Outward FDI in the automotive industries of the Visegrad countries and Austria compared
Is it a sign of increased international competitiveness of indigenous companies?

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Outline

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- Research question
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- Conclusion

Background

Important role of Visegrad countries in the European automotive industry /GVCs (significant share in EU production (14%), employment (21%), VA (11%)- 2018, NACE 29), especially after 2004

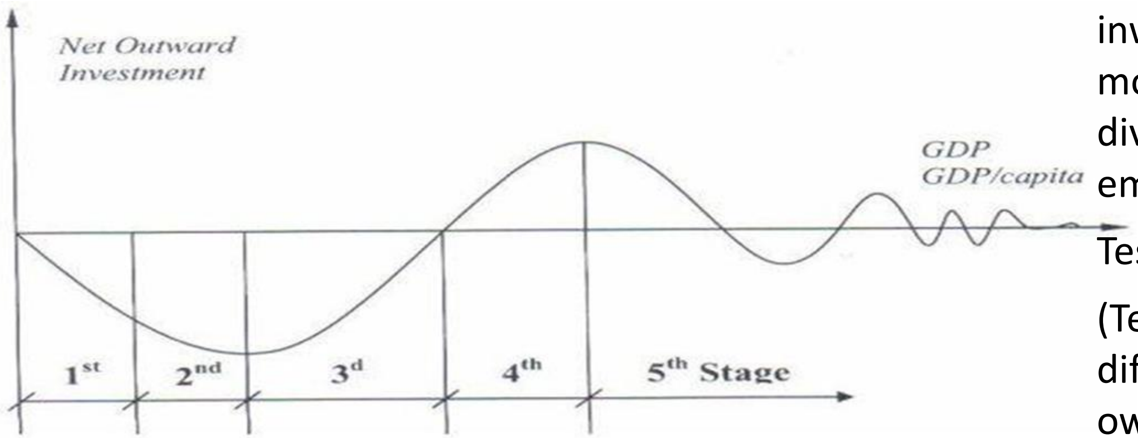
End-2018: more than 30 firms, (only final product), number of produced cars:1,300,000 in Czechia, 431.000 in Hungary, 452.000 in Poland and 1.100.000 in Slovakia, 5 % of world production, more than one fifth of EU production (OICA), plus production of parts and components

Mainly local subsidiaries of foreign MNCs (Pavlínek, 2020) – significant FDI inflow, but there are a few locally-owned/controlled companies

Relatively significant outward FDI from the Visegrad countries (data of national banks)

Theoretical background

- IDP: Relationship between international production and countries' development patterns (Dunning 1981: ch 5; Dunning and Narula 1996) or link between the level of development and the net OFDI position of countries
- Five stages identified



Source: Dunning and Narula (1996).

Outward FDI appears in Stage 2 – limited, in geographically close countries – resource- and market-seeking

Significant in Stage 3 – growing quicker than inward as domestic firms become more and more competitive, still in the region, but diversified motivation, efficiency-seeking emerges

Tests: Visegrad in Stage 3, Austria in Stage 4

(Tests rely on BOP FDI data – does not differentiate between domestic and foreign-owned companies)

Concepts1: global value chains (GVC)

OECD (2012) in GVCs the different stages of the production process are located across different countries. Globalisation motivates companies to restructure their operations internationally through outsourcing and offshoring of activities.

Firms try to optimise their production processes by locating the various stages across different sites. The past decades have witnessed a strong trend towards the international dispersion of value chain activities such as design, production, marketing, distribution, etc.

The automotive industry is among those, the activities of which are organised in global value chains (or rather in regional value chains) (Van Biesebroeack, Sturgeon, 2011), regional value chains especially characterise Europe

Concepts2: Participants/ Drivers of automotive GVCs

Lead firms: well-known producers/brands, technological advantage: OEMs – Tier-system, Tier-0.5 and Tier-1 suppliers: close cooperation, captive or modular governance by the lead firm

Further-Tier suppliers Tier-2, Tier-3, Tier-4…): some of them locally-owned SME, hierarchical or market-driven governance of the lead firm

Drivers of GVCs in automotive:

- Regional nature – regional integration (NAFTA, Asian RTAs, European Union) (but…)
- Technological innovations – manufacturing innovation - organisational innovations (JIT, lean manufacturing etc.)
- More and more intense competition – saturated markets (overproduction, excess capacities; crisis affected the industry badly)

Concepts3: indirect outward FDI

Indirect outward FDI (UNCTAD, 1998; direct versus indirect OFDI, Kalotay, 2012)

Indirect outward FDI is an investment abroad undertaken by a subsidiary of a foreign multinational company that has been established in a different host country from that of the host country of the new investment.

