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Magdalena Bernaciak, Vera Šćepanović*

Challenges of Upgrading: The Dynamics of East Central Europe's Integration into the European Automotive Production Networks**

Abstract – The paper analyses the changing architecture of the European automotive industry following the inclusion of East Central European (ECE) states into cross-border production networks. It identifies distinct periods of the sector's expansion to ECE, each marked by different policies of automotive OEMs and accompanied by varying responses by governments and unions. The first phase, lasting until late 1990s, was characterised by a predominantly market-seeking orientation of carmakers towards ECE and a clear-cut, hierarchical division of competences between “new” and “old” sites, not conducive to the emergence of cross-border union contacts. In the late 1990s, however, postcommunist countries' production profiles became similar to those of advanced West European producers, such as Germany, largely due to the organisational changes within the sector and FDI-attracting policies launched by ECE states. This spurred German unions' interests in cooperating with their Eastern counterparts, in an effort to attenuate cross-border competitive pressure and eliminate the East-West benchmarking threat. Finally, the recent crisis brought increasing involvement of Western states in the industry's affairs and the corresponding “national turn” in unions' behaviour.

Probleme industrieller Aufwertung: Die Integration mittelosteuropäischer Standorte in Produktionsnetzwerke der europäischen Automobilindustrie

Zusammenfassung – Der Artikel analysiert die sich verändernde gesamteuropäische Arbeitsteilung in der Automobilindustrie durch die Einbindung mittelosteuropäischer Standorte. Es werden drei unterschiedliche Phasen der Einbindung identifiziert. Zunächst überwogen Markterschließungsmotive. Seit den späten 1990er Jahren - bedingt durch organisatorische Veränderungen in der Industrie und Investitionsanreizen in MOE - hat eine zunehmende Aufwertung der osteuropäischen Standorte stattgefunden. Westliche Gewerkschaften versuchen die verstärkte Standortkonkurrenz mit Angeboten transnationaler Kooperation zu konterkarieren. Seit dem Ausbruch der globalen Finanzkrise hat sich die gesamteuropäische Arbeitsteilung erneut verschoben, da westliche Staaten und Gewerkschaften wieder verstärkt im nationalen Interesse agieren.

Key words: automotive industry, East Central Europe, upgrading, investment competition, cross-border union cooperation, crisis

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Introduction

After a period of postcommunist recession, East Central European (ECE) states quickly became a magnet for foreign direct investment (FDI) in the automotive industry. The region's rapid integration into the European car production networks has been a subject of scholarly debates since very early on. The controversies rest mainly on conflicting understandings of the position taken by ECE countries within the European production architecture, the impact of the changing division of labour on the relations between unions at "new" and "old" sites and states' involvement in the industry's transformation. To what extent have the ECE sites caught up with the Western production centres in terms of production capability? Are we witnessing a case of vertical integration, with the former coming to occupy the lower ends of the international production chains, or the emergence of parallel production structures in the East, challenging the position of their West European counterparts? How do unions react to growing transnationalisation of the sector; has the eastward expansion of car MNCs turned eastern and western European workers into rivals or allies? Finally, in what ways have states influenced the direction of industry's development?

In this paper, we reconstruct the trajectory of the changing division of labour between East Central and Western Europe and argue that rather than two sides of the same debate, we are dealing with distinct phases of the industry's upgrading in the East. In line with Bluhm (2007), we reject the concept of upgrading as a linear, deterministic process and instead view it as an outcome of different, sometimes conflicting strategies of investors, states and organised labour. In our analysis, we first outline two phases of the car sector's expansion to ECE, demonstrating how each of them was marked by different policies of automotive OEMs and accompanied by varying responses by unions and other political players. In the first phase, which lasted from the early 1990s until late 1990s, car firms adopted a predominantly market-seeking orientation towards ECE. To the extent that they used the eastward expansion to restore their competitiveness in West European markets, they mostly exploited labour cost advantages of the region. Hence, they mostly transferred labour-intensive activities to ECE countries, capitalising on their institutional stability and, later on, on investment incentives granted by ECE governments. At the same time, they sought to enhance their competitiveness at home by concluding concession agreements with the West European labour. The second phase was ushered in as the firms shifted their strategies in the late 1990s, in response to persistent cost pressures and changes within industry itself. Within a decade, ECE was transformed into an export hub for higher value-added products, which brought it into direct distributional conflicts with "old" production sites. This also led to a transformation in strategies of Western unionists, who found national solutions increasingly ineffective and engaged in cross-border cooperation with their Eastern counterparts to alleviate the competitive threat. Finally, a preliminary analysis of the 2008-2009 crisis shows that it prompted divergent reactions of OEMs in the two regions and was marked by increased involvement of West European states in the economy. We hypothesise that, should these initial reactions consolidate into more permanent strategies, we might well see the beginning of another phase of industry's development.

We base our arguments mostly on analysis of the changing division of labour between Germany, the largest automotive production pole of “old” Europe, and four ECE states – Hungary, Slovakia, the Czech Republic and Poland (also referred to as the Visegrad Four, V4). During the last 20 years, the western regions of Slovakia and the Czech Republic, north-west Hungary and south-west Poland have developed into one of Europe’s most vibrant automotive production clusters, often treated as a single unit by both researchers and investors (Pavlínek et al. 2009; Bohle 2008). Importantly, the car sector is among the most unionised industries both in Germany and V4, which allows us to trace the role of social partners in shaping the new production architecture.

Our theoretical contribution rests in reconciling so far distinct literatures on the changing nature of production and industrial relations in the European car industry, relying on an actor-driven, open-ended perspective on the analysis of the sector’s upgrading in the East. In order to reconstruct distinct phases of the East-West European division of labour, we draw on secondary sources and our own evidence derived from statistical data, press releases, union documentation and over 50 interviews with industry experts, managers and unionists at car plants in Germany and Poland.

The paper is structured as follows. We first summarise scholarly debates on the East-West division of labour, unions’ responses to the growing transnationalisation of the car industry and the extent of state engagement in the sector. Then we examine the changes of the V4’s production profile¹ and actors’ strategies from the early to late 1990s and from the late 1990s to 2008. Finally, we discuss the impact of 2008-2009 economic crisis on the sector and reconstruct actors’ responses to the downturn. A comparative discussion of the findings and outlook follows.

Veterans vs. newcomers: Issues and debates

Economic integration of V4 car industries into the European production space after the fall of socialism happened in the context of intensified production transnationalisation and with remarkable participation of foreign capital. While the process resulted in a quick revitalisation of the sector, it also raised a number of scholarly debates on the extent of the changes, as well as the role of firms, unions and states in shaping the restructuring process.

