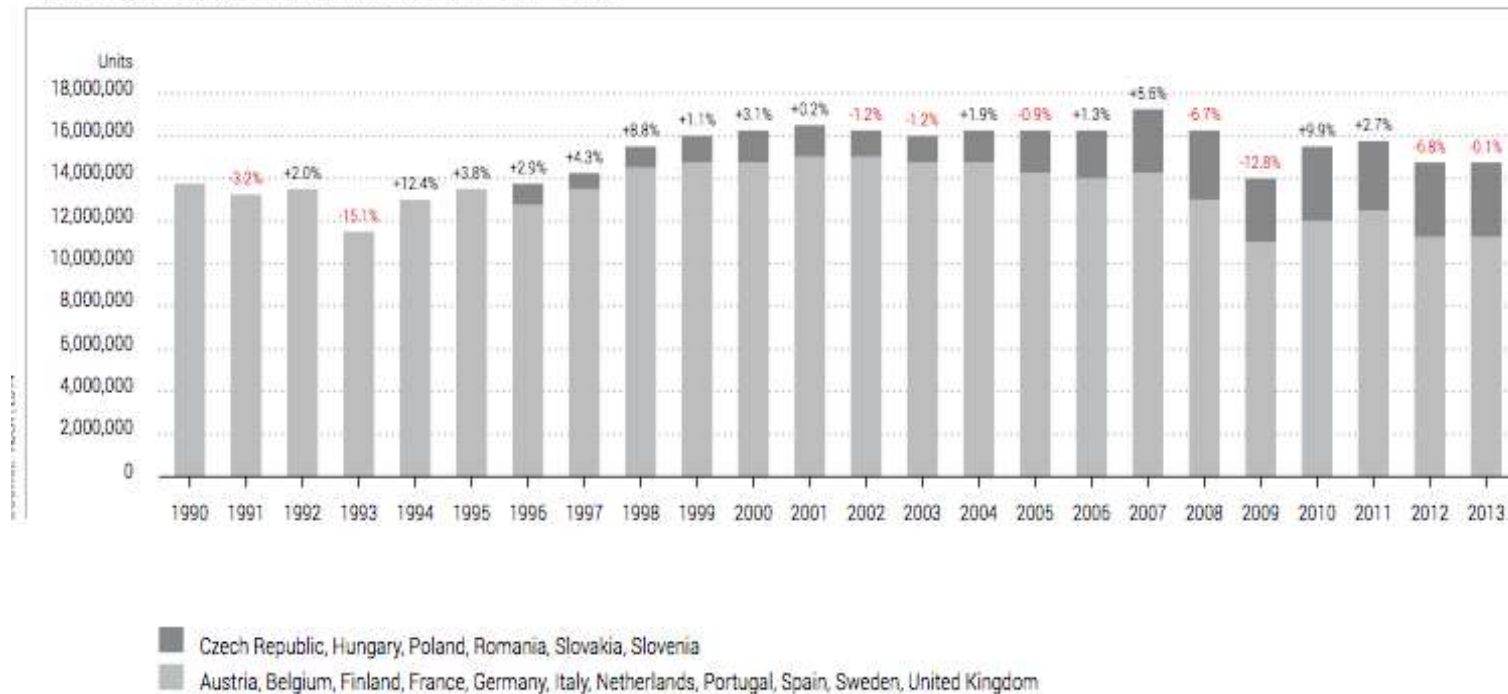
Car Production in the EU

Automobile assembly and production plants in Europe, 2014				Motor Vehicle Production in the EU, 2013							
EU		Plants	NON - EU		Plants						
	Austria	5		Belarus	2						
	Belgium	9		Kazakhstan	4						
	Bulgaria	1		Russia	34						
	Croatia	2		Serbia	3						
	Czech Republic	8		Turkey	15						
	Finland	2		Ukraine	7						
	France	34		Uzbekistan	2						
	Germany	43									
	Hungary	4									
	Italy	22									
	Netherlands	9									
	Poland	14									
	Portugal	6									
	Romania	3									
	Slovakia	3									
	Slovenia	1									
	Spain	15									
	Sweden	11									
	United Kingdom	34									
			ALL MANUFACTURERS		Countries	Plants					
			Total Europe	26	293						
			TOTAL EU	19	226						
			ACEA MEMBERS		Countries	Plants					
			Total Europe	22	190						
			TOTAL EU	16	166						
											TOTAL
