SLOVAK REPUBLIC - Largest per capita car producer

A rising star

Like most other Slovak industries, the country's automotive sector has resolutely turned its back on the difficult days of Communism and enthusiastically embraced the free market economy. Built upon the heritage of the former supply chain for Škoda, the sector is today hailed as the most exemplary branch of an already flourishing economy, accounting for over 25% of industrial production and more than 30% of national exports.

Attracted by the availability of a highly skilled, low cost workforce and by spare industrial capacity, companies such as Volkswagen, PSA Peugeot Citroën and Kia Motors have recently opened plants in Slovakia, putting the country on track to become the world's largest per capita manufacturer of cars by 2008, when production is set to hit 800,000 vehicles a year, rising to 850,000 some time in 2010. The ready availability of foreign direct investment combined with the development of state-of-the-art R&D centres and the ongoing restructuring of the country's secondary education and vocational training systems make Slovakia the rising star of the European car industry.

A major producer, exporter and employer

Slovakia's income per capita currently stands at about 60% of the EU average. However, the government has realistic hopes of catching up not only with richer neighbours such as Hungary and the Czech Republic but, by 2030, with the rest of the EU.
The country's automotive industry is dominated by three carmakers - Volkswagen in Bratislava, the new Kia Motors Slovakia in Žilina and PSA Peugeot Citroën in Trnava (a plant which, once it reaches full capacity, will produce 450,000 cars a year). By 2009, these companies' combined output is expected to reach 800,000 units a year, 90% of which will be exported.

Car ownership, which currently stands at around 267 cars per 1,000 people, will climb further as GDP per capita rises. Total industry turnover stood at SK 330 billion (€ 10 billion) in 2006, and is expected to reach SK 400 billion (€ 12 billion) in 2007.
According to the national automotive industry association (ZAP), employment rates in the automotive sector rose by 4.3% in 2006. The recent investments made by PSA and KIA are expected to create around 35,000 jobs. Total employment in the automotive industry including the supply chain will represent 95,000 jobs in the near future.
The employment (2) reached 2 167,700 people by ESA 95, of which 1,884,100 were employees. Compared to the 1st - 3rd quarter of 2006, it increased by 2.1%, there was a 1.9% increase in the number of employees.

Direct automotive employment*	76,000
as share of total manufacturing	14.1%
Production of motor vehicles	571,071
of which production of passenger cars	571,071
Car fleet (in 1,000)	1,434
Car density (per 1,000 population)	267

* total employment depending on automotive sector is around five times higher

FDI – Making up for lost time

Until recently, Slovakia had received relatively little foreign direct investment in comparison with its neighbouring countries. One of the main reasons for this was the exclusion of foreign investors from the privatisation process, the unstable political and economic environment and the lack of trust on the part of investors.

However, this trend has now reversed, and Slovakia is set to see a huge influx of foreign capital over the coming years. The European Commission’s endorsement of a € 32 million state aid package for Kia Motors Slovakia to expand its car manufacturing plant in Žilina, Central Slovakia, is expected to attract numerous additional investors in the car sector and support the creation of new employment and economic development in the region. The investment should lead to an increase of the plant’s annual production capacity from 200,000 to 300,000 vehicles a year by 2010, the creation of 663 additional jobs by the end of 2008 and the production of a new car model.

Suppliers

Slovakia plays host to over 50 Tier 1 and Tier 2 automotive suppliers, with clients all over Europe. The industrial production index of the country’s automotive supply sector has more than quadrupled since 1998, and the production of components has actually grown faster than the production of cars.

This suggests that recent investments in car factories have had important spillover effects. The industry is largely foreign-owned, with traditional suppliers such as Johnson Controls, SAS Automotive, INA and Lear Corporation taking the lead. The first three companies are listed in the top 5 of the biggest engineering companies in Slovakia. Even though domestically-owned suppliers play an important role in the Slovak automotive industry, only Matador Automotive ranks among the biggest engineering companies in the country. The geographical proximity of Kia in Zilina and its sister factory Hyundai in Nosovice (Czech Republic) will make supplier-sharing and inter-factory supplies cost-efficient. Under the arrangement, Kia will supply engines to the Nosovice plant and Hyundai will manufacture gearboxes for both factories. Contrary to the Kia factory, the PSA plant will import engines and other components from France and Slovakia’s neighbouring countries, particularly from the Czech Republic, where TPCA (a joint venture between Toyota and PSA) has been operating for 4 years.

Investing in R&D – Securing the car industry's future

High economic growth normally tends to be associated with substantial R&D expenditure. Slovakia provides an interesting exception to this rule. Rapid economic growth in per capita GDP took place in parallel to a drop in R&D expenditure, employment and infrastructure.

This trend was reflected by a relative lack of R&D capacity in the automotive sector. However, the situation has recently undergone something of a transformation, with the launch of a number of joint projects between the car industry and universities including STU Bratislava, Košice Technical University, the University of Žilina and the University of Trencín. This strategy is aimed at making national laboratories competitive in specified fields of research and giving them the tools to provide effective support to small businesses focusing on research innovation and services in the automotive field.

According to ZAP, the establishment and development of new R&D centres at technical universities and more long-standing institutions such as the Slovak Academy of Sciences will provide Slovakia's competitiveness with a vital boost. Stepping up investment in R&D means that higher value added will be 'produced' in the country and dramatically increases the chances of sustained growth once Slovakia's advantage in terms of labour costs disappears.

With the new Hyundai Kia Motors and PSA plants currently under construction and with potential investors such as Mazda, Honda, Toyota, MG Rover and Bridgestone seriously eyeing the Slovak market, business opportunities for Slovakia's auto manufacturing base could explode in the coming years.

The flat 19% income and value-added tax adopted in 2006, together with the country's advantageous geographical location and its educated, relatively cheap labor force, make Slovakia an ideal target for investment.