

DELOCALIZATION – THE AUTOMOTIVE INDUSTRY'S ANSWER TO COST REDUCTION

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Abstract:

Delocalization is a relatively new term that defines a very old technique of reducing production costs, when you are a Transnational Corporation. Unfortunately this shift across the global economy has some negative effects for the home countries, which will resume basically to social effects. In the automotive industry, one of the most competitive economic sectors, this type of procedure has helped a lot of manufacturers to overcome the present economic crisis, but for others it meant some major losses due to a lower level of quality

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1. Delocalization. How do we define it?

The delocalization process has been utilized by the Transnational Corporations in their quest for higher profit margins, for quite a few years now. Mainly, the TNCs move the production line from a developed country that has higher operational costs to a developing country that allows the corporation to reduce the costs. Due to the present economic crisis this type of economic reaction is more common than ever.

This process cannot be totally dissociated from globalization which is a feature of today's world economy. Moreover, just like globalization, delocalization has its fans or its enemies, depending on the side you're asking: the country that receives the new investment, or the country that had lost that investment. The advantages of this process for the receiving country are easy to guess: new jobs, more revenues for the state or the region, a higher level of competition which stimulates the local economic agents to improve the quality of their products or services and son on. The disadvantages are related to an increased unemployment rate, a lower volume of revenue for that country or region, basically a lower level of living standard.

Nowadays, delocalization is a highly debatable and debated topic due to its implications for all the involved parties. But the theoretical knowledge about his concept is pretty scarce. So defining this concept is not an easy task. Nonetheless,

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according to a few scientific institutes that study this phenomenon there three definitions:

1. it refers to the change of place for a production facility. This means closing up a factory in the country of origin and opening a new one in a foreign country. This change takes place without affecting the goods' or services' destination, which is the domestic market;
2. the corporations' sub-contracting operations towards a foreign company in order to deliver to it goods or services that prior to this engagement were produced in the domestic corporation. This situation is often called offshore outsourcing
3. it refers to the creation of a new production facility in a foreign country rather than in the country of origin. In this situation the process is a bit more complicated provided that the receiving country can offer the necessary framework for that operation.

So delocalization is an old process that appeared along with the transnational corporations, but only recently has become a scientific subject, due to its importance in the global economic development.

2. Delocalization in the automotive industry.

The automotive industry is one of the most competitive industrial sectors in a national economy, but in the global economy as well. Every car manufacturer offers new products that are guaranteed to offer more comfort, less pollution, better styling and a number of positive features that will make the consumers go to a specific producer or another. Of course, in this equation the price plays an important role. So in the context of an expanding global market and in order to offer as many of these characteristics as possible, the manufacturers have to invest more, in production facilities, that will offer more products, in less time, and at correct prices. So the natural solution is delocalization.

According to UNCTAD several car manufacturers were going to create new production facilities outside their country of origin. Such an example is Volkswagen who intends to invest in a new factory in Brazil \$4.5 billion until 2016.

Another important car manufacturer that has announced his intention of investing outside the country is Nissan that will start the production at the new factory in Rio de Janeiro in 2014, after investing \$1.5 billion, while modernizing the existing facility from Curitiba.

BMW is another car manufacturer interested in opening a new factory in Brazil, as well as the Chinese producer, Cherry, who already begun the construction of a new plant totalizing a \$400 million investment.

But Latin America, although it is a new comer regarding the receiving of important foreign direct investments, was not the only destination for the car manufacturers that wanted to relocate some of their facilities. For instance in Europe, the Japanese manufacturer Suzuki opened a plant in Hungary in 1991. At first this factory produced only one model, the Swift, but after the years has become to manufacture almost the entire range of cars. Suzuki also opened a few other

factories, around the world (India and Pakistan), in order not only to reduce costs but to conquer new markets as well.

The German sports car manufacturer, mentioned earlier, BMW, opened its first factory outside Germany in 1994, in Spartanburg North Carolina, USA. The motive behind the built of this factory was, according to BMW's officials, the brand's strengthening at the international level.

Another German car builder that opened a new facility in United States is Mercedes-Benz that opened a factory in 1996 at Tuscaloosa, Alabama. This factory produced the first real full size SUV, the M-Klasse, release a year after the factory was built, in 1997. Of course today the factory produces other models from the range and as the latest official information show that in 2014, the mid-size sedan the C-Klasse will be built only in the Alabama factory.

The French car manufacturer, Renault, built a new factory in Tangiers, Morocco, opened in 2012. According to Carlos Ghosn, CEO of Renault, the demand for Dacia is growing and the Romanian plant cannot cope with the increasing demand. So the "Tangiers factory will relieve the Pitești factory", said Ghosn at the opening of the new factory which began production with 170.000 per year with prospects of producing up to 400.000 units. Here, the newest models of Dacia are produced (Lodgy, Dokker, Dokker Van), while the rest of the models are still produced in Romania.

After presenting these successful examples, we may be tempted to think that delocalization has only benefits both from the manufacturer's and the consumer's point of view. But this is not always the case, because, the practice showed us that sometimes with lower production costs, comes a low or lower quality products or services. And since we are talking about the automotive industry, we can refer to a major case of failure due to delocalization and that is Toyota. The Japanese car manufacturer had to recall, from 2009, 8.5 million cars due to an electrical failure, and another 412.000 cars for problems with the steering. As a result, Toyota recorded an important reduction in sales.

3. Conclusions.

Delocalization is a well-known process for all the TNCs CEOs and used mainly for cost reduction and due to its connection with the corporations, which are the engine of globalization, it is very difficult to separate these concepts. So it is even more difficult to elaborate a real definition for this process. But thanks to different scientific bodies that study this type of corporate management, we can better understand the costs and the gains of this process.

The corporations are inclined to use this method due to their benefits for the business. The countries that receive those Foreign Direct Investments, mainly the developing countries will benefit from these movements of capital, as this represents a sure way to economic growth.

On the other hand the developed countries are disfavored by the loss of investments and as a result by an improvement in the living standards, as a whole.

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