

Outward FDI in the Automotive Industries of the Visegrad Countries: a Sign of Increased International Competitiveness of Indigenous Companies?

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Abstract

According to OECD statistics, the Czech Republic, Hungary, Poland and Slovakia have a relatively substantial outward FDI stock in the automotive industry. This may be a sign of increased competitiveness of indigenous automotive companies and automotive suppliers. The paper scrutinizes the outward FDI data in the automotive industry of the four countries.

Based on these data, we conclude, that the overwhelming majority of outward FDI realised from the Visegrad countries in the automotive industry is actually made by local subsidiaries of large foreign automakers and suppliers, while indigenous firms hardly expand abroad through FDI. Thus, the relatively large outward FDI stock in the automotive industry is not a result of increased international competitiveness of indigenous firms, but rather indirect outward FDI realised by local subsidiaries of large automotive multinationals, due to various reasons. These latter include tax optimisation or geographical or organisational reasons related to global value chains.

Keywords: automotive industry, outward foreign direct investments, Visegrad countries

JEL Classification: F21, F23, L62

1. Introduction

The Visegrad countries (Czechia, Hungary, Poland and Slovakia) have become important strongholds of the European automotive industry in terms of their share in European production, employment and exports. According to Eurostat data, in 2017, the four countries represented more than 14 per cent of European Union production and almost 11 per cent of European Union value added with more than 21% of European Union employment in the industry Manufacture of motor vehicles, trailers and semi-trailers (NACE C29). This quick development in all four countries is mainly based on the activities of local subsidiaries of large foreign-OEMs and those of their traditional suppliers (Pavlínek, 2017). However, not only inward FDI has been growing in the automotive industry in the four analysed countries, but now, though dwarfed by inward FDI stock, outward FDI is increasingly present. The main aim of the paper is to check the hypothesis, that increased outward FDI is reflecting increased international competitiveness of indigenous firms, which are now able to successfully invest abroad.

The paper is organised as follows. First we present a short introduction to the main developments in the automotive industry of the Visegrad countries. Second, the methodology is presented. Third, results of the macro-level and then company-level analysis are shown. Lastly, conclusions are drawn.

2. Background: the automotive industry in the Visegrad countries

Automotive activities are not new in the Visegrad countries. In the planned economy period, one of the strategic aims was to establish and nurture a local automotive industry. Czechoslovakia and Poland at that time had their own brands, while Hungary specialised in bus production (Havas, 2000).

After the transition process started in 1989–90, with different timing in the four countries, foreign automotive investors acquired or established their production plants. The main reasons for their interest was the availability of relatively skilled but cheap labour in an increasingly liberalised market economy environment with flexible labour regulations in a geographically close market which has become increasingly integrated into the European Union and offered various incentives to investors – and thus they could build these newly available locations into their corporate strategies and networks (Pavlínek et al., 2009; Pavlínek, 2019). This has not changed during the bleak years of the crisis: multinationals did not relocate their activity from Hungary to lower-wage countries, which can be explained mainly by the fact that they have realised additional investments, labour market regulation and government policy were increasingly beneficial for them, and there were too few alternative sites of relocation (Rugraff, Sass, 2016).

Visegrad countries play an important role now in the automotive industry of the European Union and even of the world economy. At the end of 2018, there were more than 30 plants in the Visegrad countries, producing more than 1 300 000 cars in the Czechia, 431 000 in Hungary, 452 000 in Poland and 1 100 000 in Slovakia – representing almost 5 per cent of world car production and more than one fifth of European production – based on OICA (2018) data. According to Eurostat (2017), in 2017, the four countries represented more than 14 per cent of European Union automotive (NACE C29) production and almost 11 per cent of European Union value added with more than 21% of European Union employment.

The automotive industry plays an important role in the respective economies as well: according to Eurostat (2017), in 2017, its share in total production was more than 18% in Slovakia, 14% in Czechia and Hungary and more than 5% in Poland – while the European Union average is 4.8%. In terms of value added, the automotive industry accounted for above 8% in Czechia and Slovakia, more than 7% in Hungary and 3.3% in Poland – with a European Union average of 2.9%. The industry is an important employer: it represents 4.8% of total employment in Czechia and Slovakia, 3.6% in Hungary and 2.2% in Poland – the same indicator amounting just to 1.8% in the European Union.