The first debate concerns the prospects of industrial upgrading in Eastern Europe in the context of transnational value chains. ECE countries’ lower labour

¹ The term “production profile” is borrowed from sectoral theories of political economy, where it is used as shorthand to describe factor intensity of production (Greskovits 2005; Shafer 1994). Although originally intended to describe variation in factor intensity between sectors, here we refer to differences in production profiles within the same sector, i.e. specialisation in particular production segments within the car industry. As it is difficult to ascertain factor intensity of production on sub-sectoral levels, we assess the orientation of the “production profiles” by the type of output (see Pavlínek et al. 2009). This measure is imperfect, as it is possible, at least in theory, to produce similar output through different combinations of factor intensities, but we believe it is safe to assume that locations with similar “production profiles” (proxied by structure of output) are likely to compete for similar types of investments.

costs and meagre labour standards led some observers to prophesise the rise of “maquiladora syndrome”, with the region becoming locked into Western firms’ low-cost production segments (Ellingstad 1997; van Tulder/Ruigrok 1998). Soon, however, this vision of clear hierarchical division of labour became difficult to sustain in the face of major changes in the industry that made the value chains more flexible and production more mobile (Sturgeon 2000) – most notably growing decentralisation of the production processes (Lung 2004) and the standardisation of vehicles’ interior components (the so-called platform-based production; Pries 2003). In spite of the subsequent broadening of OEM’s options with regard to potential production locations, many authors maintain that these processes are conducive to “complementary specialisation” along the lines of vertical integration, as producers are reluctant to create parallel and competing capacities, but instead restructure their value chains to position different fragments in the best environments (Kurz/Wittke 1998). And yet, the division of labour has become a lot less straight-forward. Recent studies by Pavlínek et al. (2009) and Lefilleur (2008) document significant convergence of ECE countries’ production profiles towards those of Western Europe, begging the question of to what extent competition from these new locations has become dangerous for the traditional production sites. Although ECE has clearly not caught up in all aspects of industrial development (for the most part, design centres and much of research and development, as well as production in topmost market segments have remained in the West), the rapid upgrading it witnessed in the past decade has spelled rising intra-European competition among an ever increasing number of locations.

The latter issue has given rise to a second set of debates that addressed unions’ reactions to the changing architecture of the European automotive production. The controversy was partially rooted in fears of mass relocations and job cuts in the West, fuelled by ECE’s improving investment climate and persisting East-West cost differentials (Bohle/Husz 2003). Even if to date *Drang nach Osten* remains an exception rather than the rule, there is evidence that the mere possibility of offshoring and benchmarking has given employers an upper hand in collective bargaining, leading to reorganisation of working practices. Some authors argue that due to differing industrial relations traditions and labour’s embeddedness in national political economic structures, unions will try to counteract the negative trends using national strategies, such as collective bargaining or recourse to state assistance (Ebbinghaus and Visser 1996; Pulignano 2006). Others explore the prospects for transnationally coordinated union action that would attenuate competitive pressure arising with the industry’s international expansion and counter the firms’ attempts at playing off workforces at different locations against each other. Such cross-border labour alliances can be spurred by the structural affinity between the employees of the same MNC and exposure to similar HR practices (Kotthoff 2006; Marginson et al. 2004) and strengthened thanks to intra-firm socialisation processes (Erne 2008; Gajewska 2009). Successful instances of union transnationalism in the West European automotive context (Greer/Hauptmeier 2008; Haipeter 2006), raise the question of whether similar cooperation might take place between Western and ECE unionists.

The third discussion relates to the extent to which states have influenced the trajectory of the industry’s transformation. Most studies on the automotive sector view

firms as “primary shapers” of the new East-West European division of labour, linking V4 production profiles with corporate investment strategies (cf. Hancké/Kurekova 2008). But the literature rarely focuses on multiple ways in which states can support the industry’s revival, be it by providing stability of institutional environment (Bohle/Greskovits 2007) or by actively seeking to attract investments (Drahokoupil 2008). By the same token, states might be acting as inhibitors of change as they try to protect jobs at traditional locations. Recent statements by the French President Sarkozy, who encouraged the investors to “stop out-sourcing and if possible in-source” car production back to France (JustAuto 2009) and the German Finance Minister Steinbrück, declaring “high interest in maintaining employment at *all four* [i.e German; emphasis added] Opel sites” in the aftermath of the crisis (Bloomberg 2009a) indicate that state’s role in shaping the industry’s trajectory, both in “good” and “bad” times, deserves closer attention. By bringing the state into the triangle of actors, we hope to show how their policies have intertwined with strategies of OEMs and unions to produce, at different points in time, different configurations of intra-European division of labour.

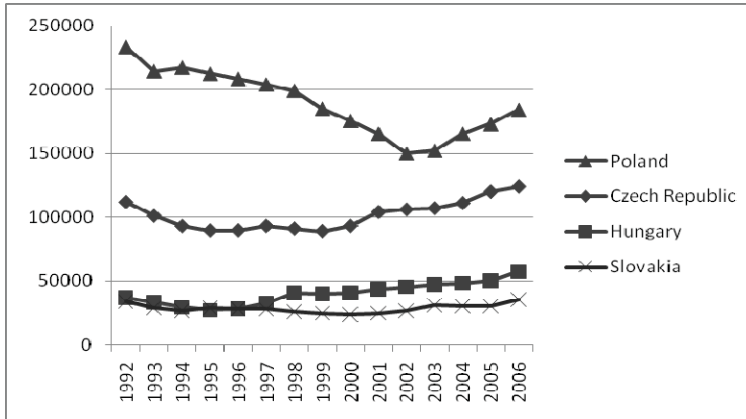
The era of national solutions (early 1990s-late 1990s)

The beginning of post-socialist transition in ECE presented West European carmakers with unheard of opportunities. The newly opening East European markets promised a vast potential for growth: the number of cars per 1000 inhabitants stood barely at 80 (as compared to more than 300 in the West), and their average age was well above the West European standards. In 1990, the Financial Times forecasted that the market would grow to 3 million cars per year by 2000 and some optimistic assessments put the estimates as high as 10 million (cf. Dörr/Kessel 2002). It is no surprise, then, that almost the entire existing production capacity of ECE was bought up in less than two years (van Tulder/Ruigrok 1998).