	AUSTRIA	146,566			19,862					166,428	
	BELGIUM	449,600			30,564					480,164	
	CZECH REPUBLIC	1,128,473			4,458					1,132,931	
	FINLAND	8,000								8,000	
	FRANCE ²	1,460,000	280,000		n.a.					1,740,000	
	GERMANY ²	5,439,904	278,318		n.a.					5,718,222	
	HUNGARY	220,000			2,400					222,400	
	ITALY	388,465	236,040		33,702					658,207	
	NETHERLANDS ²	0	0		0					0	
	POLAND	475,000	104,055		4,203					583,258	
	PORTUGAL	109,698	40,918		3,400					154,016	
	ROMANIA	410,999			38					410,997	
	SLOVAKIA	975,000								975,000	
	SLOVENIA	89,396	4,339							93,734	
	SPAIN	1,719,700	419,954		23,684					2,163,338	
	SWEDEN ²	161,080			n.a.					161,080	
	UNITED KINGDOM	1,509,762	68,823		18,848					1,597,433	
EU ¹		14,616,202	1,429,748		137,774					16,183,724	

Trend in the EU Car Production

Trends in EU car production

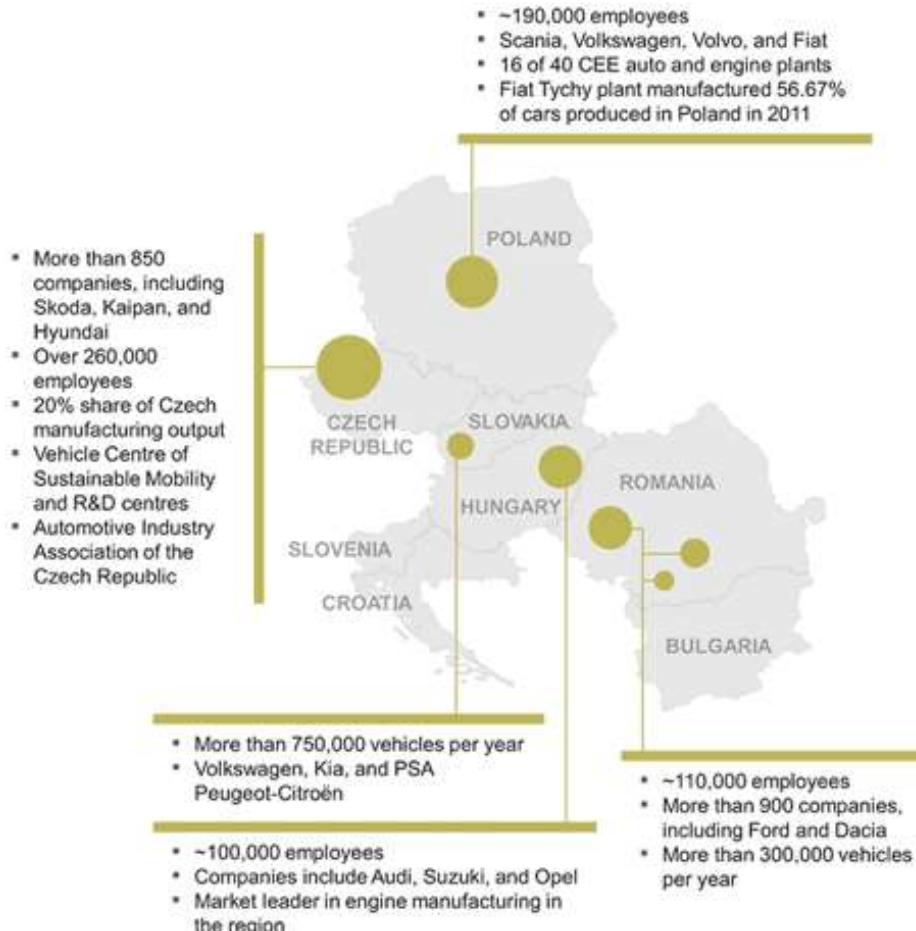
Passenger car production in the EU | 1990 - 2013