3. Methodology and data

In this paper, a narrow definition of the automotive industry (NACE C29) is applied. Thus we concentrate on the carmakers, and exclude components makers and those producing commercial vehicles (according to OICA (2018), the production of commercial vehicles is important in Poland only from the four analysed countries).

An important concept should be mentioned before presenting further details of the methodology: the distinction between direct and indirect outward FDI (Kalotay 2012). The importance of this distinction is underlined by the fact that both direct and indirect FDI is included in the outward FDI statistics of a given country. Indirect 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, in our case foreign investment projects undertaken both by indigenous Visegrad multinationals and by local subsidiaries of foreign multinationals are included in the data. Thus in the macro analysis, we rely on data on outward FDI presented in the balance of payments at the same industry classification (NACE C29). However, this data contains the amount of direct investments abroad realised by local residents in the four analysed countries. Local residents include locally-owned or controlled firms and those of local subsidiaries of foreign multinationals. Thus as it was mentioned above, it contains both direct and indirect outward FDI. (At the same time, it excludes foreign direct investments, realised by foreign subsidiaries of local multinationals.) This complicates to some extent our analysis. That is why we go down to the company level.

Thus, in the analysis, two data sources are used. Firstly, the most important Visegrad home countries of automotive outward FDI are identified on the basis of the Eurostat data on outward FDI at the industry level. The problems of FDI stock and flow data for measuring the size of foreign-owned activity (Beugelsdijk et al., 2010) are dealt with here through concentrating on the company level in the analysis. Thus, secondly, firm-level data are used first, so as to double-check whether the investing firms are incumbent/indigenous (locally controlled, though not necessarily locally majority-owned) companies in order to differentiate between direct and indirect outward FDI, which is not yet done so in the macro data. Third, company level analysis is conducted on the basis of the information available from the Emerging Markets Global Players project of the Columbia Center on Sustainable Investment (EMGP 2016). Company information in EMGP is available only for Hungary and Poland only. Thus apart from information from the EMGP project, other sources (company websites, balance sheets, case studies, articles in specialised journals) are also used in the analysis.

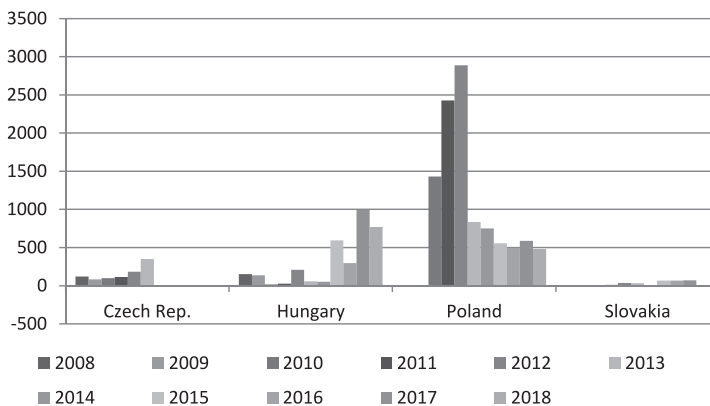
4. Analysis

First, macro-level data are presented and analysed concerning the outward FDI in the automotive industry from the four Visegrad countries. Then, to get a fuller picture, we try to go down to the company level and separate direct outward FDI (realised by locally owned firms) from indirect outward FDI (realised by local subsidiaries of foreign multinational companies).

4.1 Macro-level data

In total outward FDI, and within that in manufacturing outward FDI, the automotive industry plays a relatively important role in the four countries. According to OECD data, it represented 1.7% of total in Czechia (2013); 2.5% (2018) in Hungary, 2% (2018) in Poland and 1.5% (2017) in Slovakia. Thus, the outward FDI stock of the automotive industry in the period 2008-18, has been quite substantial in the Visegrad countries, with the exception of Slovakia. (Figure 1) Unfortunately, data are missing for certain years, especially for Czechia, this is mainly due to confidential values – a very low number of companies realised these investments, thus revealing the values would basically reveal company-level data. However, the Czech National Bank publishes data for 2017 stock in the industry, which amounts to 120 million USD only (CNB, 2017). Thus Poland clearly stands out with a high, though substantially decreasing stock, and at the end of the period, Hungary takes the lead. Another interesting feature of Figure 1 is that outward stock data behave in a “chaotic” way, they fluctuate extensively from year to year, especially in the case of Hungary and Poland. This may reflect, that other than the traditional outward FDI shaping factors are at play.