There are several reasons why firms preferred to launch their own production in the region rather than to rely on exports. One was, as already mentioned, the fact that the East European markets were expected to grow very quickly, in which case additional capacity would be necessary to capture the gains. The other reasons were rooted in the market and institutional features of ECE states. In those countries which had a national carmaker before the fall of communism, the same companies usually owned the distribution networks, which guaranteed early entrants a virtual monopoly over the markets in the first few years. Moreover, both the countries that had their own industry (the Czech Republic, Poland) and those that wished to create it (Hungary) engaged in some form of market protection to lure investors. Hungary introduced a system of import licences targeting second-hand cars, the same as Poland, which kept high tariffs on both old and new cars from the EU until they were phased out in the early 2000s under the European Commission’s pressure. Similarly, the Czech Republic offered four-year market protection from imported cars to Volkswagen as part of Škoda agreement (Kaminski 2001). A combination of trade restrictions and generous exemptions and support for the manufacturers who established local plants quickly led to the region being populated by a large number of assembly facilities. This is not to say that the governments followed a coherent industrial policy – their primary objective was to

revive the local industry and halt rising unemployment as the previously protected public companies began to dissolve and shed labour. But despite all new investment, employment in ECE transport manufacturing continued to decline and began recovering only towards the end of the decade (figure 1).

Figure 1: Employment in transport equipment manufacturing, NACE DM



Source: WiW

The combination of inward-oriented government strategies and predominantly market-seeking approach of major investors created a specific production profile of ECE in the early 1990s, which relied on the production of cheap, small cars from CKD or SKD kits, with relatively low local content and functionally quite separate from the rest of the European production networks (Sadler and Swain 1994). There were a few partial exceptions to this trend, the two most important being Škoda in the Czech Republic and Fiat in Poland. In the case of Škoda, preservation of the local supply structure was guaranteed by the investment agreement and indeed the first series of models, still developed by Škoda with help of VW technology, were mostly locally sourced (Dörr/ Kessel 1999). This helped to preserve and develop local capacities, but also ensured that Škoda remained in a distinct category within the Volkswagen group, whose function was to target mostly peripheral markets and was not, either in terms of sales or employment, in a position to compete with other locations of the group (Dörr/Kessel 2002).

Market attraction is only part of the explanation, however – especially after the collapse of West European markets in 1992/1993, a number of firms sought to restore the profitability of small car segments by cutting production costs, and ECE states with their cheap labour presented the perfect opportunity. Thus Poland, for instance, became the only site in Europe producing Fiat's smallest model, Seicento. It was also the only car produced at the factory, indicating clear segmentation of the production chains, whereby articulation of separate functions among different production sites minimised internal competition (Pavlínek 2006; van Tulder/Ruigrok 1998). A similar, complementary role was assigned to Audi's engine plant in Hungary, although in contrast to Fiat, Audi did not outsource the manufacture of its cheapest

product, but rather the most labour intensive function of the manufacturing process, so that the engines cast in Germany were machined in Győr and then shipped back to Germany. The consequence, unlike in the case of Fiat and Škoda, which also sought to cut costs by relying on cheaper local supplies, was that Audi remained almost entirely isolated from the local industry, with 0.5% of its purchases originating in Hungary until well into the 1990s (Somai 2002). Relatively low local content at most new assembly sites (with the exception of Škoda and Fiat) and the tendency to source only the most labour-intensive components from the region resulted in ECE's specialising predominantly in the production of low value-added products (see figure 3).

This complementary character of production at “old” and “new” sites precluded the emergence of joint interest areas between German and ECE unionists. At the time, German and ECE sites constituted two separate worlds, marked by different production profiles, work organisation and industrial relations systems. Nor did ECE subsidiaries constitute a threat to the traditional locations; if anything, German workers would indirectly profit from the offshoring of low-end activities to the East, as the reliance on cheaper inputs from the postcommunist region boosted their companies' profits and improved their competitiveness (Jürgens/Krzywdzinski 2009a). In effect, throughout the 1990s, contacts between German car unionists and their Eastern counterparts remained sporadic. The two groups would occasionally meet during training activities organised by IG Metall's regional districts, whereas meetings at the sectoral level involved formal information exchanges on the countries' industrial relations systems.

German unionists' limited interests in cross-border liaisoning stood in sharp contrast with the high levels of their national mobilisation in reaction to intensifying cost-cutting pressures. Even though in the aftermath of the early 1990s crisis, German car production figures recovered much faster than those of other West European producers (OICA 2010), persistent overcapacity across Europe sharpened the rivalry among the carmakers. Difficult market situation coincided with public debates on the rigidity of Germany's industrial relations and criticism of high manufacturing labour costs, which allegedly dampened firms' competitiveness (Sinn 2006). The moment was ripe for a rethinking of corporate strategies and employment relations in the German automotive sector. As a part of competitiveness-seeking and cost-cutting strategy, car companies engaged in negotiations with the unions, making the preservation of the existing employment levels conditional upon concessions in pay and working conditions. The first agreement of this kind dates back to 1993, when Volkswagen agreed to refrain from shedding between 20 and 30,000 workers if the employees relinquished some of the social benefits and cut working time to 28,8-hours per week. Within a decade, these so-called production location or job-securing accords became part and parcel of collective bargaining within the sector. In most cases, the pacts would secure employment and provide investment guarantees for upcoming planning periods. On the flipside, they involved substantial concessions on the workers' side, such as benefit cuts, wage freezes and increased working time flexibility (Zagelmeyer 2000; Jürgens et al. 2006). Following Germany, unions in other car-manufacturing countries concluded similar agreements, spurring an intra-West European “race to the bottom” among

locations that sought to gain an advantage during successive investment site selection rounds (Hancké 2000).

Throughout the 1990s, ECE unions in the car sector faced an entirely different set of challenges related to the ongoing restructuring process. While we found no evidence of automotive unionists siding with the management in their efforts to “streamline the firm”, (i.e. shed jobs; Ost 2009: 25), as was reportedly the case in some manufacturing industries across the region (see the contribution of Trappmann and Sznajder Lee in this volume), they were nevertheless unable to prevent large-scale dismissals. Even after the arrival of the investors, unions had a hard time rebuilding the membership base and redefining their role under new economic conditions. During the transition, jobs at car factories were highly desired: in the words of a Solidarność chair at a Polish brownfield truck factory, “people were storming the company’s doors and windows in order to get in” (MAN 2007). The fear of losing one’s job effectively froze employees’ desire to join a labour union. Unionists at greenfield facilities experienced similar recruitment problems. They also proved particularly vulnerable to union-busting practices (Jürgens/Krzywdzinski 2007). Consequently, in the 1990s, ECE automotive unionists focused mainly on (re)building their organisations: plant-level mobilisation for higher wages and cross-border networking were, at least for the time being, not on the agenda.