New locations of Car plants in the region



Clusters Effect



Car makers among the Top biggest firms in the region

Rank	Top 500 Rank	Top 500 Rank LY	Company name	Country
1	3	3	ŠKODA	Czech Republic
2	4 ↑	6	Metinvest	Ukraine
3	13 ↓	12	AUDI Hungaria	Hungary
4	17 ↑	21	Volkswagen Slovakia	Slovakia
5	22	NEW	GE Infrastructure Central & Eastern Europe Holding Korlátolt Felelősségű Társaság	Hungary
6	23 ↑	25	GE Hungary	Hungary
7	27 ↓	20	Fiat	Poland
8	30 ↑	64	ArcelorMittal Poland	Poland
9	36	36	Kia Motors Slovakia	Slovakia
10	39 ↓	33	Samsung Electronics Slovakia	Slovakia

Impact

- Importance of the automotive sector in the GDP share of FDI, foreign trade, employment
- Regional integration push
 - revival of the industry: Poland, Czech Republic, Romania
 - Strengthening existing sites (Slovenia), specialized industrial sites (Hungary)
 - creation of a new industry: Slovakia
- Product innovation: Dacia in Romania
- Prioritization of regional production system
- Other locations: Belarus, Ukraine, Russia ...
- Southward

The Balkans: A New Frontier?

- Return on success: Renault / Dacia
 - Dual strategy: entering a new market, using the Romanian plant to launch a low cost car to conquest of new markets in Europe (Russia) Asia (India), Africa (Morocco)
 - R&D transfert from France to Romania
- Rebirth of the automotive sector: Serbia
 - Automotive tradition Zastrava/Kragujevac
 - Existing clusters
 - Reforms, privatization, association with the EU
 - Fiat is back: 850 millions € investment, 200,000 units, intermediate model, export to the EU
- « Have a go »: A new sector for the Bulgarian Industry?
 - Automotive knowledge (Balkancar)
 - Failure of a EU car maker entry : Rover pulled out
 - The South Gate ? Entry of a chinese car maker: Great Wall, after Geely in Russia and Ukraine

Advantages, Issues

- Advantages
 - proximity
 - Institutional transformations, privatizations
 - Accession impact, EU association: flow of FDI
 - Low labor cost, high level of qualification of the workforce
- Issues
 - Narrow and fragmented markets
 - Still low standard of living, low demand
 - Strong competition: East, countries from origine (pressure for relocation against subsidies at home: Renault, Fiat)
 - Manufacturers face harder strategic choices:
 - Fiat absorbing Chrysler, Renault pushing in Asia, Russia:
 - economies of scale, volumes;
 - EU low growth and continuing economic crisis

North Africa: Strong Expansion

- South Africa remains the most important market
- North Africa: Morocco, Algeria, Tunisia, Libya, Egypt
 - Expanding group of assemblers, suppliers
 - Gateway for the continent + Middle east, Mediterranean region
- Market growth
 - Algeria: 1st market in 2012: 450 000 units sold
 - Egypt: 290000
 - Morocco: 126 000
 - Tunisia: 56 000
- Heterogeneous Markets
 - Algeria, Morocco, Tunisia: European dominated: 90%
 - Egypt, Libya: US specifications..