Figure 1: Direct investment position abroad in the automotive industry (C29), Visegrad countries, 2008-18, USD million



Source: OECD

According to unfortunately quite outdated Eurostat data, the most important host countries of the automotive outward FDI are the following. (Table 1) Czechia and Hungary have a limited number of host countries, while Polish outward automotive FDI is quite dispersed, besides six leading European target countries with above 100 million EUR investment stock, they have many additional, even non-European and faraway countries with low stocks of automotive investments: namely 24 other economies.

Table 1: Host countries of outward FDI in Manufacture of motor vehicles, trailers, semi-trailers and other transport equipment, 2012 (million EUR)

Home country	Host countries
Czechia	Russia (63), India (35), Slovakia (32)
Hungary	Switzerland (102), USA (37), Brazil (10), South Korea (6), Australia (3), Romania (1)
Poland	Belgium (506), Germany (341), Luxemburg (233), France (181), Switzerland (119), United Kingdom (105), Russia (90), Italy (85), USA (77), Austria (58), Finland (51), India (49), Sweden (39), Czechia (30), Hungary (30), South Korea (24), Spain (24), Canada (22), China (19), Ireland (14), Netherlands (12), Brazil (8), Slovakia (8), Romania (6), Mexico (5), Denmark (4), Norway (3), Cyprus (2), Portugal (2), Turkey (1)

Source: Eurostat

As already indicated, however, these outward FDI data contain both direct (realised by locally owned or controlled firms) and indirect (realised by locally operational subsidiaries of foreign multinationals) outward FDI. We have already showed that the automotive industry in the Visegrad countries is dominated by subsidiaries of large foreign multinational companies. We could thus expect relatively low outward FDI by indigenous firms (i.e. direct outward FDI) due to their relative competitive weakness, while indirect outward FDI by foreign multinationals using their subsidiaries located in CEE as parents for FDI realised in third countries could be more substantial.

In order to estimate the respective shares of direct and indirect outward FDI in the overall outward automotive FDI stock, we try to go down to the company level data.

4.2 Company-level data and company cases

First, having a look at the “outward activity of multinationals” dataset of the OECD (2016) may indicate the number of locally-owned or controlled multinationals, which invest abroad in the automotive industry. For this dataset, the 50% ownership threshold level is used, which means, those companies are counted as locally-owned or controlled firms, in which local ownership is equal to or higher than 50%. According to this source, in 2016 (the latest year for which data are available), there were 3 such locally controlled outward investing Czech firms in the automotive industry, none in Hungary, 28 in Poland and 8 in Slovakia. This data show that for Hungary, all outward FDI in the automotive industry is actually realised by local subsidiaries of foreign multinational firms – in spite of the highest stock in 2018, this does not indicate an increased international competitiveness of Hungarian automotive firms.

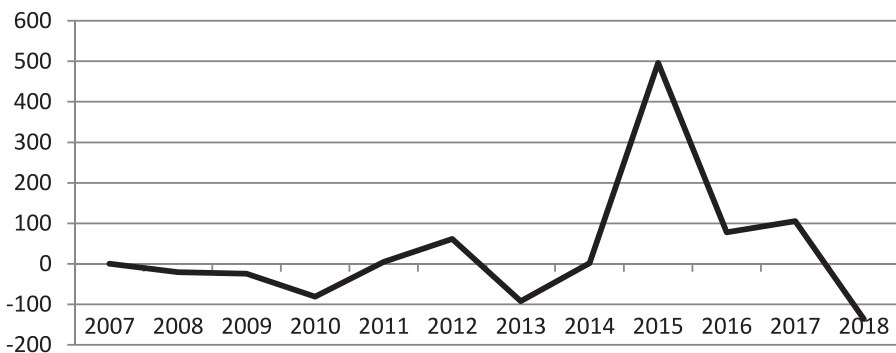
This finding is actually in line with the other data source we can use to trace automotive investors. According to the latest EMGP (2016) report, among the top Hungarian multinationals, none is active in the automotive industry. EMGP analysis is available for Poland as well. Here we can find one company, which may be responsible for part of outward FDI: Wielton, which is amongst the leading European producers of trailers and semi-trailers, car-bodies and other transport equipment. It has foreign production (Russia, Ukraine, Belarus, Cote d'Ivoire (since 2016)) and an extensive European

service network (Wielton, 2020). This can surely be one company from the 28 Polish-controlled companies investing abroad in the automotive industry. Unfortunately, for the other two countries, Czechia and Slovakia, this source of information is not available.

