

South East Europe Investment Committee

3<sup>rd</sup> Meeting  
of the  
Working Group on  
Investment Promotion

# DEVELOPING AND PROMOTING THE AUTOMOTIVE INDUSTRY IN THE WESTERN BALKANS

## Summary of Conclusions



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## **CONTEXT**

Representatives of investment promotion agencies from the countries of South East Europe, global carmakers and first tier suppliers, local suppliers as well as the OECD and other international organisations met in Belgrade on 19 June 2009 in the framework of the OECD Sector Competitiveness Project, co-financed by the European Union. Bringing together a working group on the automotive industry in the Western Balkans for the first time marks an important achievement.

The meeting was part of an overall process to improve the quality of the information available on automotive component suppliers of the Western Balkans, and to assess to what extent automotive component suppliers in the Western Balkans have the necessary information material to raise awareness of their capabilities.

Both speakers and participants highlighted that there are clear opportunities for the economies of the Western Balkans to attract investment from carmakers and first tier suppliers and develop business for local second and third tier suppliers.

## **THE IMPACT OF THE FINANCIAL CRISIS ON THE AUTOMOTIVE INDUSTRY IN THE WESTERN BALKANS**

The outlook for automotive FDI in 2009 - 2010 will likely be characterised by strong mergers and acquisitions and consolidation activities, but few greenfield investments. Location strategies will increasingly focus on cost reduction and supply chain optimisation. In Europe, new automotive investment is likely to be further concentrated in the Eastern part of the continent. In this environment, location factors that have an immediate impact on costs (i.e. incentives, labour costs) take on more importance in the location selection process.

The current crisis represents an opportunity for the countries of the Western Balkans if they combine short-term actions with strategic measures. The main strengths of the region are: Geographical proximity, low labour costs and stable union relations, and availability of skilled workforce. Participants agreed that in order to enhance their participation in global supply chains, suppliers in the Western Balkans should further develop their design and supply management capabilities.

## **THE AUTOMOTIVE INDUSTRY AND THE CRISIS: STRATEGIC AND POLICY RESPONSES**

As a consequence of the financial and economic crisis, there is an increasing interest from EU-based automotive companies to strengthen their presence in regards to both the supplier base and R&D activities in countries considered low-cost. This represents an opportunity for local suppliers to upgrade their design and development capabilities.

Representatives of original equipment manufacturers (OEMs) and first tier suppliers agreed on a list of criteria used to assess suppliers' capabilities: Industry-specific quality certifications, on-time delivery, price competitiveness and productivity, and innovation (including R&D and testing facilities, engineering and prototyping). In particular, increasing the role of automotive component suppliers in R&D is an important driver of technological innovation. To this end, the sourcing strategies of some of the companies represented at the working group focus on involving suppliers in the early stages of the product development process, with a view to developing long-term collaboration with them. The upgrade of innovation capabilities also requires the development of a stronger knowledge base in the local automotive industry built upon the collaboration between enterprises and universities.

Partnerships between local suppliers and foreign investors emerge as a key solution to strengthen and sustain the business for automotive SMEs. Local suppliers can offer to foreign OEMs and first tier suppliers skilled labour at competitive cost, and manufacturing experience.

Finally, the experience of the investment promotion agencies in Bulgaria and Romania underlines the importance of supporting the automotive industry by encouraging R&D activities, improving infrastructure, and supporting the continuous development and modernisation of a network of second and third tier sub-suppliers.

## **HOW TO DEVELOP AND PROMOTE THE AUTOMOTIVE INDUSTRY IN THE WESTERN BALKANS**

Several initiatives related to automotive supplier development are currently being implemented in the region. These activities take various forms, but they all share a common objective: Enhancing the participation of local suppliers (mainly SMEs) in the global automotive value chain. They include support given by the German Technical Cooperation (GTZ) to the automotive clusters of Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, and Serbia. In addition, the Chamber of Commerce of Kragujevac in Serbia and the Agency for Investment Promotion and Business Support of Central Serbia are implementing a project with the objective of establishing an automotive supplier industry excellence centre in the Western Balkans.

The OECD will co-operate with all partner organisations to identify among the list of proposed actions those that will add the highest value to the beneficiaries, and complement initiatives already implemented.

## **CONCLUSIONS AND NEXT STEPS**

Working Groups participants proposed in the short term (by December 2009) to work with partners in the region to

- Develop a comprehensive regional supplier database (building on existing databases)
- Develop a coherent map of the automotive sector in the Western Balkans and integrate this map in promotional materials, including existing web portals
- Develop and implement suggestions on how to improve existing web portals on the automotive components industry in the Western Balkans.

In the medium-term (by end 2011), working Group participants suggested that it would be worthwhile to launch 2-3 country pilots to demonstrate innovation capabilities in very targeted competency areas. The pilots could be structured in collaboration with tier 1 and tier 2 suppliers and potentially receive government support.

As immediate next steps, the OECD Secretariat will send out to investment promotion agencies and cluster managers by 17 September 2009:

- Proposed adjustments to improve existing supplier databases
- Proposed structure for mapping of the automotive industry in the Western Balkans.
- Suggested adjustments to enhance the current automotive components web portals.