Competition and labour transnationalism (late 1990s-2008)

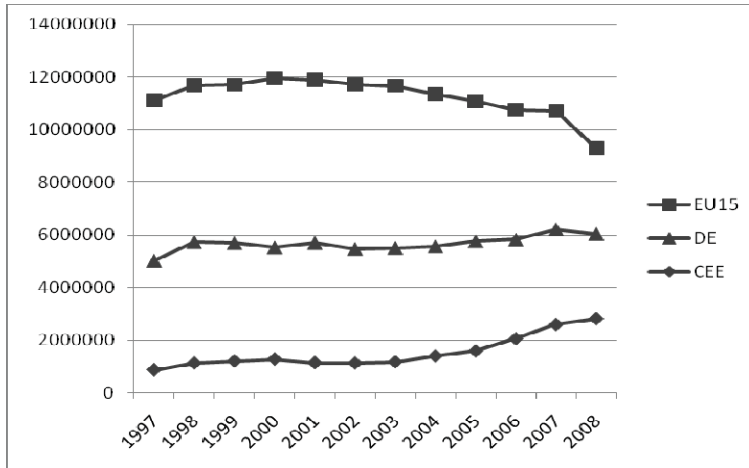
In the late 1990s, several tendencies conspired to bring about a change in carmakers’ strategies towards ECE. For one, the 1993 recession in Western Europe was followed by a relatively slow recovery, which forced car firms to restructure in order to restore competitiveness. ECE sales grew slowly and what had looked like rivalry for a growing share of profits turned into a cost-cutting trench war in a stagnant market. The second trend was ECE states’ ongoing integration into the European Union and the accompanying reduction of trade barriers, which obliterated the need for small assembly plants and enabled the firms to tighten links between the “old” and “new” production sites.

Car MNCs’ cost cutting strategies quickly transformed their Eastern operations. As already noted, one widely used tactic involved pooling design and development costs by reducing the number of basic platforms and components. This spelled quicker upgrading for brands like Škoda, which had relied on separate R&D competencies: Škoda’s new model, Octavia, was almost entirely designed on a platform shared with VW Passat. Initially, it meant that the local content was down from 70% to 40%, as the new parts were sourced from VW group’s old suppliers, but the setback proved temporary when input standardisation and cost pressures forced the suppliers to follow their customers (Dörr/Kessel 2002). Catering to the local demand became secondary to producing for the “old” Europe: although it started as a car for emerging markets, by early 2000s Škoda targeted primarily Western Europe (47% sales share compared to 25% in ECE) (Havas 2000). At the same time, other firms phased out assembly plants, converting them into component plants (Opel Szentgotthárd, Ford Płońsk), and some began to invest into up-to-date facilities (the new “fractal factory” and engine factory at Škoda, GM’s factory in Gliwice). The assembly opera-

tions launched in this period by Audi in Hungary and VW in Slovakia involved only top-of-the-range models.

This shift in OEMs’ strategies led to a rapid increase in the volume of cars produced in the East. Although V4’s combined output still constitutes a fraction of the European production, it has been steadily increasing and was expected to reach 4.7m vehicles in 2010 (PWC 2007). In 2008, ECE churned out around 3m vehicles, 2m more than in 1997. In the same period, West European capacity declined by almost the same number, although Germany managed to keep its share relatively stable.

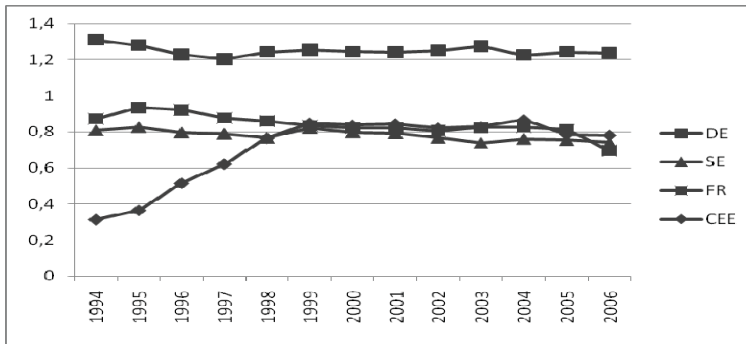
Figure 2: Vehicle production, 1997-2008



Source: ACEA

To what extent has this meant more comprehensive upgrading in the East in terms of complexity and sophistication of production? ECE has clearly caught up with most of the traditional Western production areas (figure 3) – although the area specialises in small cars, those have the same relative values² as the cars made in Spain or France. The average relative value of German car exports remains above the European average, which does not, however, place Germany safely outside the cost-driven competition from the East. First, higher average values probably reflect the concentration of low-volume premium producers in Germany, rather than higher average values of models produced across the board. While BMW, Porsche and Mercedes retained most of their German sites, high-volume producers like VW or Opel were more prone to move production of ever higher-value added models to ECE. Second, current market trends do not bode well for the premium segments. The tendency over the last 20 years has been towards smaller and cheaper cars: small cars increased their market share from 30% in the 1990 to 39% in 2008, and small and lower-intermediate segments together accounted for 70% of the market (up from

² Relative unit value is defined as the ratio between unit value of exports from country x to those of the EU as a whole.

Figure 3: Relative unit values of exports of finished vehicles, SITC Rev1 7321

Source: authors' calculations based on COMTRADE

58% in 1990) (ACEA 2010). With Western markets stagnating at about 14.5m units a year throughout the decade, this has significantly shifted the focus of competition in favour of smaller cars.

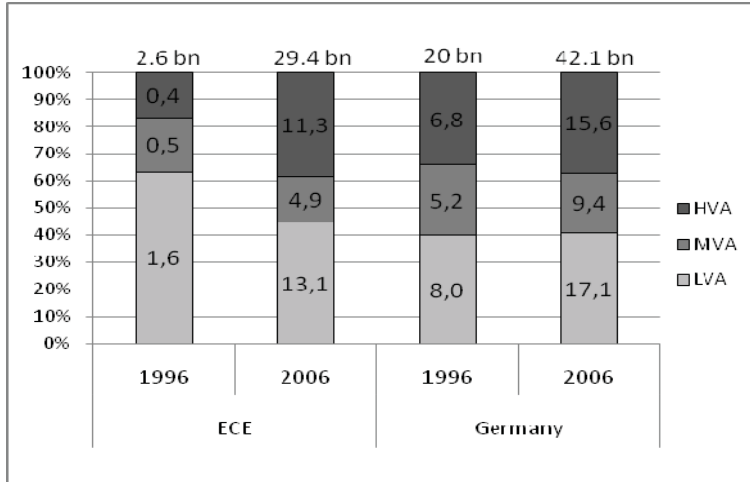
ECE's specialisation in car component production also moved into higher value-added segments. Figure 4 analyses the change, comparing relative specialisation of ECE and Germany in different "quality" segments.³ This categorisation is necessarily crude, assuming that final product's characteristics are a good proxy for the sophistication of the production process (which, as we saw in the case of Audi in Hungary, may not necessarily be true). Bearing in mind these data limitations, however, we still observe a clear upgrading trend in ECE. The region saw a decrease in the share of low value-added components in its exports from two-thirds in the mid-1990s to less than a half in 2006 and a 20% increase in the share of high value-added exports. As the structure of German exports remained more or less stable, by 2006 export profiles of Germany and ECE became very similar. Over the same period, V4 turned into a major sourcing region for German firms, accounting for 35% of all car parts imports to Germany (up from 12% in 1996). Nor was the growth concentrated in labour-intensive segments: while in 2006 high-value added parts from ECE constituted 45% of German imports in this category, only 25% of low-value added parts imported to Germany came from ECE. Even if we allow for a degree of intra-industry trade whereby ECE performs labour-intensive processes in the production of high-value added goods, this is clearly not the dominant pattern, as shown by growing trade deficit in components that Germany accumulated with the V4, and which in 2008 stood at more than 5b € (Štěpanović 2009).

