Internationalisation of companies and local upgrading of peripheries

The Example of VW Navarre in the European automobile production system

Martina Fuchs,

University of Cologne
Department of Economic and Social Geography
Albertus-Magnus-Platz
50923 Cologne
Tel: +49-221-470-7729
fuchs@wiso.uni-koeln.de

Paper presented at the 45th Congress of the European Regional Science Association in Amsterdam, 23-27 August 2005

Draft – Please do not quote

Abstract
The presentation shows that there is a close interdependence between the international division of production inside of a transnational company and the opportunities for local upgrading in a foreign plant. The paper discusses the example of VW Navarre. It argues that the international division of products inside of Volkswagen is important for the prospects of the plant in Navarre. Thus, the paper discusses product upgrading in the context of internationalisation as being important for the perspective of a plant: it is a central issue for the future of a location which type of car, or which different types of cars, are produced.

With regard to regions which are dependent on a specific international investor, as Pamplona in Navarre is, the topic of product upgrading is central to regional development, too. Having been the driving force of regional economic development for a long time, now we have to consider growth problems at Volkswagen Navarre. A reason for this is the specialization on the low volume model Polo. While in the 1980s and 1990s the production of low volume cars was a common strategy of Volkswagen and other automobile industries, as Opel and Ford, in Spain, the situation has changed now. While other Spanish automobile plants also produce high volume cars which offer the entry into new markets, as well as higher returns per car, Pamplona still is specialized in this segment. At the same time, the competition increases, because new competitors are producing on the same ´platform´. Especially the competitor Skoda seems to be in a strong position, as the Eastern periphery is close to Germany, and it offers cheap and flexible labour and, with regard to investors, an efficient regulation system. This causes challenges to the plant in Navarre. Headquarters plans to develop new design concepts and variations of the product, and, supported by the European Works Council, also tries to adapt the labour relations to a greater flexibility. Until now, the size of the Spanish market still ensures the existence of the Navarre plant.

Key Words: *upgrading, transnational companies, automobile industry, Europe, Spain*

1. Changes and upgrading in transnational companies

Upgrading refers to the opportunities of regions to link up with the global network of production, or to get a better position in the global network of production. Upgrading implies that global competition does not necessarily lead to a race to the bottom, but that there are windows of opportunities for specific regions, or companies in such particular regions, to gain more competences and power. In manufacturing industries, we can distinguish in process upgrading (innovations in technology or organization of the production process in a factory), product upgrading (product innovations that help the company move into more sophisticated product lines which bring increased unit values, a better market share etc.), functional upgrading (the company gains more competences, i.e. new departments of R&D, to increase the overall skill content of activities) and inter-sectoral upgrading which means using the knowledge of specific chain functions to move into different sectors (Humphrey / Schmitz 2000, Schmitz 2004, p.7f). The discussion about upgrading is linked to the debate about governance and about global companies that set the conditions under which local exporters operate (Schmitz 2004, p.1).

In our contribution, we focus on product upgrading. But we have to keep in mind that the different forms of upgrading are interconnected, and often, product upgrading is the condition for, or a consequence of, other kinds of upgrading. We are following the perspective of Enterprise Geography, focussing on the interior of a transnational company. Although there are quite a lot of studies about supply chains between different companies, our study makes clear that the linkages inside of transnational companies still keep being important for regional competition in the worldwide economy. Such linkages inside of transnational companies often are called ´hierarchical´ in tradition of transaction cost theory. This is a little bit misleading, because such relationships inside of transnational companies are not only characterized by hierarchical control, but include different dimensions, which are important with regard to globalization. With reference to hierarchies and regions, we often talk of centre and periphery. Lagendijk (1995), for example, characterises Spain as a ´growth periphery´, and, more recently, we can consider an increasing competition between the Southern and the Eastern ´peripheries´ of Europe, which usually means the regional setting of actors as well as their position in transnational interrelations (in transnational companies or in supply chains). ´Periphery´ refers to the restricted ability for local upgrading in the framework of international interdependencies; thus, peripheries are parts of the international networks of production.

They are in interdependence with the nodes of the production networks; they are not the ´sunk´ or ´lost´ regions which are separated from the world system – but they will be in danger of being uncoupled in future, if they fail upgrading.

The possibilities of upgrading in the local plant are dependent on the international management strategy for the distribution of opportunities between the different plants. Pries / Sandig / Schweer (2005) distinguish three types of changes with reference to the internal relationships in transnational companies caused by globalisation: alterations of the spatial structure of resources (the spatial distribution of technical and productive assets, of the employees and their competences, of the investments and finances), modifications of the spatial structure of functions (the role and the tasks of the different plants of the transnational company), and variations of the spatial structure of competences (the spatial distribution of power, control and authority for decision making in the transnational company). As fig. 1 shows, there is a close interdependence between the changes in the internal relationships of transnational companies and local upgrading. The distribution of resources, functions and competences can be a condition for, or a result of, upgrading.

- Fig. 1 -

The particular arrangement of the resources, functions and competences in the transnational company is essential for the future development of the particular region where the plant is located. This is true especially in Europe, where new competitors from Central Europe begin to play a decisive role (see Fuchs 2005a, b). This makes clear, that changing conditions on markets and in the institutional setting (in our case on the international level of the EU) can change the role of a plant, and may generate new advantages or disadvantages for locations once been in another – a worse or a better – position. The presentation starts with the discussion of the importance of Volkswagen for the region of Navarre. The position of the plant in Navarre becomes clearer when we look at the changing role of Spain on European Markets, and the worldwide strategy of Volkswagen and the effects for Volkswagen Navarre, which will be discussed after that. The growth of the EU generates new institutions which change the competition and thus the international strategies of Volkswagen and other car industries. This leads – finally – to the debate about the future of the Volkswagen location in Navarre.

2. The importance of Volkswagen for the region of Navarre

In 1982/1983, Volkswagen took over Seat in Comunidad Foral near the City of Pamplona, which had been opened as a state-owned company in 1966. Already in the 1950s, a number of automobile components supply industries had been built up in the region. From the start of production in 1965 until the takeover of Volkswagen, quite a broad range of cars were fabricated in the plant. Since 1984, Volkswagen produces the type Polo there, a model which was step by step modernized and updated (see fig. 2). The first Polo was produced in Wolfsburg in 1975 on the basis of the former "Audi 50", the second generation started there in 1981. Thus, in Pamplona we consider a change from a diversity of products to the specialization towards one product, the Polo, which recurrently was improved in the sense of product innovation. Furthermore, Volkswagen assembles motors in Pamplona. Most of the Polo production is exported to Germany and China, South Africa, Italy, Great Britain and Brazil. In Navarre, the automotive industries represent about 50 percent of the regional exports (Aláez Aller / Garcèz 2004a, b).

- Fig. 2 -

The growth was not only caused by the Volkswagen plant, which employs about 4,200 persons (2004), but also by component supplier industries, as TRW, Bosch and further international and Spanish supplier companies. There are about 150 component suppliers of Volkswagen, which employ more than 6,000 employees (estimation of Aláez Aller / Garcèz 2004b). Since 2001, they produce the Polo of the fourth generation (A04) in Navarre, but already in 1994, since the former organisational change of A02 to A03, the number of suppliers in the region has increased significantly. Since then, the component producers supply just-in-time. With the conversion to A04, the amount of outsourcing kept stable (with regard to the number of persons employed in the supplier industries), but the number of 2nd-tiers has decreased. The inputs for the 1st-tiers of the A04 mainly stem from imports (Aláez Aller / Garcès 2004a, b).

