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I Z A
World of Labor
Evidence-based policy making

The automotive industry in Central Europe: A success?

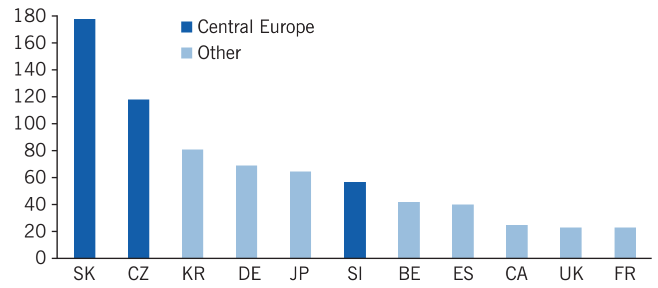
The automotive industry has brought economic growth, but a developmental model based on foreign capital is reaching its limits

Keywords: automotive industry, Central Europe, development, FDI, sectors, transition

ELEVATOR PITCH

Central Europe has experienced one of the most impressive growth and convergence stories of recent times. In particular, this has been achieved on the back of foreign-owned, capital-intensive manufacturing production in the automotive sector. With large domestic supplier networks and high skill intensity, the presence of complex industry yields many economic benefits. However, this developmental path is now reaching its limits with the exhaustion of the available skilled workforce, limited investments in upgrading and research, and persistent regional inequalities.

Car production per 1,000 inhabitants, 2014



Source: SARIO. *Automotive Sector in Slovakia*. Bratislava: Slovak Investment and Trade Development Agency, 2015. Online at: http://www.sario.sk/sites/default/files/content/files/sario-automotive-sector-in-slovakia-2017-03-02_0.pdf

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KEY FINDINGS

Pros

- Supplier networks in the automotive industry contribute to job creation and linkages and spillovers stimulate the overall economy.
- The automotive industry contributed to Central Europe's economic convergence with the EU core through sophisticated production.
- Foreign actors in the sector have helped shape national institutions in terms of education and training and labor market regulation.
- Interconnections with the German economy proved beneficial during the Great Recession.

Cons

- High levels of external dependence and low diversification of production in some countries raise their vulnerability to external shocks.
- While some upgrading has taken place, the share of research and development in employment and value added remains comparatively low.
- Economic development has been uneven and regional inequalities continue to rise.
- The skilled labor supply might soon be fully exhausted.

AUTHOR'S MAIN MESSAGE

A developmental path in Central Europe based on foreign-owned, export-based manufacturing production has secured relative prosperity through economic growth and the advancement of educational and labor market institutions. In order to sustain prosperity, public policy should focus on increasing the share of research and development in the region, improving national skill bases, and diversifying production structures. A key lesson for developing countries aiming to successfully integrate into global production networks is that active governmental support, favorable human and physical capital endowments, and political stability are necessary.