Morocco, Algeria, Tunisia

- New spaces for the development of the automotive sector
 - Living standard increase, higher level of motorisation
 - Increasing qualifications, low cost of labor
 - Low cost of gas..
 - Competition in "traditional" sectors (textiles), lower margins
- Different industrial strategies
 - Tunisia: clusters strategy, upgrading via FDI but hard to create volume
 - Algeria: a bureaucratic industrial policy; low investment incentives, but high demand. Largest market. Strong growth potential. How to set up a sectoral development project: between the State and the market
 - Morocco: opening and consequent industrial choices (industrial zone of Tangier)

Morocco

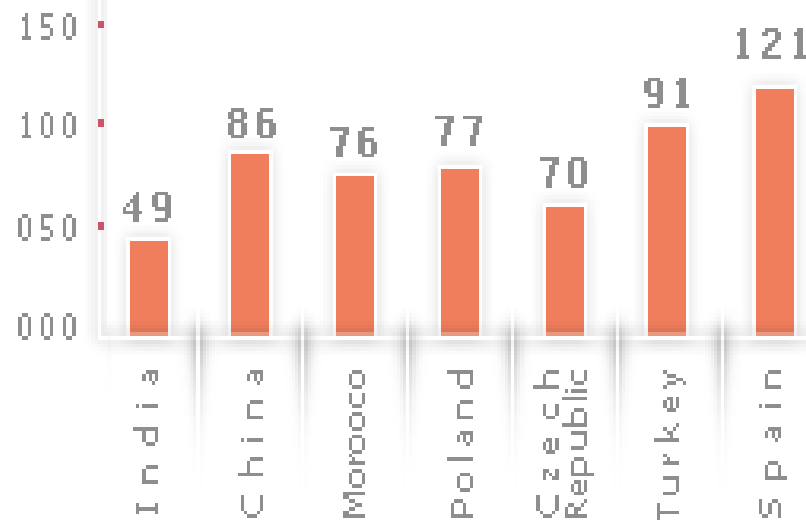
- Strong Attractivity Policies
 - toward FDI, Trade agreements , bi, multilateral (EU, US, WTO)
 - Proximity: Spain, 12 km from Tangier
- Tangier: one of the most efficient port along the Mediterranean Sea
- Cost and training of the workforce
- Pro-active industrial policies in the north: Tanger Med.
 - One of the most efficient port along the Mediterranean Sea
 - Strong irreversibility of investment,
 - Impact on local development, spin-off. Outsourcing
- Foreign investors strategies: Renault
 - Morocco's integration into global strategy of low cost
 - Moroccan and foreign market (80% exported)
 - Export: automotive exports more than the textile sector
- Attractiveness for related industries, suppliers, services

Labor costs in Morocco

Internationally-educated experience management



Average wage per
employee (in 000' \$)



Renault Investment in Morocco

RENAULT'S INVESTMENT IN MOROCCO

WITH RENAULT'S MEGAPROJECT, MOROCCO IS NOW A MAJOR VEHICLE PRODUCTION BASE



Renault developed a major production center in the north area of Morocco

- ⌚ Total Investment: 1 Billion €
- ⌚ 400,000 cars to be produced in 2015 (~200.000 in 2013)
- ⌚ Plant production capacity: 60 cars/hour
- ⌚ A 280 Ha site creating 6,000 direct employments and 30,000 indirect employments
- ⌚ Around 40 suppliers followed or are about to follow Renault's installation in Tanger Free Zone

Renault, cont'd

- Investment of 1 billion €, Tangier, Casablanca
- 400 000 units soon.
 - Currently 120,000 units produced, 90 000 exported to Europe and MENA countries (commercial agreement).
- High integration level > 40% of components produced in Morocco
- Low pay: $\frac{1}{4}$ of the French minimum wage.
 - Blackmailing Romanian workers on strike for higher wages: relocation threats to Morocco...

Problems

- Limited supply of qualified labor (engineers), rising costs of production: impact on margins
- Level of domestic demand, highly volatile, linked to income distribution, growth in spite of a stable political and institutional environment
- Growth in external demand:
 - Export north (Europe), South (sub-Saharan, Jordan, Tunisia, Egypt). Horizontal market blocked (Algeria).
 - Limited economies of scale. Egyptian market collapse
- Future of low cost models: Domestic production / imports. Entry of competitors (Indians)?