Volkswagen Navarre, together with PSA Vigo, led to an augmentation of the Spanish automobile production in the 1990s (Camacho 2004, p. 10). Since then, Volkswagen seemed

to be a reliable driving force for regional growth in Navarre. The production of Polo led to a high growth of incomes in Navarre (fig. 3) as well as to high productivity and employment. But since the current decade, the number of produced cars and of employment has declined (fig. 4).

- Fig. 3, fig. 4 -

We find the reason for this problem in the strategy of Volkswagen to concentrate on one product, the Polo. Although headquarters brought product innovations again and again to the plant in Pamplona, today, the institutional framework and the markets of the EU have changed, and such new situation causes problems: The plant in Pamplona has to face an increasing competition caused by the automobile production in Central Europe, especially of Poland, the Czech Republic, Slovakia and Hungary. The role of Spain on the European market has changed concerning automobile production, and this requires a new international strategy of Volkswagen and a reorientation for the plant in Navarre.

3. The changing role of Spain on European Markets

There is a particularity of European Markets for passenger cars which are different from other world regions. These characteristics are 1) that low volume cars and cars of the lower middle class contain about 60 per cent of the whole market share (and a good deal less than the market share of light trucks in North America), 2) that institutions for the market of the EU are coordinated centrally by the European Commission (standards for technology and ecological environment, rules for sales, rules for competition), 3) loyalty to the brand of households especially in Germany and other car producing nations, 4) a pool of technology stemming from race car industries, and 5) the importance of diesel technology (Jürgens 2004, pp. 4ff).

In this framework, Spain was specialised on producing low volume cars for the European market until the 1980s/1990s. If we look at Original Equipment Manufacturer (OEM), which have an own brand in Germany, we can state that the typical producers of expensive high volume cars (as DaimlerChrysler, BMW and Porsche) did not invest in Spain in the sector of passenger cars. The situation is different with regard to producers which traditionally were specialized on the middleclass. Although today, DaimlerChrysler, BMW, and Volkswagen try

to cover all the range, this location pattern still persists. Even though DaimlerChrysler became a transnational company, BMW spread the locations on international level, and Porsche produces the Cayenne in Finland, the high volume producers are careful with regard to investments in Central Europe as well as in Spain; they prefer to invest in new market regions, as in America and in East Asia as well as in South East Asia. The maps show this pattern very clearly (fig. 5a-c). One has to keep in mind that the maps concentrate on integrated assembly plants and on CKD and exclude internal suppliers of motors, parts, electronics etc.

- Fig. 5a-c -

DaimlerChrysler has located its European plants mainly in Germany. Besides, there are plants for the production of the Smart, which is manufactured in Böblingen (Germany) and in Hambach („Smartville“, France). In Ligny (France) and in Spanish locations, DaimlerChrysler produces trucks (Vitoria) and buses (Samano). Furthermore, there are a lot of locations for cars and internal suppliers in the automobile cluster in the Northeast of the USA and in the neighbouring locations in Canada. The plant of Mercedes-Benz U.S. in Tuscaloosa, which produces the M-class since 1996, is not part of this cluster, historically and spatially. Furthermore, DaimlerChrysler has plants in Latin America: in Saltillo, Toluca and Santiago (Mexico), in Juiz de Fora und in São Bernado (Brazil) and in Buenos Aires (Argentina). Besides, there are locations in Egypt (Jeep), in Beijing (Jeep) and in Yangzhou (buses) in China. In India, as well as in Jakarta (Indonesia), there are small plants which produce different passenger cars. In Turkey and in South Africa, they build commercial vehicles. This global location pattern shows clearly, that DaimlerChrysler does not build assembly plants in the European periphery to use lower labour costs, but raises direct investments to enter into new markets (fig. 5a).

We find a similar pattern in the BMW group, which is still clearer oriented towards locations in Germany (see Coe et al. 2004). No more than in Oxford (Mini), in a small motor producing plant in Hams Hall and in a press factory in Swindon (Great Britain) as well as in Steyr (Austria, production and development of motors) we find European locations. Plants with an integrated assembly are located in the USA (Spartanburg), in South Africa (Rosslyn) and in China (Shenyang). Furthermore, there are some plants for CKD in Russia (Kaliningrad), Mexico (Toluca) and Egypt (Kairo). Moreover, we find CKD in Malaysia, in the Philippines, in Vietnam, Thailand and Indonesia (fig. 5b).

However, BMW opened a plant for machine tools and components in Eastern Germany (Eisenach) in 1992 and an integrated assembly plant near Leipzig in 2005. BMW states publicly that they invested in Germany, but on the "younger" and cheaper locations in the Eastern part. Porsche decided to invest in a plant in Leipzig, too. And DaimlerChrysler produces the Vaneo, a Multi Purpose Vehicle, and the Vario, a van, in Ludwigsfelde.

The location pattern of Volkswagen is quite different: the plants are spread all over Europe. Figure 5c shows the ring of new plants in Eastern Germany, and moreover, in Central Europe. Besides, there is the global production network of Volkswagen with locations mainly in Mexico und Brazil, in South Africa and in China. This production network integrates assembly as well as an internal supplier network of motors, systems and components. In contrast to DaimlerChrysler and BMW, Volkswagen has no production plants in South East Asia.

Formerly, Volkswagen and other producers of the middleclass, as Opel and Ford, followed a strategy to produce the larger cars, which offer higher returns in the core regions, while the smaller models were produced in the periphery. Automotive headquarters gave a specific role to the European peripheries – the production of smaller cars. The locations were an entrance to new markets, where the demand for cheaper cars was high, because the average incomes were lower than in the core markets. In this period, the automobile companies learned how to produce in the periphery, and how to frame the institutional setting there, i.e. the vocational training.

Now, this process of learning helps to integrate the periphery in a new way. Today, they also build high volume cars there. Such decentralisation of competences cannot only be found in Europe, but also in overseas. Volkswagen de México in Puebla was producing the "old" beetle mainly for the Mexican market until the 1990s, now they produce the New Beetle and other larger types for the core market in North America. Furthermore, the transnational companies have started to reorganize R&D and production on the world level: Volkswagen´s New Beetle was developed in Puebla (Mexico) and Wolfsburg in Germany (see Pries / Schweer 2004), and BMW integrated the development of the Z3 Roadster in Spartanburg, USA, with design centres in the USA and Japan with the R&D in Munich (see Pries / Sandig / Schweer 2005). And Brazil is going to be the R&D centre for economical cars in the company of Volkswagen.

This new role of the peripheries seems to be necessary for the OEM, because the traditional core markets are stagnating. Competition with regard to lower costs is an insufficient solution for this, although in 2005 we find a new market strategy of some European car companies to bring low-priced cars onto the European market (Volkswagen´s "Fox" which is developed and produced in Brazil and which is on the ´platform´ of the "Lupo" underneath the Polo, or Renault´s Dacia Logan, or the low price model of Ford Ka). But this strategy is limited, especially because there are increasing environmental regulations as well expectations of the clients with regard to the safety of the cars which make the cars more expensive and lead to competition in innovations. Furthermore, there is a higher pressure exercised by the financial markets than before which make the OEMs produce the high volume cars which bring high returns (see Jürgens 2003, p. 1). Thus, instead of producing only smaller models (which in the meantime have grown and become more complex) in the periphery, Volkswagen, Opel and Ford began to produce higher volume cars in Spain and in Central Europe, because also such larger cars discover the markets in the South and in the East, too. An example for this is Autoeuropa, a former Joint Venture of between Ford and Volkswagen, in Setubal, Portugal, installed in 1992, since 1999 in the only ownership of Volkswagen (see Vale 2004). There, they produce (besides the Seat Alhambra) the Sharan and still the Ford Galaxy. Opel/GM produces the Meriva in Azambuja, Portugal (besides Corsa and Combo), and, also the Meriva in the Spanish plant in Saragossa (besides the Corsa). In Valencia, Ford produces (besides the Ford Ka, the Fiesta und the Mazda2) also the Ford Focus.