Thus: indirect outward FDI by foreign-owned subsidiaries residents in a given country; direct outward FDI: by locally owned-controlled firms

Data on outward FDI in the balance of payments refer to residents and thus they contain together the data on outward FDI realised by locally operational foreign-owned subsidiaries and by locally-owned or controlled firms

Research question

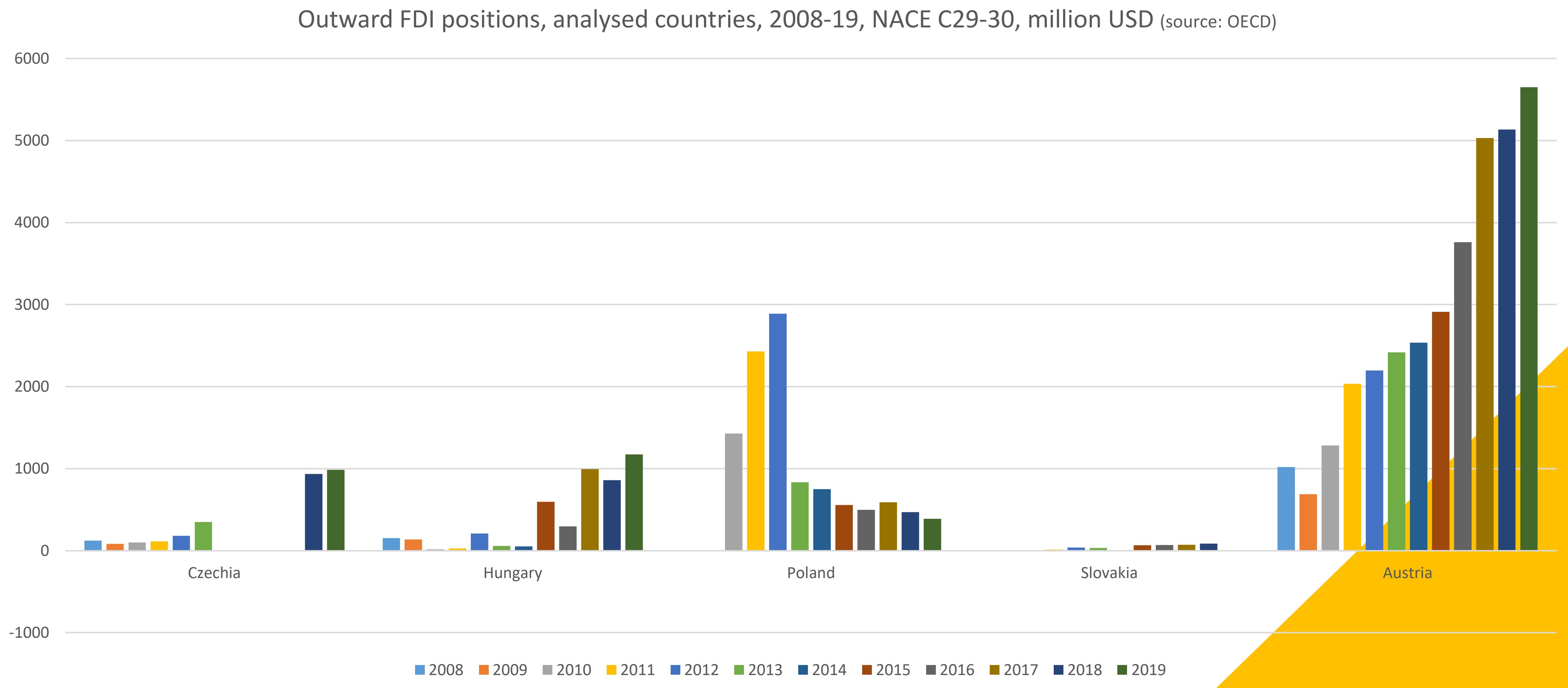
Is outward FDI a sign of increased international competitiveness of indigenous automotive companies in the analysed countries?

Adding Austria as a case of developed country in the same region with no own brand as a comparative case

Methodology

- NACE C29-30 (29 dominates by far, but better availability of data for 29-30)
- Macrodata: national banks, OECD and Eurostat FDI-data
- Microdata: company data (Poland and Hungary: including EMGP, plus: our collection of company level data)
- first, we analyse available macrodata, and second, microdata, and based on the latter we try to assess how high the share of domestic (-owned/controlled) companies can be in outward FDI

Macrodata: increase over time in CZ, HU, SK (AT), decrease in PL
Around 1 billion USD: CZ, HU, (AT)
Share in total OFDI stock between 1.5 (PL)-3.1 (HU)%



Macrodata: Host countries according to BOP OFDI statistics and FATS (controlling owners)

	BOP OFDI, host countries, 2017-18 (source: Eurostat)
Czechia	Germany, France, Italy, Hungary, Slovakia, Finland, Russia, Hong Kong, India
Hungary	Germany, Spain, Italy, Poland
Poland	Belgium, Czechia, Germany, Greece, France, Italy, Latvia, Lithuania, Netherlands, Portugal, Slovakia, Finland, Sweden, Norway, Switzerland, Turkey, Russia, Morocco, Canada, US, Mexico, Brazil, China, Hong Kong, India
Slovakia	Czechia
Austria	confidential data