Algeria

- FDI mostly toward oil and gas sector
- An industrial model broken down:
 - de-industrialisation, dutch disease
 - Despite skills and strong demand, development of the automobile has been sector a low priority. many failed attempts to bring in businesses but higher transaction costs (control, constraints, customs duties)
- Renault in Algeria against his will?
 - No horizontal N. African markets: Morocco-Algeria closed borders: no economy of scale.
- Rent seeking, rent sharing
 - For importers, ministries, dealers, more to gain from imports than to produce locally

Algeria, cont'd

- A more positive approach towards foreign investments
- Morocco soon in the top 20 global manufacturers
- Competition: Entry of Asian competitors (China FAW), lower tariffs? A threat to oblige Renault to commit more on this market?
- Trade off importers vs. domestic production
 - Incentive to bring other investors
 - Importers obligation to invest in domestic industrial projects
 - Ability of domestic producers to export
 - Control joint ventures (51-49%)

Renault in Algeria

- Historic presence
 - market shares: n° 1
 - - Algeria: 10th largest market
- Renault investments:
 - 50 mios €
 - in 2014, producing 25,000 units (Symbol) sold on the domestic market.
 - Plan to produce up to 75,000 units.
- Renault Algérie Production: A JV between Renault (49%), SNVI (34%), Algerian National Fund(17%)
 - Parts from Renault Pitesti's plants & logistic center in Romania
 - Development of a national subcontracting network to contribute to the creation of a local automotive industry, proximity
- To start: semi-knock down mode
 - Parts shipped from Pitesti
 - 220 containers from Romania every week...

Tunisia

- Importer of cars, exporter of parts and components to European markets
- Cluster strategy:
 - A limited markets for assembling cars?
 - Outsourcing for major manufacturers in progress (VW, Ford)
 - Already present in the aircraft industry (Airbus)
 - Looking for high segment in the regional value chain
- Project to build a 100% Tunisian car? (Barkia)

A Dynamic Subcontracting Sector

- Subcontracting platform for more than 40 years
 - Presence of main MNC from EU, US, Japan, Korea: Valeo, MGI Coutier, Johnson Control, Lear Corporation, Pirelli, Mets, Leoni, Bosch
 - 500 mios € exports of components in 2012
- Specialisation in plastic, electric, cables, electronics..
- Mechanical components:
 - 115 plants of which 39 fully exporters, employing 14000 people

MNC Strategies North & South

Country	Multi Domestic	Regional	Trans-regional	Cluster
Algeria	X			
Bulgaria	X			X
Croatia				x
Morocco			X	
Roumania			x	
Serbia		x		
Tunisia				

Conclusions 1: Companies

- Complex strategies of European car manufacturers between domestic, global and regional strategies
 - No markets left
 - Exploitation of competitive advantages
 - Response to a Strong Demand and growing markets
- Weight of the macro-institutional environment
- « Cultural heritage », an asset? Fiat in Serbia, Renault in North Africa

VW, Fiat vs. Renault: two opposite strategies?

- Fiat, VW, others:
 - integrating in a new regional network: supplying, assembling, specializing, cooperating
- Renault: 2 strategies:
 - 1 Similar to the others
 - 2 Developing a regional low cost strategy: Logan
 - Relying on Romania's plant to develop Algeria's plant
 - Presence on close but fragmented markets, with strong imbalances: Morocco & Algeria
 - Competing between plants on costs, (labour cost in Morocco vs. Romania), on some markets (EU) with the same product (Logan)

Conclusion 2: Host Countries

- Opportunities created through cooperation, privatisation, institutional changes
- Attractiveness policies
- Rapid Integration into international production networks
- Opening and specialization
- Upgrading, technological assimilation, moving to an upper scale: innovation, sectoral industrial policies, integrating networks