This diversification dissolved the former specialization of Spain in low volume cars: In the 1980s Spain was the most important market for cars with motors of 1.5 litres and less, and – moreover – Spain was the most important exporter of these cars. In 1989, 88 per cent of the exported cars were such small cars, but in 1999, only 48 per cent. Especially the Central European production replaced the Spanish predominance in small car production (Humphrey / Memedovic 2003, p. 11).

But nowadays, not only in Southern Europe but also in Central Europe they do not only produce low volume cars, but also cars which are even more expensive. For example: Besides the van ("Transporter") and the Caddy, which Volkswagen builds in Poland, Volkswagen also produces Bora and Golf, Polo and Touareg in Bratislava (Slovakia). Also the other "family members" of the Volkswagen group are engaged: In Mlada Boleslav (Czech

Republik), Skoda builds Fabia and Octavia, in Kvasiny Fabia Sedan and Skoda Superb, and in Vrachlabi the type Octavia. In Hungary, Audi produces Audi TT, including the Roadster. But not only the Volkswagen group, also other OEM engage in Central Europe. In Poland, Opel/GM produces in the Vectra in Warszawa and the Agila and Astra in Gleiwitz; in Szentgotthart (Hungary) they produce the Vectra, too. Also in Torbali (Turkey), they build the Vectra. Only Fiat, the company that was the first to engage in the production of small cars in Central Europe, seems to continue the central-peripheral pattern. The new Panda will not be built in the mother company in Mirafiori, as its antecedent, but only in Tichy (Poland), as well as the Fiat Seicento. Today, in Mirafiori they build expensive cars, as the Multi Purpose Vehicles of Fiat, models of Lancia and the Alfa 166.

For the plant in Pamplona, being specialized in the production of Polo, this implies that the plant keeps to a traditional strategy, and a lack of "upgrading" with regard to diversification and higher returns. At the same time, Volkswagen Navarre is involved in a strong competition especially with automobile producers from France and Japan, but also in the competition within the Volkswagen group. This will be discussed in the following.

4. The worldwide strategy of Volkswagen and the effects for Volkswagen Navarre

The plant in Pamplona is in competition with other plants of the brand "Volkswagen" which also produce the Polo. This is another reason – besides the diversification into higher volume segments at other locations of the Southern and Eastern peripheries – that the product innovation of the new models of Polo is not enough for the plant in Navarre. Besides Pamplona, the Polo is built in Brazil, China, and South Africa as well as in Slovakia. Each day, 2,000 cars are built on average, 1,250 in Navarre (2005). Especially the plant in Slovakia has the same markets in Europe as the plant in Pamplona and thus is the strongest competitor.

Besides the locations which produce the same model of the brand, there are other brands which produce similar types in the Volkswagen group; this makes the concentration on the Polo even more delicate. This competition inside of the transnational company is the result of a strategy Volkswagen follows since more than a decade. This strategy can be characterized, in contrast to other OEM, with the growth of the volumes into the high volume segments and luxury cars, and with the growth of multiplicity with regard to the different brands and types of cars. In the meantime, there are seven brands at Volkswagen, which are bundled to two

groups. The increasing diversity made a homogenisation necessary, and management created common "platforms" of design and development as well as of production of Volkswagen, Audi, Seat and Skoda (vgl. Freyssenet / Shimizu / Volpato 2003, pp. 245-249). We have to consider that the types of different brands which are on a common platform are not in a situation of competition which is as strong as the competition within a brand, because the brands cover different designs profiles. Seat stands for a sporty image and ´Southern´ feelings, Skoda represents the compact middle class with high quality and ´sincerity´ (in Germany, we had advertising for the competitor of the Polo, the Fabia, which characterises the Fabia with the words: „Still that small but already that serious!“), and the Volkswagen Polo symbolizes a modern and reliable car with high standards of technology and security for the passengers, and stands for a car which brings high returns when it is sold as a used car. The Polo represents a kind of understatement.

However, this strategy contains the risk of ´cannibalism´ between the brands (Freyssenet / Lung 2004, p. 90). With regard to the Polo this is the Seat Ibiza, which is produced on the same platform and which is built in Matorell (Spain) and in Bratislava (Slovakia).[1] Besides the competitor Seat there is Skoda which produces the Fabia in Central Europe. The recent model Fabia is built with an advanced motor technology; the introduction of this technology was earlier when the new Fabia came to the market than the implementation within the Polo.[2] Furthermore, the “Fox” introduced in 2005, is a competitor ´from beneath´ to the Polo.

In Wolfsburg, recently the headquarters seem to be more interested in Central Europe than in Southern Europe. In the ten countries, which came into the European Union in May 2004, Volkswagen is the most important investor. In the ten new European Countries the Volkswagen group has a market share of nearly 30 per cent, followed by Peugeot (nearly 12

[1] Further, in Matorell the brand of Seat has a technical centre and, additionally, produces motors (Arosa, Córdoba, Ibiza, Leon, Toledo), and there are plants and a design centre in and around Barcelona and in Prat. The model "Alhambra" is produced, as mentioned above, in Portugal (Setubal).

[2] The history of the takeover of Seat by Volkswagen was a model for the integration of Skoda, because Seat, as well as Skoda, was integrated as a complete brand into the Volkswagen group (Sperling 2004, p. 184-185). The management and the trade union of Skoda, together with the European Works Council of Volkswagen were actors in the negotiations with top management. Even though the design and development of new models of Skoda (as well as of Seat) is located in headquarters in Wolfsburg, since 1999, Skoda has a design centre with more than 1,000 technicians and engineers in Mlada Boleslav (Strassmann 2004). But not only in the Czech Republic, also in Poland and in Bosnia, are Skoda cars built. In India, Skoda has an assembly plant for the model Octavia, and in the Ukraine Skoda and a local partner assemble Octavia, Fabia and Superb. In the beginning of the 1990s, Volkswagen took over a factory in Bratislava, which nowadays is Volkswagen Slovakia, where Volkswagen Slovakia produces the Touareg, the Polo as well as the Seat Ibiza. There is a plant for components in Martin since 2000. On the whole, there are 9,200 employees at Volkswagen Slovakia.

per cent) and by Renault (10 per cent market share). The Volkswagen group has 12 production plants with nearly 50,000 employees (Autogramm 05/2004).

But we have to consider – in spite of these tendencies of *Going East* – that the amount of automobile production still is much higher in Spain than in countries of Central Europe. Fig. 6 shows the world automobile production, and it makes clear that, at least until now, the position of Spain is quite strong. Furthermore, we have to consider that Volkswagen cannot keep its position on the Spanish market only by importations to Spain. If Volkswagen closed down the plant in Pamplona, this would hurt the image of Volkswagen strongly, and Volkswagen would lose the market in Spain. Thus, the size of the Spanish automobile market is still like "insurance" for the general existence of the plant in Navarre.