German firms, in other words, used their ECE sites to improve their position in international markets, but at the price of rendering home production more vulnerable to Eastern competition. ECE, in turn, rapidly upgraded its capacities, and its production

³ The analysis is based on Pavlínek et al. 2009. High value-added components comprise engines, transmissions, steering and breaking systems, low value-added ignition harnesses, seats, bodies and their parts, exhaust systems and silencers, wheels, seats, wipers etc. and medium value-added axles, clutches, accumulators and other components not included in the above two categories.

profile in many ways came to resemble that of Germany and other advanced car producers. Although it has not caught up in all aspects of automotive manufacturing, in the most employment-intensive areas – volume car and component production – ECE offered competencies comparable to the German ones – but at a fifth of the price.⁴

Figure 4: Exports of car components per value-added segment



Source: authors' calculations based on COMTRADE

These trends have been reflected in growing employment insecurity at German car firms. Although relocation-induced job cuts have been relatively rare, highly publicised relocation cases showed that the offshoring threat was credible. Moreover, low-cost ECE plants' involvement in the investment bids exposed German factories to a considerable disinvestment risk. Inter-plant comparisons with the East could induce mutual underbidding, to the detriment of the Western plants if ECE standards set the benchmark. The literature usually views GM as a "whipsawing leader" among car firms (Greer/Hauptmeier 2008; Hanckè 2000); in the East-West context, its most (in)famous "beauty contests" involved the row between the Polish plant in Gliwice and the German Rüsselsheim site over the manufacture of Opel Zafira in 2004 and the conflict between the Polish and Spanish locations over Opel Meriva in 2005-2006. Yet, even companies known for their compromise-oriented corporate culture made increasing use of transnational site comparisons. Volkswagen's 1999 decision to assign the production of VW Tuareg to Bratislava instead of Hanover (Klobes 2005, cf. Jürgens/Krzywdzinski 2009b) was the first instance of a loss incurred by a German VW site due to the East-West benchmarking. Currently, each investment at VW is preceded by performance assessment involving all potential sites, and East-West comparisons are commonplace. As put by the logistics manager at the VW engine plant in Polkowice (Poland), "each location makes a bid [*bewirbt sich*] for new models (...). And

⁴ In spite of a rapid rise in wages in ECE since the late 1990s, averaging between 90 and 130%, VDA estimates ECE's hourly labour costs in 2006 to be at or below 20% of those in Germany (Blöcker/Jürgens 2008).

this all goes to the firm's financial department and they check how efficient the location A, B and C is" (VMP 2008).

Adding to their vulnerability to external pressures was the decreasing capacity of German unions to secure employment via national channels. By the early 2000s, job-securing pacts lost most of their flair as concession bargaining's shortcomings became more evident. Higher investment mobility intensified the "inequality of risk and profit distribution" between the bargaining parties (Jürgens et al. 2006: 13): while concessions offered by workers went further with each bargaining round and had immediate consequences, job guarantees covered longer periods and could be renegotiated due to changing economic conditions (ibid). Furthermore, unions with limited access to corporate decision-making had a hard time obtaining viable employment and investment assurances. In Opel's case, planning and location decisions were made not in Bochum or Rüsselsheim, but at GM's European HQ in Zurich, and thus remained beyond the influence of local employee representatives. Even unions with traditionally strong influence on investment policies reported a growing number of issues not covered by collective deals. German VW unions, for instance, argued that inter-plant benchmarking and production shifts between plants were out of their control.

Growing exposure to cross-border performance comparisons and the "patchy" employment protection offered by firm- and plant-level accords brought a change in the German unionists' strategy.⁵ Rather than risking a direct confrontation with ECE sites, German car unions tried to coordinate their actions with their Eastern counterparts in areas subject to transnational benchmarking, where national access channels were unavailable or the employment protection remained limited. Such cross-border coordination of strategies for capacity-allocation rounds could help the Germans avoid distributional conflicts along the East-West dimension and allow them to partially regain control over transnational production, securing employment and future investments. The latter was particularly important as the integration of ECE sites has changed the rules of the game, significantly raising the costs associated with potential coordination failures.

But ECE unions' cooperative response was not that evident. Most of ECE-bound investments targeted traditional industrial centres (Pavlínek 2004), which had suffered the most from transitional recession. Consequently, local workers were willing to accept dismal conditions or even offer concessions to secure jobs and attract investments. Nor did the Easterners shun the inter-plant "beauty contests" feared by their Western counterparts, as considerable cost advantages and readiness to accept additional hardships made them the likely winners in capacity-distribution bids. As a result, they coordinated only in exchange for assistance, when the local unions' goals in a given situation could be achieved to a fuller extent by transnational rather than national channels. Specifically, if short-term employment increase featured high on the union agenda, coordination was less likely to materialise. When, however, ECE unions

⁵ This section on union strategies draws on Magdalena Bernaciak's PhD project "Cross-border Competition and Trade Union Responses in the Enlarged EU: Evidence from the Automotive and Construction Sectors" (Bernaciak 2010; see also the contribution of Dehnen in this volume).

focused on improving working conditions or securing long-term development of their location, the support of stronger German unions could be seen as an attractive option. In this case, a specific reciprocal relationship developed between ECE and German unionists: the Easterners committed not to underbid their Western counterparts during the investment distribution process, and the Germans provided them with organisational assistance and, at times, enhanced access to firm HQs.