	FATS, 2018 (source: Eurostat)
Czechia	-
Hungary	-
Poland	Czechia, Germany, Spain, France, Italy, Netherlands, Russia, China
Slovakia	-
Austria	Belgium, Bulgaria, Czechia, Denmark, Germany, Spain, France, Croatia, Italy, Hungary, Netherlands, Poland, Portugal, Romania, Slovenia, Sweden, Norway, Switzerland, UK, Russia, China, US

- Thus, **according to macrodata**, while outward FDI is relatively significant in the automotive industries of Visegrad countries plus Austria
- according to FATS statistics, the domestically controlled outward investments are **present just in the case of Poland and Austria**

- **Thus, it is due to indirect outward FDI, why the Visegrad countries are significant foreign investors in the automotive industry**
- **But it is just Poland, in which this is – at least partly – realised by domestically controlled companies – and may be a sign of increased competitiveness of locally controlled companies**

- We have a look at selected company cases to check this finding

Selected company cases

Purposive searching – using the company members of automotive associations of countries (i.e. MAGE in Hungary, PZPM in Poland, SAP in Czechia, ZAP SR in Slovakia, FAAICS in Austria)

The 2 ends:

- Hungary: was difficult to find truly Hungarian example
- Austria: the easiest to find example

Hungary – example: Lear Corporatic

A US multinational, one subsidiary operating in Hungary, investing abroad, thus **indirect OFDI**

100% owner of Lear Corporation Poland II sp.z o.o., with an investment value of 310 million EUR in 2017

Represents about 1/3 of total automotive OFDI stock of Hungary

We could not identify locally owned foreign investing firms

We could identify **non-automotive firms serving the automotive industry**, such as **NNG**

- work together with Tier1 suppliers and OEMs
- their solutions are used in more than 30 car brands

Was founded in 2004 by 2 Israeli businessmen and several Hungarian professionals, in 2015 they went global (though OFDI limited)

- Opened an office in Detroit
- Opened an office in Tokyo
- Subsidiary in Shanghai

Poland – example: Wielton

Wielton S.A. the largest Polish manufacturer of semi-trailers, trailers and car bodies

Is one of the industry's three largest manufacturers in Europe, and among its top ten global players

Have operations in Poland, France, Italy, Russia…

- In 2012 formed a trading company in Belarus
- In 2016 opened their subsidiary in Cote d'Ivore
- In 2017 took over the German Langerdorf
- In 2018 acquistion of the British Lawrence David + modernisation of French subsidiary

- According to FATS, 28 Polish majority-owned companies invest abroad, this may be the leading one

Slovakia – example: Matador Automotive Vrable

Matador GROUP

Again **we could not identify strictly automotive firms**, similarly to Hungary (explains FATS data) - **but** Matador is among the biggest engineering companies in Slovakia, produces car tyres

the largest family-owned Slovak TIER 1 supplier

Investments located in 2 European countries

Investments:

- 2010 – establishment of Czech subsidiary
- 2013- opening Russian subsidiary
- 2015 – Design studio in Prague

Czechia – example: Skoda

We could not find Czech majority-owned automotive companies investing abroad, in line with FATS

Skoda – a Czech brand, long traditions in car manufacturing

BUT now is part of VW Group (since 1991) – thus **indirect outward** FDI – in correspondance with FATS, ultimately German-owned

Has assembly plants in Poland, Bosnia-Hercegovina, India, Russia, China, Ukraine, Kazakhstan, Algeria

Recent investments:

- 2019-2021: 1 billion euros in India jointly with VW
- 2019: opened the third ŠKODA AUTO DigiLab spin-off in Beijing
- 2020: 1 billion euros BUT this is a VW AG investment!
- 2021-2026: 2.5 billion euros on electrification and digitalisation also on plant modernisation – might impact OFDI too

Austria – example: AVL

In Austria, we identified many companies, in accordance with FATS

One very important: AVL, an engineering company from Graz

is the world's largest independent company for the development, simulation and testing of all types of powertrain systems

Have facilities in 45 countries

- **including the Visegrad countries** (except Slovakia)

Started investments after 2008

- 2008 – German subsidiary
- 2010 – battery laboratory in China
- 2015 – another technical center in China
- 2019 – developments in Hungary (cc. 41M euros)

Conclusions

The answer to the research question is: partly – in the case of Poland and (Austria) yes; but not for the other 3 countries

Visegrad countries – Quite substantial OFDI, but lagging behind Austria

Austrian automotive firms highly present in the Visegrad countries and globally

While we found Polish automotive firms that could become important global or regional players…

… for Czechia (surprisingly), Hungary and Slovakia the same is true to a lesser extent, it is rather foreign-owned firms, which invest abroad (indirect OFDI), however, not strictly automotive but related locally controlled firms invest abroad

Hungary's case is especially interesting – having quite substantial OFDI (largest stock among Visegrad) but not having strong global or even regional players from Hungary

Important to note the modifying role of GVCs in shaping IDP and in connection with that, the importance to pay attention to indirect outward FDI and data according to the ultimate owners

Thank you for your attention!

VGI Világgazdasági Intézet

Our cases show: outward FDI is not necessarily a direct measure of the level of competitiveness of locally-owned/controlled companies.