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The Central and East European Automotive Industry Restructuring

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Essays by Foreign Fellows

Petr Pavlinek	Juha Janhunen	Nikolai Bolkhovitinov	Xing Guangcheng
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The Central and East European Automotive Industry Restructuring

Petr Pavlinek (University of Nebraska at Omaha, USA, Foreign Visiting Fellow, SRC, 2001-02)



The author

I have come to the Slavic Research Center of the Hokkaido University to study the profound changes that have been taking place in the automotive industry of Central and Eastern Europe (CEE) since 1990. My work is based on several field research visits to the Czech Republic that included in depth interviews conducted with key informants (plant managers, trade union leaders and ministry officials) in car factories, car component plants and governmental institutions. The automotive industry restructuring in the 1990s involved a number of complex issues that my research addresses, such as the effects of price and trade liberalization in the early 1990s, privatization of the industry, including various privatization methods used to privatize different plants with their various outcomes, the role of foreign capital in the process of privatization and restructuring, and the transformation of car assemblers and component suppliers relationships. Geography of the industry is being rewritten as some plants have closed down while others have been built. The life of communities and entire regions has been affected and more changes are underway. How do these changes fit into the overall picture of economic transformation in CEE? What can the analysis of car industry restructuring tell us about the post-1989 economic change as a whole in CEE?

I have quickly realized that to understand the complexity of these changes, it is important to set my analysis in the historical context and in the context of changes the European car manufacturing experienced in the past ten to fifteen years. Some people may say that the analysis of underdeveloped and obsolete state socialist car manufacturing cannot help us very much in understanding the post-1989 restructuring. However, a closer look at the production trends and trade patterns, for example, helps me understand some developments that took place in the 1990s. For example, the collapse of Czech truck manufacturing was largely due to its overexposure to the CEE markets as the Czech truck manufacturers expanded their production to serve the Council for Mutual Economic Assistance (CMEA) markets especially after 1970. While about 40% of both passenger cars and trucks produced in Czechoslovakia between 1980 and 1989 were exported, 96% of truck exports went to the CMEA markets but only 32% of passenger cars were exported to CEE. No history of truck exports to highly competitive Western markets had devastating consequences for the Czech truck manufacturers after their domestic and CMEA markets largely disappeared after 1989. They could not easily switch to Western markets because they had no sale and distribution networks outside CEE, their products were unknown outside CEE and their trucks were not competitive because of their low quality.

The West European car industry was transformed in the 1980s and 1990s largely as a response to the Japanese challenge after the Japanese manufacturers established factories in the region. The dramatic changes the West European car industry underwent during this period were quickly introduced in CEE after 1989. They included, among others, new ways of production (various forms of 'lean' manufacturing and just-in-time production), new forms of industrial relations within factories and among assemblers and component suppliers, new ways of work organization and recruitment strategies. It is impossible to understand the CEE automobile industry restructuring without comprehending these industry-wide trends taking place outside the region.

All these changes led to changing geographies of automotive production in CEE. In terms of national production, substantial differences exist between Russia with its huge internal market on the one side and the rest of CEE on the other side. So far, Russia has not seen any significant influx of foreign direct investment (FDI) into its automotive industry for a number of reasons, while FDI was the most important force that transformed the passenger car industry in the rest of CEE with the exception of Ukraine and Yugoslavia where the passenger car production virtually collapsed. The effect of FDI was the most profound in the case of Poland, Czech Republic, Slovakia, Hungary and Slovenia and led to rapidly growing production as Figures 1 and 2 show. Hungary and Slovakia had the first passenger car assembly plants ever built on their territories in the 1990s.

While these developments seem to be positive, a number of questions remain to be answered regarding the role of FDI in the region. Has the CEE automobile sector become excessively dependent on external forces as multinational companies located outside the region make all-important strategic decisions? Is research and development (R&D) being transferred abroad and what does it mean for CEE in terms of potential erosion of national R&D capacities? Are these developments simply reinforcing the peripheral role of the region not only in the automotive industry but also in the European (and global) economy as a whole? I believe that researchers need to scrutinize these developments critically to better understand them.