Available cases of cross-border union coordination illustrate the reciprocal nature of East-West exchanges. In 2005, Western European GM unionists included Polish labour representatives into the Delta Group – a Europe-wide union forum created to prevent underbidding between five plants pre-selected for Opel Astra. Together with their Western colleagues, the Polish unionists endorsed the so-called European Solidarity Pledge, agreeing to the production share pre-assigned to Gliwice by GM European Works Council and vowing not to lead separate negotiations with the local management. In exchange, *Solidarność* received considerable organisational assistance from the West European unionists. The GM European Works Council chair acted as mediator in a Polish wage dispute and advised the union to stage a short strike that resulted in management's acceptance of the majority of its demands. The Westerners also backed the Poles during an anti-outsourcing campaign and presented the cases of mobbing at the Polish factory to GM's management. In a similar vein, in the early 2000s works councilors from VW engine plants in Salzgitter and Chemnitz began regular exchanges with their Polish counterparts from Polkowice regarding planned capacity changes and flexibility measures. The unionists committed to consult each other prior to production shifts among the three factories. As a result, unions at the receiving facility would block the production transfer if it was expected to negatively affect employment at other sites. The Poles accepted these commitments, since at the same time they profited from knowledge about bargaining strategies shared by their German colleagues. Lacking representation on VW supervisory board, they also relied on the support of their Western counterparts during investment site selection talks, thus securing their location's long-term growth. The deal has been effective in preventing cross-border capacity allocation rows and unionists from Audi's engine-producing site in the Hungarian Győr were expected to join the coordination group.

This reciprocal motivation behind German and ECE car unionists' liaison made it quite distinct from the previous labour transnationalism attempts in the sector, as it was spurred neither by the desire to counter the management's whipsawing practice (Haipeter 2006) nor by the threat of disinvestment, equally "distributed" among all locations (Fetzer 2008). Rather, East-West exchanges emerged in response to the specific architecture of the European car industry of the early 2000s, when Western and ECE sites, marked by considerable cost differentials and thus varying exposure to disinvestment and underbidding threats, acquired similar production competences. The risks of close structural interdependence with ECE guided the strategies of the German unionists, who socialised with their Eastern counterparts and supported them in exchange for the latter's promise to reject underbidding as an investment-attracting tool.

The investment competition on the unions' part was mirrored in this period by a similar rivalry among the governments. Although EU state aid rules significantly lim-

ited the scope for “bidding wars” among EU member states, a number of highly publicised cases emphasised the role of investment incentives in guiding companies’ decisions.⁶ The perception of ECE threat was evident in view of the state aid decisions made in this period, which made explicit references to “new” Europe’s locations. In the case of BMW’s investment in Leipzig, for instance, the cost-benefit analysis submitted to the EU shows a 30% cost advantage of the alternative location in the Czech Republic, after factoring in a 5% wage convergence rate, additional training in German language and manufacturing skills for the Czech workers and even additional marketing costs to make up for the “brand damage” BMW would supposedly incur by producing at a cheap location, to the tune of 1% of its total turnover (EC 2003). In order to alleviate the “cost handicap” of Leipzig, the German government approved a 300m € support package.

Between 1998 and 2004 hardly any large investment in Western Europe was made without such comparisons being conducted by the companies, and even though benchmarking was also common among Western locations, comparisons with Eastern Europe always worked out at higher cost differentials. This, however, did not prevent government support from rising also in the East: regardless of their cost advantage over Western Europe, V4 governments competed most fiercely *among* themselves, driving the size of investment packages up to the maximum permitted under European law (Kolesar 2006).⁷ Although attraction of foreign investment had been characteristic of ECE economies since the beginning of transition, by the late 1990s FDI had become the dominant component of industrial policies of these countries (Drahokoupil 2008). The OEM’s relative loss of interests in the region’s markets, in addition to their slow growth, were also related to ECE’s ongoing market integration into the EU, which meant dismantling trade-related measures previously used to attract investors. This left the incentives as the primary tool for “steering” investments, a pattern which was to prove very difficult to reverse. Specifically, although most of V4 also offer incentives for alternative investments (i.e. research, development and innovation, training etc.), the bulk of support given to the car industry has been in capital investments and employment creation. In the meantime, the West witnessed gradual reallocation of support from these traditional objectives to efforts to improve skills and promote higher value-added activities (EC 2005).

Re-emergence of national “windows of opportunity” (2008-2009)

The world-wide recession starting in late 2008 took a high toll on the car sector, adding to competitive pressures and pre-existing structural weaknesses. In Europe, new vehicle registrations in 2008 fell below the 1998 levels, the biggest drop in the last 15 years. The first quarter of 2009 marked an even sharper decline, with a 17.2% drop in

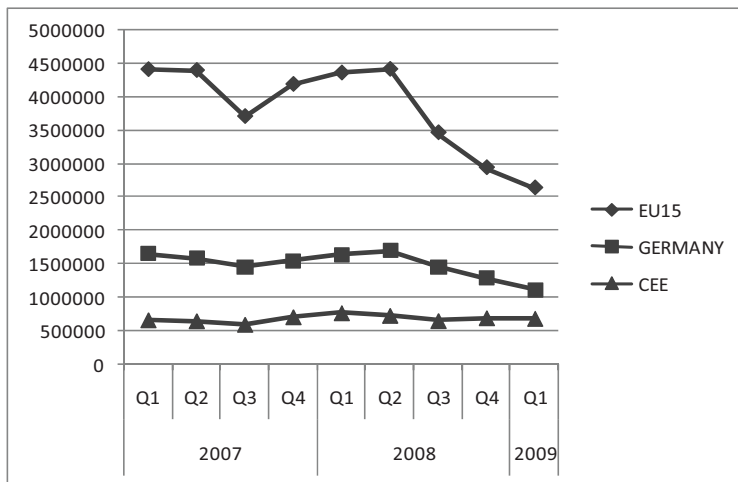
⁶ In one of the more politically charged instances of such competition, Spain threatened to block Slovakia from concluding the Competition Chapter of EU accession negotiations, because of the tax breaks that allegedly led VW to relocate its production from Spain to Slovakia (Lönnborg et al. 2004).

⁷ In fact, during the contest for the same BMW investment in 2001, the Czech Republic offered a similar subsidy package, on top of its enormous cost advantage (Pries 2006).

sales year on year and a 35% fall in production (ACEA 2010). Most analysts agree that recovery should not be expected until late 2011, which renders the question of existing overcapacities all the more pressing – forecasts estimate global sales volumes at some 55m units, against an installed capacity of over 94m. The governments have been scrambling to prop up the failing markets through purchase incentives, but there are already signs that the industry might need more structural solutions if it wishes to remain competitive. The question, then, is: are we seeing another strategy shift that might alter the terms of the East-West division of labour?

The answer partly depends on the intensity of the crisis, but even more on actors’ strategic decisions. As for firms, the liquidity problems following the financial crash forced many producers to cut costs further, and one out of five suppliers in Europe is reportedly facing a bankruptcy threat (FT 2009). Carmakers’ profits were also squeezed by a changing product mix – although Europe saw a general reorientation towards smaller cars in the last 20 years (cf. section II), in the first quarter of 2009 they took up 45% of the market, dragging down firms’ balance sheets.⁸ Both tendencies tilted the playing field towards V4 sites, which offered lower production costs and already specialised in smaller car segments. In effect, ECE weathered the storm better than the “old” Europe: out of sixteen European plants threatened with closure in March 2009, not a single one was located in the East (ANE 2009a). ECE’s resilience was confirmed by relatively stable production results; the picture for Germany and the rest of EU was much bleaker (figure 5).