- Fig. 6 -

But we have to ask for the kind of the strategy how to keep the production capacities in the plant of Navarre. The top management in Wolfsburg does not plan a diversification into higher volume cars. Thus, the strategy has to concentrate on the product of Polo. The Polo is a relatively expensive, technology-intensive car. Furthermore, the image of understatement and the relatively high costs often impeded the Polo to be an inexpensive car for young people. Thus, the new strategy is to keep the technology standard during the next time, and not the rise the expensive technological innovations in the car, and bring new designs as well as new variations of the Polo onto the market. Thus, one strategy lies in different product innovations than before.

The discussion about the kind of useful product innovations (the introduction of new designs and variations) shows that product upgrading is not a simply good answer to problematic locations, but must be treated cautiously. This is also true for process upgrading: In Pamplona, the necessity to become more profitable still increases, because Volkswagen Navarre builds up a new paint shop which fulfils the recent ecological standards. But, however being an indicator for the modernisation of the plant, the investment amplifies the pressure to be profitable. In Navarre, although being tricky in the short run, in the long run this process upgrading – which is combined with functional upgrading – seems to be an important basis for the future.

As mentioned in the beginning and shown in figure 1, the distribution of resources, functions and competences is important for locations. In the case of Volkswagen Navarre, headquarters tries to improve the labour relations. Obviously, if we consider Pries / Sandig / Schweer (2005), headquarters´ strategy is orientated – besides the main reorientation in product innovation – on the resources, especially on the competences, in a wider sense of ´mind set´: Besides this strategy to work out new designs and variations, headquarters and the European Works Council envision some changes with regard to the labour relations. To understand this point of view, we must have a short look on the situation in Germany (see Widuckel 2004). There, Volkswagen stands for a cooperative way of finding solutions with regard to conflicts between management and works council, i.e. with regard to reduction of working hours connected to less incomes for the employees in times of recession, or, i.e., with regard to new organisational ways on the background of the international competition between the plants, as „5000 x 5000“. The aim is to keep the number of employees and to avoid dismissals in times of recession. This sometimes includes disadvantages for the staff on an individual level, too. This model of labour relations needs open mindedness of the management for new ideas and concepts. Additionally, this model of labour relations also requires a specific structure and self-definition of the workers´ representatives. In Germany, the Volkswagen works council as well as the trade unions try to find cooperative solutions even in times of recessions. But this means, that works council and the trade unions cannot only tell success stories to the employees, but also have to inform about unpleasant and unpopular tendencies. For doing so, the German Volkswagen works council has developed a specific communication platform, consisting of a newspaper that continuously informs the staff about the recent developments in their factory. Additionally, information is offered by meetings of the workforce together with the management and the works council. Furthermore, nearly all of the blue collar and the white collar workers are members of a single trade union (IG Metall). The representatives of the IG Metall follow the same strategy as the works council. Such homogeneous discourse of the important actors also leads to a particular kind of discourse between the members of the staff, which, in general, support such cooperative strategy. This keeps the works councils and trade unions´ representatives to be re-elected.

In Navarre, the situation is different. There is not only a single trade union, but there are different trade unions. They are in a situation of competition, also with regard to re-elections. Thus, it is hard for a trade union (which has to be re-elected) to tell bad news to the staff, i.e. to inform the workers that they should work more and earn less in times of recession. This is

true especially if the local management avoids telling such a message and the other trade unions seem to offer more popular ideas. However, in Navarre management and trade unions agreed with the reduction of work hours and of incomes for the years 2004 and 2005.

Up till now, we discussed the evolution of the plant with a look into the history of the plant, and with some prospects to future with regard to headquarters´ plans, in the context of the automobile system. With reference to the history of the plant, processes once evolved usually seemed to be planned, and the recent management strategies are, of course, planned. But if we consider the evolution of locations and regions, we often find processes which are structured (and not accidental), but which are not planned by specific actors in a particular situation. Figure 1 tries to illustrate this influence of evolution with the arrow below. In our case study, we already found such evolutions which were not intended directly by headquarters with regard to the plant in Pamplona in the change of the institutions and markets of the EU. Still clearer, we discover such unplanned evolution which is emerging by clustering of the internal and external supplier industries. In Northern Spain we find, besides Volkswagen, car industries as DaimlerChrysler in Vitoria and Samano and the bus factory Scania Irizar in Ormaiztegui near Bilbao (see Schmitz 1999, p. 144). But the spatial spread of these plants is broad and makes it difficult to interpret them as a cluster. Nevertheless, there is some independency, which might be a basis for a cluster, insofar that in Navarre there is a supply sector which not only is orientated on Volkswagen but also on further European clients in the automobile industry. Aláez Aller / Garcès (2004b, p. 25) estimate that *in case* Volkswagen would relocate the production from Navarre to another region, more that 7,000 employees would lose their jobs. About 4,500 persons are working in component supplier industries, which are not directly dependent, and who could re-orientate.

In contrast to the "thin" clustering in Northern Spain, the locations in Central Europe seem to be perfect for new automobile clusters. Already 40 per cent of the German automobile supply companies have plants in Central Europe and employ about 100,000 persons there (Automobilindustrie 2004). The suppliers invested there because of *follow sourcing* with regard to the OEM. Furthermore, they profit – as well as the OEM – of the lower loans and incomes for the workers and employees, and, which is probably more important, of the higher labour flexibility compared to Western Europe. These advantages of cheap and flexible labour are combined with a very good qualified labour force. Some of the new automobile locations already have a long tradition in automobile industries. Skoda, for example, is the third oldest

automobile brand on world level. Additionally, the investors find a governmental regulation which supports their investments, as low taxes, and a tolerance for new forms of organisation which offers a large elbow room for new organisational experiments (Faust / Voskamp / Wittke 2004, p. 52). The *Going East* already was supported by the reduction of tariffs between the new EU-countries in Central Europe and Western Europe already since 2001/2002; the OEM had to fulfil a European Content of 60 per cent. This was a disadvantage to investors from Japan and South Korea which intended to use Central Europe as a base to open up the European market with less local content (Humphrey / Memedovic 2003, p. 11).

If we compare Southern Europe with Central Europe, we have to state that the automotive supply relatively shifted from the South to the East (fig. 7). But, we have to keep in mind that this is true only relatively, as Nunnenkamp (2004, p. 33) stresses: The value chains of automobile production are not redirected from the South to the East, but there are additional capacities of production, mainly created by further outsourcing. The absolute capacity of supply imports from Southern to Western Europe did not decline, but doubled since 1990 (ibd.). But in future, there could be a new agglomeration of automobile production in Central Europe which could cause disadvantages for Spain.

- Fig. 7 –

Furthermore, the Eastern regions are closer to Germany than to Spain. In general, this seems to be an advantage, but sometimes, the distance between Germany and Spain can also be an advantage for the location of particular functions in a plant. The motor assembly, which we find in Pamplona, is only for Volkswagen Navarre, and, being labour intensive, is an important factor for employment. Because of the distance, it is not profitable to import motors from other European plants, and thus, the motor production is not in danger. Thus, the distance to headquarters and to the other plants in Germany is not a problem if we consider the motor assembly (see Humphrey / Memedovic 2003, p. 12-13).