The foreign visiting fellowship at the SRC allows me to fully concentrate on these complex issues in a way I could never accomplish at my home university because of my teaching and administrative responsibilities there. This is why I appreciate the opportunity to spend ten months focusing on my research at the SRC so much. The Slavic Research Center is a wonderful place to work and I will always be very grateful to the SRC faculty and staff for this exceptional chance to live and work in Japan.

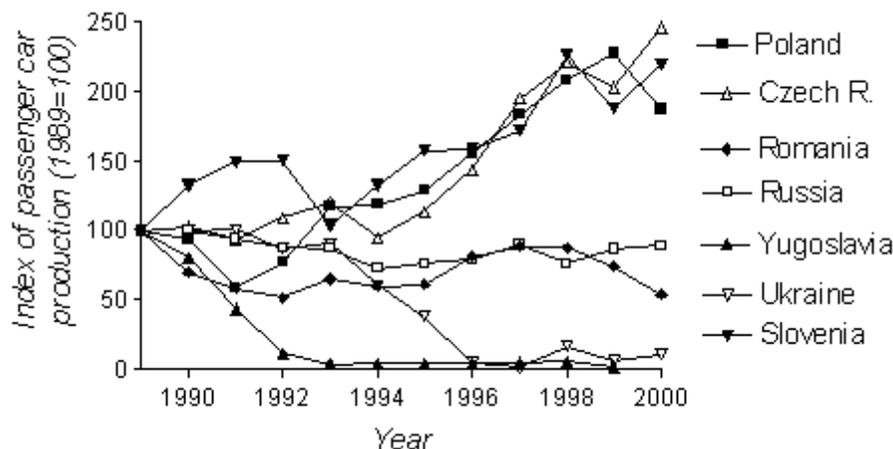


Figure 1: Index of passenger car production in selected CEE countries, 1989-2000.

Source: Data from statistical yearbooks of countries involved, various years.

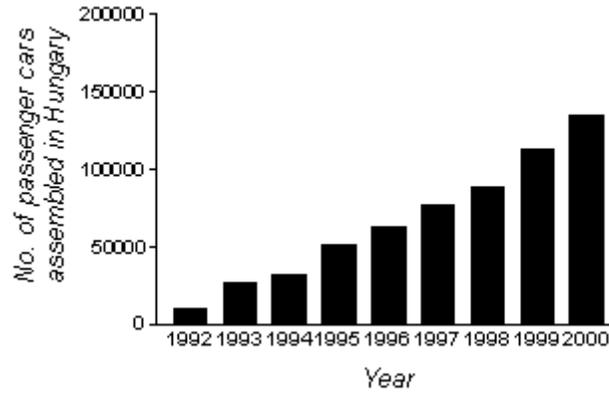
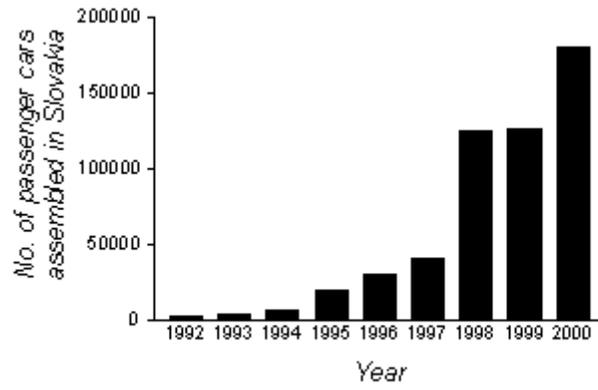


Figure 2: Passenger car assembly in Slovakia (left) and Hungary (right), 1992-2000.
 Source: Data from Financial Times (2000), Economist Intelligence Unit (2001).

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