Figure 5: Quarterly car production figures



Source: ACEA

⁸ Firms’ financial reports reveal a large gap between the unit drop in sales and the revenue decline. Renault reported a 24% slide in revenues from car sales in the first half of 2009, while the drop in sales was “only” 16.5%. The numbers for Ford Europe are 37% and 24% respectively, while VW recorded relatively smaller decline in the second quarter: a 3% reduction in sales, but a corresponding 7.7% drop in revenues.

But the nature and timing of the present crisis may be such that the manufacturers could prove unable to overcome the downturn by relying on the same cost-cutting methods that served them well a decade earlier. Faced with stagnant markets and a growing number of competitors from developing countries, European OEMs might be forced to reconsider more radical strategies, seek a stronger alliance with their home states, or both. The prospects for a shift towards alternative power-train solutions may appear far, but they are certainly closer after the crisis's first year than before. The "old" EU and the Western governments have made a substantial effort to push the sector in that direction, which could temporarily shield the European OEMs against competition from cheaper cars made in developing countries or traditionally less "environmental" US products. The new EU regulation on CO₂ emission sets the performance standards at below 130 g/km (EC 2009), and even local initiatives, such as the UK's attempt to create a market for electric vehicles,⁹ could motivate the producers to seek "greener" solutions.

As the world motor shows fill up with prototypes of hybrids and full electric vehicles, ECE is clearly behind in the race. Despite sporadic attempts on the part of the foreign firms in the region to link up with local research facilities or organise labour force training, the effects have been at best uneven (Pavlínek et al. 2009). Private R&D investment in ECE is very low, averaging 0.46% of GDP, and only in the Czech Republic does the private investment outpace the public one. Even the combined public and private investments are below the West European average, and certainly far behind Germany, which spends almost 2% of its GDP on research and innovation, against less than 0.9% in ECE (PRO INNO Europe). V4's reliance of relatively cheap, traditionally trained labour may thus result in its workforce being unable to meet the challenge of a radically transforming industry.

Furthermore, it seems that ECE's "residual" industrial policy in the boom period, which capitalised on lower costs, external labour market flexibility and investment incentives, has proved insufficient during the crisis. While nearly all West European governments provided publicly financed fleet renewal schemes to stave off market collapse, the Czech Republic, Hungary and Poland were the only large car producers in Europe that did not make similar efforts. Romanian and Slovak support remained symbolic by Western standards (with 60m € and 22m € set aside for these purposes, and Slovakia limiting the maximum price of the new cars to 25,000 € to target smaller, locally produced cars).

To an extent, the passive attitude towards direct aid schemes makes perfect economic sense in V4, as most of their production is anyway exported. But despite their relative competitiveness, the belief that ECE can sail through the economic crisis on the back of broader European efforts to rescue the sector may backfire. This is because the crisis has spurred extraordinary involvement of Western Euro-

⁹ The UK launched a subsidy scheme for purchase of electric vehicles starting in 2011, which offers 5000 £ per vehicle, and a 30 million £ programme to set up a network of re-charging hubs. "Incidentally", the same week GM announced that its new EV Ampera, scheduled to go on sale in 2011, might be built at the British Ellesmere Port (ANE 2009b).

pean states in the sector's affairs, which went far beyond demand-boosting measures. This time, "old" Europe's governments sought to directly influence the course of industrial restructuring and safeguard jobs at domestic locations. During negotiations over Opel's sale, for instance, the German government publicly announced their preference for the Magna-Sberbank bid, even though the consortium demanded a higher level of public support than other investors. Chancellor Merkel supported this "worst of several options in terms of industrial logic" (The Economist 2009) due to Magna's promise to keep all four German plants open and shed jobs mainly at other European Opel sites. In a similar vein, the Italians pressed FIAT to increase production at the firm's home locations. As a part of an 8 billion € plan to double its domestic capacities, the company will launch a new generation of its popular Panda model at Pomigliano D'Arco and not at the Polish Tychy, despite the latter's significant cost advantages. Protectionism has also been en vogue in France, as President Sarkozy made the government's support for Renault and Peugeot Citroen conditional upon retaining jobs at their French factories and tried to dissuade Renault from locating Clio IV production in Bursa, Turkey. Unable to put similar pressure and/or offer extra incentives to firms that had invested on their territories, ECE states could only passively follow the political economic games between car manufacturers and their home governments. As observed by the Polish Economy minister Pawlak, "firms might be multinational, but they still have their capitals" (Auto Świat 2010).

At the same time, West European states proved much more willing than their Eastern counterparts to extend employment protection schemes to buffer the impact of the crisis. In Germany, the state increased the funds to support firms using *Kurzarbeit* schemes by extending the period of short work to 18 months and agreeing to reimburse employers' social insurance contributions. In ECE, similar effects were achieved by extra-institutional ad-hoc adjustments: by direct wage cuts, or by transforming work contracts into performance contracts and "subsidising" employees through state-provided unemployment benefits (CBW 2009). While work stoppages and temporary working time cuts were as widely used in the ECE as in the West, they were not accompanied by similar support of workers' incomes. At the Slovak KIA factory, for instance, working time was reduced to 6 hours per day in January 2009, and a month later production was temporarily cut from two to one shift, with workers receiving only 60 % of their wage. Part of the reason is a relatively undeveloped institutional environment in the East to support working time flexibility, used to control labour costs by eliminating "idle" hours. Working time accounts, popular in Germany's metalworking sector, are illegal under the Polish labour law. At VW Bratislava, the accounts were introduced only in January 2009 as a special anti-crisis measure, even though the plant's problems started in mid-2008. Worse, recent V4's efforts to reform working time legislation have been fairly sluggish. In Poland, a bill introducing 12-month reference periods underwent lengthy negotiations in the Tripartite Commission and remains heavily contested by unions.

Instead of internal flexibility offered at Western sites, it is the ease of hiring and firing workers that has served in ECE to adjust workforce requirements to crisis-induced market fluctuations. Here, East-West differences are reflected in the

OECD's strictness of employment protection legislation (EPL) index, at which Germany scores 2.5 in 2003, while V4 ranks between 2.1 (Poland) and 1.7 points (Hungary) (OECD 2004). The combination of rigid working time arrangements and easy dismissals procedures makes the recourse to external flexibility measures much easier in the East than in the West, rendering ECE workforce vulnerable to personnel adjustments in crisis times. The effects are shown in table 1 – while in the five year period between 2003 and mid-2008 Germany lost more than ten times as many jobs through restructuring as 'V4' combined, between July 2008 and September 2009 the extent of job loss in ECE was much greater than in Germany, both in relative and in absolute terms.