Although clustering is not a recent threat to Navarre, it may become a risk in future. This makes clear, that – with regard to the actual situation – we may not only concentrate on the planned resources, functions and structures of transnational companies nor only on process, product, functional and inter-sectoral upgrading which was planned, but that we have to

include unintended processes emerging of internal processes of change, or – as in our case – developing of the regional settings and relations.

5. Concluding remarks

In general, we have to keep in mind that there is a permanent competition for capacities and competencies in the global value chains. Still, we find focal networks of production which are directed towards Western Europe to keep the locations in Germany or Western Europe strong (Faust / Voskamp / Wittke 2004, pp. 21-40, Spatz / Nunnenkamp 2002, p.100). But we have to be aware that the production in the "older" peripheries is endangered.

The future of the plant in Pamplona is still open; but the history of the plant shows the importance of the alterations of the whole international production network. The product "Polo", once fitting for the "Southern periphery", recently is not as much as appropiate for plant in Pamplona regarding to the changing markets in the South and in the East of Europe. While other plants in Spain already could diversify into high volume cars, the plant in Pamplona still is specialised on a low volume car. Besides, the competition has grown in the Volkswagen brand, because the Polo, which is manufactured in Navarre, also is produced in Mlada Boleslav (and further locations). And the Skoda Fabia, a model on the same ´platform´ inside of the Volkswagen group, has become a new competitor. The "Fox" creates competition from the ´platform´ beneath. With regard to the situation of the plant in Navarre, headquarters thinks about new designs and variations of the Polo to raise the market potentials for the Navarre plant. This would mean: a new and specific kind of product upgrading in the plant of Navarre. Besides, we find process and functional upgrading with the erection of the new paint shop. Also we find a central management strategy with regard to the resources in Pamplona: Headquarters want the labour relations become more adaptable to the ´breath´ of the company. Our case study shows that besides the intended processes there are structured, but unplanned processes which influence the evolution and the future perspective of this peripheral plant; effects which we can identify in the regional settings and relations (and their international competitiveness with regard to the Eastern peripheries).

Literature

Aláez Aller, Ricardo; Garcès, Amaya 2004a: The Automotive Industry in Navarre: Analysis of Dependence on the Volkswagen Navarre, S.A. Plant. Paper presented on the 12th Gerpisa International Colloquium, 9-11 June 2004, Ministerère de la Recherche. Paris.

Aláez Aller, Ricardo; Garcès, Amaya 2004b: El sector de Automoción en la «vieja periferia» de la Unión Europea: Análisis de la dependencia económica regional de la planta de VW en Navarra. Paper presented on the Cursos de Verano, Universidad Pública de Navarre, Fundación Universidad Sociedad, 20 – 22 July, 2004, Pamplona.

Boyer, Robert; Freyssenet, Michel 1999: Rewriting the Future. Profit Strategies, Forms of Internationalisation and New Spaces in the Automobile Industry. In: Eckardt, Andrea; Köhler, Holm-Detlev; Pries, Ludger (eds.), Global Players in lokalen Bindungen. Unternehmensglobalisierung in soziologischer Perspektive. Berlin: Edition Sigma, pp. 81-97.

Camacho, José Ferro 2004: The Automotive Cluster of Galicia. Paper presented on the 12th Gerpisa International Colloquium, 9-11 June 2004, Ministerère de la Recherche. Paris.

Coe, Neil M.; Hess, Martin; Yeung, Henry Wai-Chung: Dicken, Peter; Henderson, Jeffrey 2004: ´Globalizing´ Regional Development: A Global Production Networks Perspective. In: Transactions of the Institute of British Geographers, New Series 29(4), pp. 468-484.

Faust, Michael; Voskamp, Ulrich; Wittke, Volker 2004: Globalization and the Future of National Systems: Exploring Patterns of Industrial Reorganisation and Relocation in an Enlarged Europe. In: Faust, Michael; Voskamp, Ulrich; Wittke, Volker (eds.), European Industrial Restructering in a Global Economy: Fragmentation and Relocation of Value Chains. Göttingen: Soziologisches Forschungsinstitut an der Georg-August-Universität Göttingen, pp. 19-81.

Freyssenet, Michel; Lung, Yannick 2004: Car Firms´ Strategies and Practices in Europe. In: Faust, Michael; Voskamp, Ulrich; Wittke, Volker (eds.), European Industrial Restructering in a Global Economy: Fragmentation and Relocation of Value Chains. Göttingen: Soziologisches Forschungsinstitut an der Georg-August-Universität Göttingen, pp. 85-103.

Freyssenet, Michel; Shimizu, Koichi; Volpato, Guiseppe 2003: Conclusion: Regionalization of the European Automobile Industry, More than a Globalization. In: Freyssenet, Michel; Shimizu, Koichi; Volpato, Guiseppe (eds.), Globalization or Regionalization of the European Car Industry? Palgrave Macmillan: Houndsmills, Basingstoke, Hampshire, pp. 241-260.

Fuchs, Martina 2004: The Future of Volkswagen Navarre and the Strategies of the German Automobile Industry in View of the Enlargement of the EU. Paper presented on the Cursos de Verano, Universidad Pública de Navarre, Fundación Universidad Sociedad, 20 – 22 July, 2004, Pamplona.

Fuchs, Martina 2005a: Internal Networking in the Globalising Firm: The Case of R&D Allocation in German Automobile Component Supply Companies. In: Alvstam, C., Schamp, E.W. (eds.): Linking Industries Across the World. Processes of Global Networking. Aldershot, Burlington, pp. 127-146.

Fuchs, Martina 2005b: Borders and the Internationalisation of Knowledge: Two Examples from the automotive sector in Poland. In: van Vilsteren, G., Wever, E. (Eds.): Borders and economic behaviour in Europe. Assen, pp. 43-61.

Humphrey, John; Memedovic, Olga 2003: The Global Automotive Industry Value Chain: What Prospects for Upgrading by Developing Countries. Vienna: UNIDO Sectoral Studies Series.

Humphrey, John; Schmitz, Hubert 2000: Governance and upgrading: linking industrial cluster and global value chain research. Brighton: IDS Working Paper.
Nunnenkamp, Peter 2004: Der Automobilstandort Deutschland unter Wettbewerbsdruck. In: IFO-Schnelldienst (57) 7, pp. 28-36.

Jürgens, Ulrich 2003: Industriegovernance und Produktionskonzepte. In: Canzler, Weert; Schmidt, Gert (eds.), Das zweite Jahrhundert des Automobils. Technische Innovationen, ökonomische Dynamik und kulturelle Aspekte. Berlin: edition sigma, pp. 15-41.

Jürgens, Ulrich 2004: Gibt es einen europaspezifischen Entwicklungsweg in der Automobilindustrie? Berlin: WZB (= Discussion paper SP III 2004-301).

Lagendijk, A. 1995: The Foreign Takeover of the Spanish Automobile Industry: A Growth Analysis of Internationalisation. In: Regional Studies (29) 4, pp. 381-393.

Pries, Ludger; Schweer, Oliver 2004: The product development process as a measuring tool for company internationalisation? The case studies of DaimlerChrysler and Volkswagen. In: International Journal of Automotive Technology and Management (4) 1, 1-21.

Pries, Ludger; Sandig, Christian; Schweer, Oliver 2005: Der Produktentstehungsprozess als Indikator für Unternehmensinternationalisierung. Das Beispiel der deutschen Automobilunternehmen. (Unpublished paper)

Revilla Diez, Javier 2003: Regionale Disparitäten in Spanien. In: Geographische Rundschau (55) 5, pp. 4-11.