In the case of Czechia, we could not find the three Czech-controlled companies. However, for 2013, we could identify the dominant foreign investor: the German Volkswagen-owned Škoda Auto, which has established a subsidiary in India (Zemplinerova, 2012). Besides India, it has subsidiaries in Slovakia and Russia. Thus it completely covers the three host countries, indicated for 2012 by Eurostat (Table 1). We can assume that since then there may be three other, Czech-controlled foreign investors emerging in the automotive industry, indicated by OECD (2016). One candidate for this is SOR (2020), a bus producer which is present in Slovakia and has offices in Poland, Germany, Switzerland, the Baltics, Russia and Moldova, as well as in the Balkans.

Hungary's case is really interesting. According to the data, it has the largest outward FDI stock in the automotive industry among the Visegrad countries, but still, none of the foreign investors is really Hungarian, according to the various data sources we relied on. When going down to the company level, we can identify one large transaction. According to the balance sheets of the company, in 2012, the Hungarian subsidiary of the German Audi offered a loan to the Belgian subsidiary of the German Volkswagen – these two car brands belong to the same group. The reason for this 2012 transaction is not disclosed. It may have been a kind of disguised financial help to crisis-ridden Volkswagen by Audi, which latter withered the 2008-9 crisis very well (Antalóczy – Sass, 2015). Another reason may be the change of production from VW to Audi cars in the Belgium subsidiary. However, this transaction is classified as “Financial services” in 2012 by the Hungarian National Bank and not as automotive outward FDI. Thus we cannot find traces of this transaction in Hungarian automotive outward FDI (Figure 2).

Figure 2: Outward FDI flows in the automotive industry in Hungary, 2007–2018, million EUR



Source: Hungarian National Bank

From flow data it is obvious, that one (or a few) large transaction in 2015 made Hungary the regional “champion” in automotive outward investments and that it is realised by a foreign-owned resident firm. Company level investigation showed that one candidate for this foreign-owned firm is the Lear Corporation, which is the 100% owner of Lear Corporation Poland II sp.z o.o., with an investment value of 310 million EUR in 2017. Thus it may represent around one third of the automotive outward FDI stock in that year. The reason for going through Hungary with this investment may have different justifications. Most probably the closeness between Hungary and Poland in terms of geography as well as in business culture may have played a role in that choice. (However, the Hungarian subsidiary is owned by the Luxemburg subsidiary of the US Lear Corp., which may hint at high tax sensitivity – and thus we cannot rule out that using Hungary as an intermediary country served tax optimisation purposes.)

Consequently in the case of Hungary, increased, and high in regional comparison outward automotive FDI is not a result of the increased competitiveness of Hungarian-owned or controlled firms. It is obviously indirect FDI, where Hungary is used as an intermediary country, and the main reason can be tax optimisation (given Hungary’s very beneficial tax environment) and/or geographical closeness to the host country.

5. Conclusion

The Visegrad countries have a relatively substantial outward FDI stock in the automotive industry, with the exception of Slovakia. The main aim of this short paper was to analyse, whether this is an indicator of the increased competitiveness of Visegrad carmakers, that over time they have become able to successfully invest abroad. On the basis of available data, this can be the case especially for Poland and to some extent for Czechia, where we found locally owned or controlled companies, which may be responsible at least part of this outward FDI stock. However, in the case of the regional “champion” in outward automotive FDI, Hungary, we found that the relatively high outward FDI stock in the industry is a result of investment activities of Hungarian subsidiaries of foreign multinationals. A large transaction by Audi (not categorised as automotive outward FDI) calls the attention to the fact that Hungary can be used as an intermediary country, because of the beneficial tax environment it offers and/or for its geographical closeness to the host country.

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