Table 1: Job loss and creation through restructuring, 2003-2008 and crisis, ERM¹⁰

	DE	ECE
Job loss 2003-2008		
Thousands	80.7	6.8
as % of employment in the sector*	9.3	2.5
Job loss mid2008 to 2010		
Thousands	16.8	37.4
as % of employment in the sector**	2	9.4
Job creation mid2008 to 2010		
Thousands	0	12.8
as % of employment in the sector		3.2

Source: ERM

*employment as of 2003

**employment as of 2007

Last, but not least, the renewed interest of Western states in keeping the national car industries afloat has diverted unions' attention from cross-border cooperation. With the re-emergence of "national windows of opportunity", transnational commitments from the pre-crisis period have given way to local responses and even unionists that once actively pressed for Europe-wide solutions, have now (re)turned to local bargaining and state lobbying. The "national shift" was particularly striking in the case of GM, once as a flagship case for labour transnationalism. From the outset of the crisis, regional IG Metall representatives and Klaus Franz, head of Opel's general works council, sought German state assistance in saving the brand and openly supported the Magna-Sberbank bid for Opel. In August 2009, IG Metall's chair Huber flew to Moscow to discuss the prospective accord with the Russian PM Putin, given

¹⁰ ERM data is based on newspaper reports and therefore necessarily suffers from several methodological shortcomings, and should be treated with reserve (for the discussion of ERM methodology see: <http://www.eurofound.europa.eu/emcc/erm/info.htm>) Still, it is the best available source of comparative data on restructuring and employment trends in Europe, especially in the short term.

Russia's biggest bank's involvement in the investment consortium. The Belgians also favoured the Canadian-Russian bidder, in a hope that the ailing Antwerp plant would be kept afloat. But workers from other European countries objected Opel's takeover by Magna-Sberbank, fearing that they would bear a disproportionately high burden in the brand's restructuring if the Germans managed to avoid dismissals thanks to their government's intervention in the negotiations. Consequently, unions at different locations reacted differently to GM's decision not to sell its biggest European brand: what Franz saw as "a black day for Opel" (Bloomberg 2009b) turned out a positive course of events for the unionist at Gliwice, Poland, pleased that their factory "was back to play" and reassured that GM would draw on "economics, not politics" when drafting Opel's restructuring plan (GW 2009).

Conclusions and outlook

This paper set out to disentangle controversies concerning the role of firms, unions and states in shaping the East-West division of labour in the automotive industry. By reconstructing the trajectory of the industry's transformation over the last two decades, we argued that different views represented in the debates are not necessary contradictory. Rather, they refer to distinct phases of the restructuring and upgrading process, each marked by a particular set of structural pressures and the corresponding shifts in actors' strategies. Specific combinations of actors' strategies in each phase have been a major factor in shaping the current geography of automotive production in Europe and will continue transforming it in the future.

With regard to the extent of ECE car industry's upgrading, we argued that by the late 1990s, regional industry had largely recovered from the "maquiladora syndrome". Poor sales results in ECE and cost-cutting pressures in the West led MNCs to transform their Eastern assembly plants into export hubs targeting Western European markets. This not only resulted in enormous capacity boost in the East, but it also improved the production and export profiles of the region. In spite of this, the upgrading process is far from complete. The upcoming technological shift related to the "greening" of the industry poses a serious challenge to the region's competitive position, as the lack of investment in innovation, reliance on traditional vocational training systems and slow advances towards continuous learning programmes in V4 may render their workforce unable to compete for the new jobs.

Secondly, we demonstrated that German and ECE unions' reactions to the changing East-West division of labour in the car sector have varied considerably across the examined periods between national and transnational solutions, with the recent crisis marking a return to the former. In the 1990s, clear separation of production competences between "new" and "old" locations was not conducive to emergence of cross-border union contacts. By 2000, however, growing East-West output similarity spurred German unions' interest in liaising with their Eastern counterparts. By coordinating their strategies with ECE unionists, the Germans sought to avoid "coercive comparisons" between their sites and the cheaper Eastern plants. In exchange, they provided the Easterners with organisational assistance and enhanced access to the corporate HQ. The 2008-2009 downturn, however, was a stiff test for this reciprocity-based labour transnationalism, as the distributional con-

flicts became more pronounced and national “windows of opportunity” turned unions’ attention away from their transnational commitments.

Last, but not least, we offered a sketch of the changing involvement of states in the car industry’s affairs in “old” and “new” Europe. During the first phase, the ECE governments sought to attract automotive FDI by differentiating their markets and offering locally incentives (such as sale of former national champions and market-protection measures). With growing integration of industries and markets, the rise in competition between increasingly similar production locations drew the states into a similar pattern of rivalry for investments. Although West European governments sought to offer more differentiated and targeted subsidies, lowering their commitment to the industry (partly under the pressure from the EU), the intra-ECE competition kept the levels of incentives high and made targeting more difficult in the East. With the outbreak of the crisis, however, ECE states adopted a relatively “hands-off” approach, betting their chances on their cost competitiveness and allowing carmakers a free hand in managing their costs – at the expense of increasingly vulnerable workers. In the meantime, West European states have been more actively engaged in the restructuring process, not only for the purpose of protecting jobs at “their” factories, but with a more long-term intention of steering the industry in the desired direction.

As the crisis unfolds and the OEMs, governments and unions are still weighing their odds, it is difficult to tell whether we are indeed witnessing a new phase in the European division of labour. The reactions on all sides have been mixed: while state intervention in the West had staved off the immediate job losses, it is unclear whether it will be sufficient to force the OEMs into more long-term solutions. The crisis wiped out the prospects of rapidly increasing markets that would support large capacities both East and West, and if the EU governments decide to return to “business as usual”, scaling back the support schemes and leaving the industry to handle the market imbalances, the distributional conflicts in Europe are likely to sharpen further. With the current distribution of advantages, this means that higher-value added competencies will continue moving eastwards, while central locations will preserve only the highest-value (but low-employment) capacities, such as design or sales. There is mounting evidence in support of this scenario: GM’s restructuring plan for Opel envisages a 20% capacity cut across Europe, a dismissal of 8,300 workers and a closure of the Antwerp plant in Belgium, but at the same time restores the third shift in the Polish Gliwice, which had been cut in early 2009. In a similar vein, FIAT still plans to shut down a plant in Sicily in 2011, defying the pressure from the government and the unions, and the French President seems to have lost the battle to convince Renault to concentrate the new Clio’s production solely in France. On the other hand, a more radical technological shift in the industry could bring at least a temporary recourse to more vertically organised division of labour, with Western Europe regaining its comparative advantage in novel production segments. Chances are, however, that before we see such a radical shift, things may yet get a little worse in the nearest future – in the East, but especially in the West.

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