Schmitz, Charlotte (1999): Regulation und Raum. Frankfurt am Main: Bund-Verlag.

Schmitz, Hubert 2004: Globalized Localities: Introduction. In: Schmitz (ed.), Local Enterprises in the Global Economy. Issues of Governance and Upgrading. Edward Elgar: Cheltenham, UK; Northampton, MA, USA, pp. 1-19.

Spatz, Julius; Nunnenkamp, Peter 2002: Globalisierung der Automobilindustrie. Wettbewerbsdruck, Arbeitsmarkteffekte und Anpassungsreaktionen. Berlin usw.: Springer
(= Kieler Studien, 317).

Sperling, Hans Joachim 2004: Going East - a Volkswagen Version of Globalisation. In: Faust, Michael; Voskamp, Ulrich; Wittke, Volker (eds.), European Industrial Restructering in a Global Economy: Fragmentation and Relocation of Value Chains. Göttingen: Soziologisches Forschungsinstitut an der Georg-August-Universität Göttingen, pp. 181-200.

Strassmann, Burkhard: Eigensinn von der Stange. In: Die Zeit, 16.06.2004.

Vale, Mário 2004: Innovation and Knowledge Driven by a Focal Corporation. The Case of the Autoeuropa Supply Chain. In: European Urban and Regional Studies (11) 2, pp. 124-140.

Widuckel, Werner 2004: Paradigmenentwicklung der Mitbestimmung bei Volkswagen (= FPD: Forschungen, Positionen, Dokumente, 01), Wolfsburg.

Further Sources

Autogramm: different editions
Automobilindustrie 2004: http://www.automobilindustrie.de/news/ai_beitrag_1282597.html
BMW 2004: www.bmwgroup.com
DaimlerChrysler 2004: www.daimlerchrysler.com
Volkswagen AG 2003: press release 7.11.2003
Volkswagen AG 2004: www.volkswagen.de
VDA 2003: International Auto Statistics, Frankfurt/Main

Expert interview with a member of the General Works Council of Volkswagen in Wolfsburg in July 2004

Fig. 1: Relationships in transnational companies and local upgrading (Sources: Schmitz 2004, Pries / Sandig / Schweer 2005)

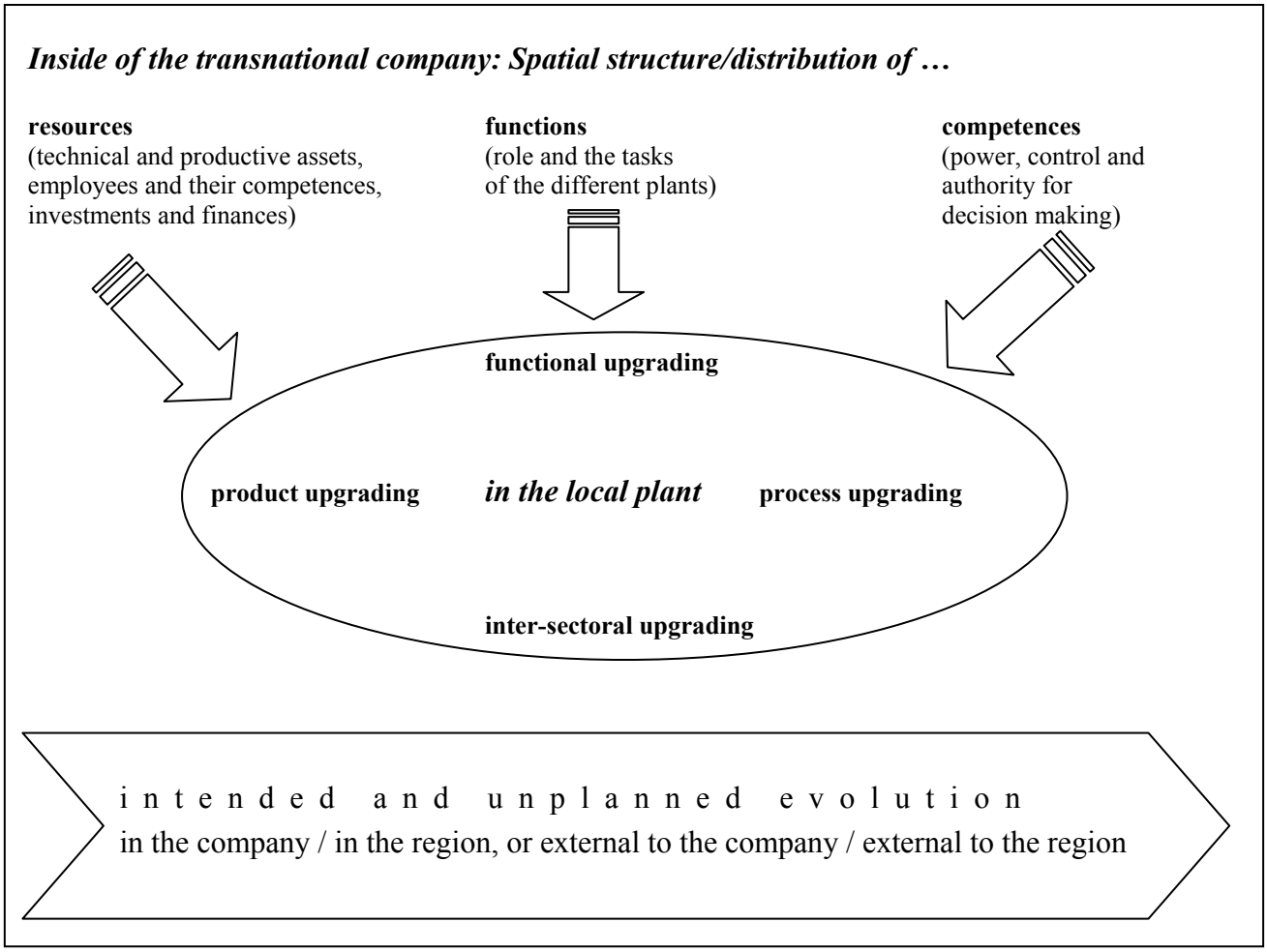


Fig. 2: History of Volkswagen Navarre (Source: Aláez Aller, Ricardo; Garcès, Amaya 2004b, p. 8)

Evolution of Volkswagen Navarre, S.A.	
1965	Start of production in the plant of Landaben: Authi (Automoviles de Turismo Hispano Inaleses)
1966	First car of the factory of Authi: Morris 1100
1967	Start of production of MG 1100
1968	Start of production of Morris 1100 Traveller, Morris 1300 Traveller, "Mini" 1275 (Mini-C)
1969	Start of production of Mini 1000, Mini 850. British Leyland acquires 50% of Authi.
1970	Labour conflicts
1971	Start of production of Austin 1300 v Mini GT.
1973	British Leyland acquires more shares of Authi, so that it holds 98% of the shares
1975 1976	Sociedad Espafiola de Automoviles de Turismo (SEAT) acquires the ownership (SEAT is owned by the I.N.I. (Instituto Nacional de Industria), 51%, private owners 42%, FIAT 7% First car of the SEAT factory: Seat 124
1979	Start of production of Lancia; SEAT receives the competence to produce an Italian automobile brand outside of Italy
1981	Start of production of Panda
1982	Contract for cooperation between Volkswagen and SEAT. VW buys shares in 1986, 1990 and 1994 (full ownership)
1983	In the plan for industrial promotion, the government of Foral in Navarre concedes 746 Mio. Pesetas a Volkswagen. The investments of Volkswagen for the new Polo are 6.500 Mio. Pesetas
1984	Start of production of Polo Coupé (Polo A02)
1986	Introduction of the second turn. Quality standard Q-86
1993	New brand “Navarra de Automóviles S.A.”
1994	Start of production of Polo A03. Quality standard ISO 9002. New brand “Volkswagen Navarra S.A.”
1997	Environmental standard ISO 14001
1999	Start of production of Polo A03/GP
2001	Start of production of Polo A04

Fig. 3: Long term development of the income per person in Navarre and in Spain in Euro and in prices of 1986 (Source: Revilla Diez 2003, p. 7)

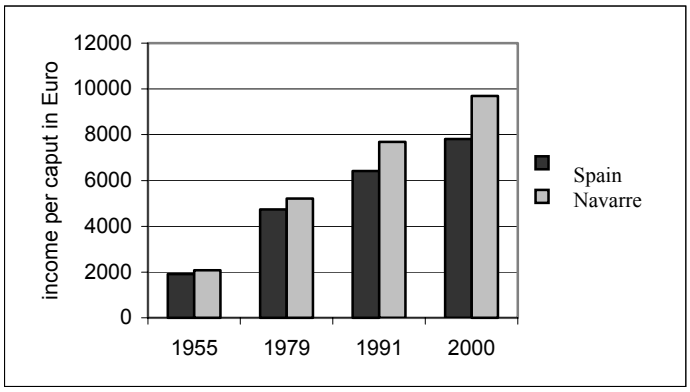


Fig. 4: Employees and produced cars of Volkswagen Navarre (Source: Aláez Aller, Ricardo; Garcès, Amaya 2004b, p. 9)

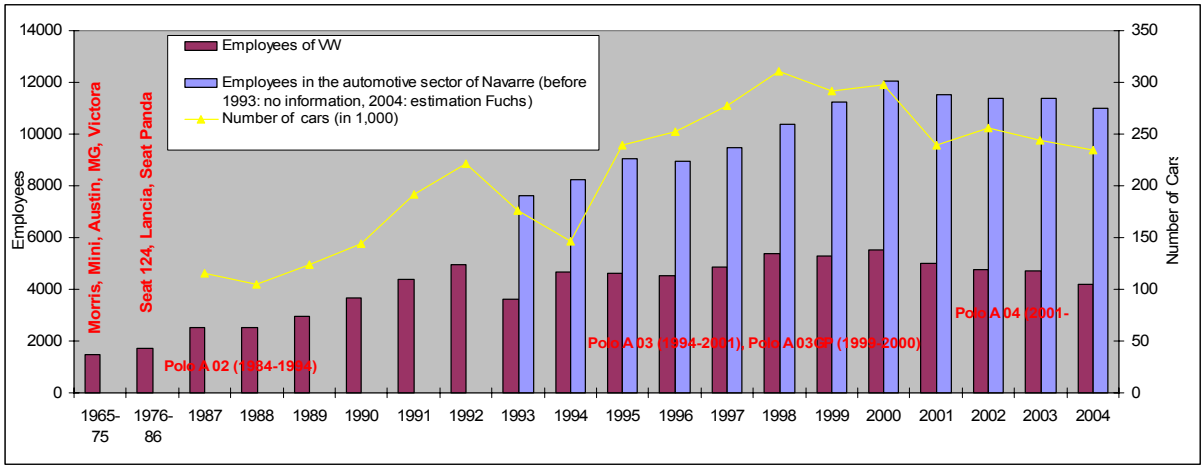


Fig. 5a-c: Integrated assembly plants and CKD of DaimlerChrysler, BMW group and Volkswagen group, without internal supply of motors, systems, components, tools etc. (Sources: DaimlerChrysler 2004, BMW 2004, Volkswagen AG 2004, cartography: Florian Biener)

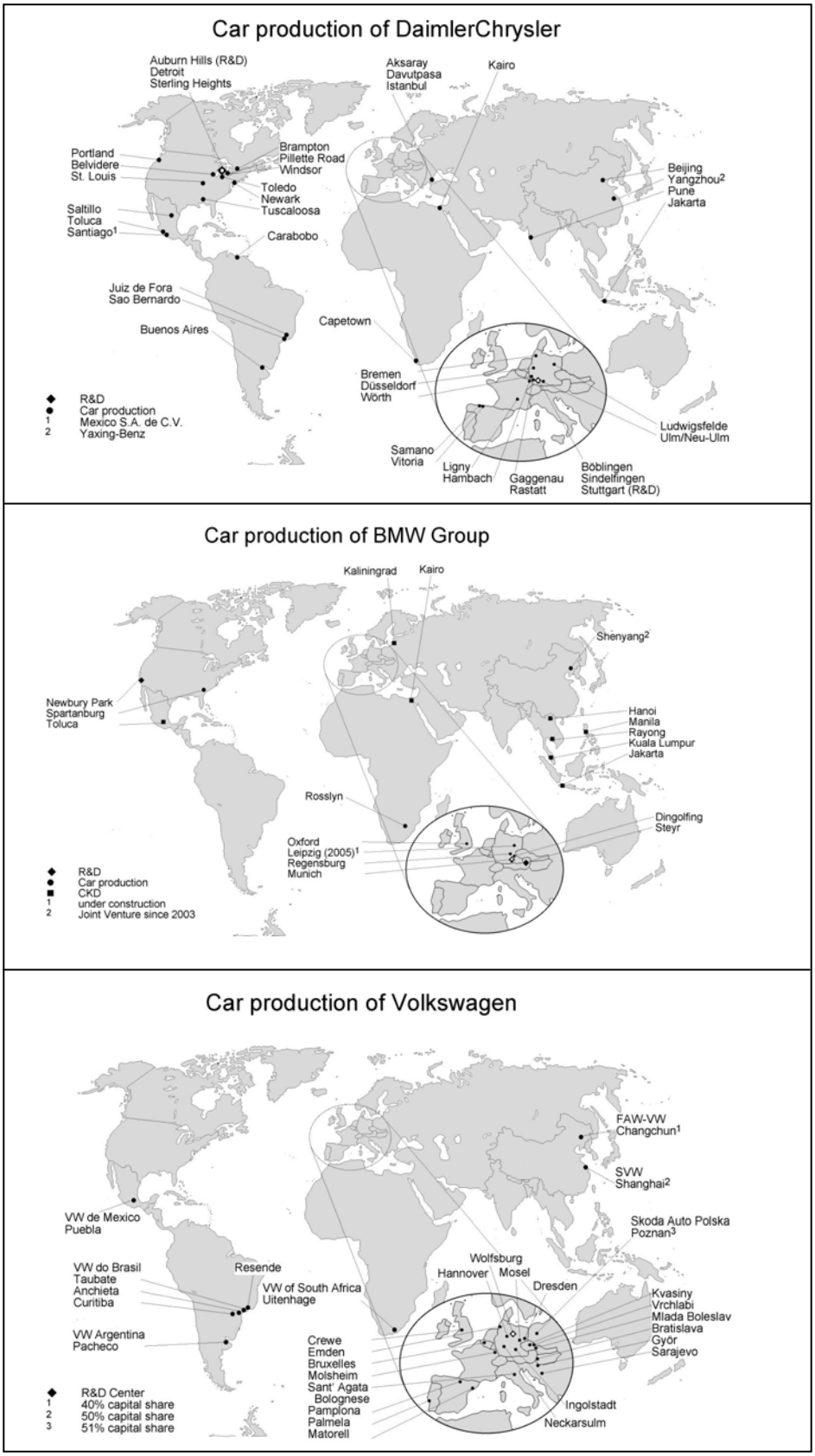


Fig. 6: Production of motor vehicles 1998-2003 (Source: VDA 2003, cartography: Florian Biener)

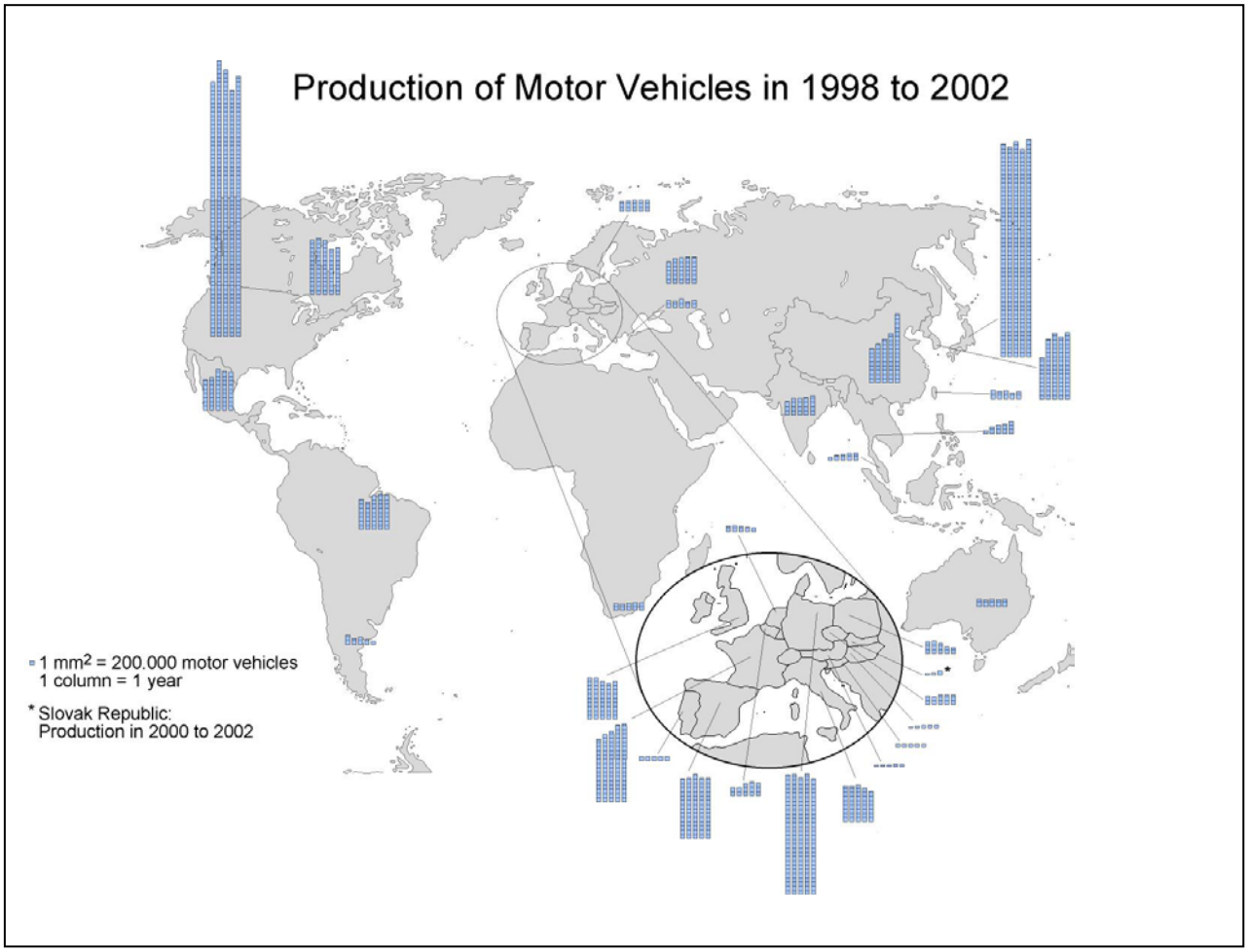
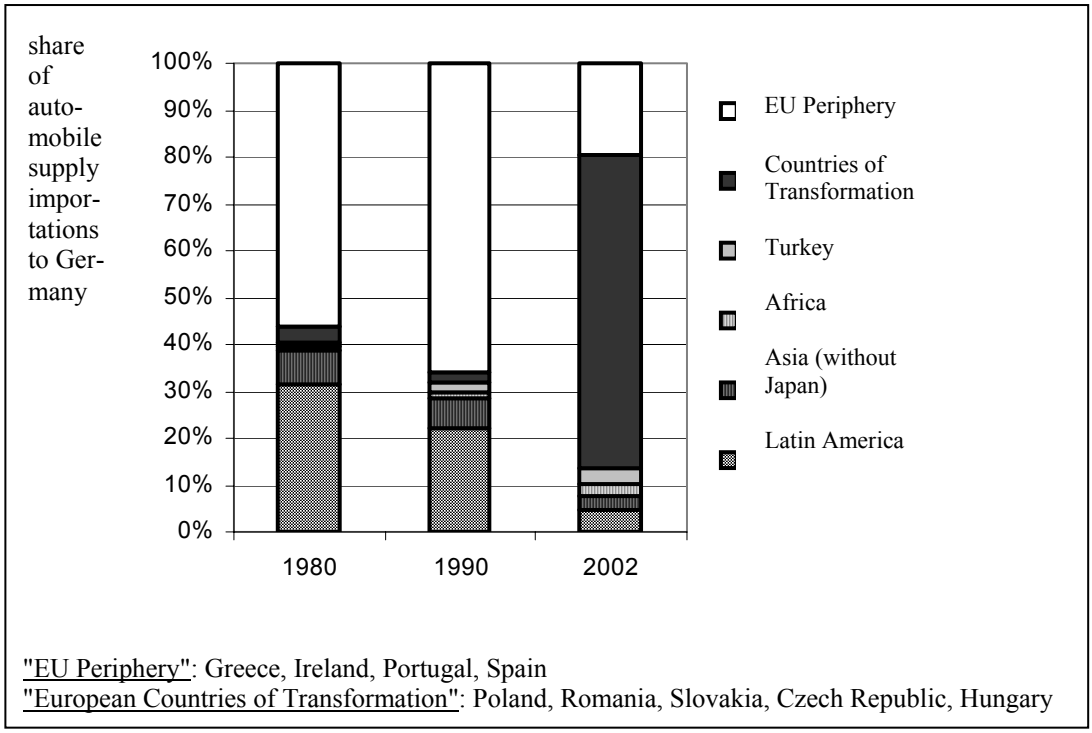


Fig. 7: Regions of supply importations (sum of motors, motor parts, other parts, and equipment, including electric systems) to Germany, from regions with a relatively lower income per person than in Germany (Source: Nunnenkamp 2004)



"EU Periphery": Greece, Ireland, Portugal, Spain
"European Countries of Transformation": Poland, Romania, Slovakia, Czech Republic, Hungary