The Review of European Affairs Volume 3:2(6) 2019
The Polish European Community Studies Association PECSA

Konstantinos Skirlis*

The Effects of European Integration and the Case of Slovakian Automotive Industry**

Abstract

The European Union currently consists of 28 member states. Although each member joined the EU under different conditions, one of the most noteworthy memberships is the case of Slovakia. Even though Slovakia is a relatively small country with an independence history of only 26 years, Slovakia managed to comply with the EU guidelines and gain EU membership. One of the most noteworthy changes undertaken by Slovakia was the industrial reform of the country, especially this relating to the automotive industry, which led to the transformation of Slovakian economy into one of the most dynamic of the euro-area. This paper aims to examine both how Slovakia managed to navigate several events in the 20th and 21st century so as to gain its independence, and foremost, how Slovakia successfully adapted in the European integration model, thus becoming able to compete against other larger national economies which have a significantly longer history in the EU.

Key words: European integration model, Slovak Automotive Industry, Velvet divorce, Slovak history.

JEL Classification: F15, F21, L62, N14, N44, N64, N94.

* Derre, The American College of Greece, K.Skirlis@acg.edu.

** This research was conducted in the framework of B-in-EU, i.e. Jean Monnet Module on European Union and Active EU Citizenship for Business Students: An Interdisciplinary Approach, coordinated by Dr. Anna Visvizi, co-founded by the European Commission under the Erasmus+ Jean Monnet funding scheme [Project Reference: 587632-EPP-1-2017-1-US-EPPJMO-MODULE].

Introduction

Countries of the European continent have a long history of interactions, which mainly resulted in positive outcomes. Nowadays, trade among different regions or even different countries is considered feasible worldwide. Trade can be defined as the exchange of goods between different regions that may also be controlled by different political entities. This means that trade has historically connected people of different cultures, making trade the primary form of globalization – the widening set of interdependent relationships among people from different parts of the world divided into nations (Daniels, Radebaugh, Sullivan 2015: 47). In other words, globalization relates to the movements of services and goods among all countries. The 20th century, was the period with the biggest rates of global trade activities in the world.

Currently European Union (EU) consists of 28 Member States and every member state acquired the European membership under different conditions. Still, one of the most noteworthy examples among all of these countries is this of Slovakia which had a successful industrial transformation and as a result, managed to acquire numerous benefits of international trade resulting in the creation of one of the most dynamic economies in the euro-area, especially after Slovakia's introduction to the EU. Slovakia is a small country with a population of 5.5 million citizens, expanding no more than 49,000 square kilometres. After the dissolution of the Union of Soviet Socialist Republics (USSR), Slovakia has a 26-year history as an independent nation. In 2004, Slovakia joined the European Union (EU) along with the other countries of the Visegrad (V4) group – Czech Republic, Poland and Hungary, but was the first of its group to adopt the euro as its currency. The rapid adaptation of Slovakia to EU policies and the benefits of Euro currency that came along with it, resulted in an economic growth, especially of the automotive industry which gradually overcame even other European nations with stronger economies. Slovakia nowadays, has transformed into a country with a functioning market economy and is a member of World Trade Organization (WTO), Organization for Economic Co-operation and Development (OECD), North Atlantic Treaty Organization (NATO) and the EU (Liptakova 2018). Surprisingly, considering its short history as an independent country, Slovakia is currently referred to as Detroit of Central Europe, reflecting the huge foreign direct investment (FDI) inflows into the automobile and related industries (Koyama 2016). It should be noted, however, that when a country's economy is based mainly in a limited number of sectors, there are various risks present, as there is strong dependence on these sectors. These risks, although not analysed in this paper, should be kept in mind when considering the case of Slovakia.

This paper aims to explain how a small and relatively young country, like Slovakia, managed to have a successful industrial transformation and flourish especially in the automotive industry when competing against other nations. As such, a small retrospection of the dissolution of Czechoslovakia, commonly referred to as the Velvet divorce, will be presented first, so as to explain the path Slovakia followed towards the European integration and the Eurozone. Secondly, an analysis of the significance of the automotive industry in the EU as well as of Slovakia will follow, concluding in how Slovakia managed to adapt and thrive among other nations in EU in automotive industry.

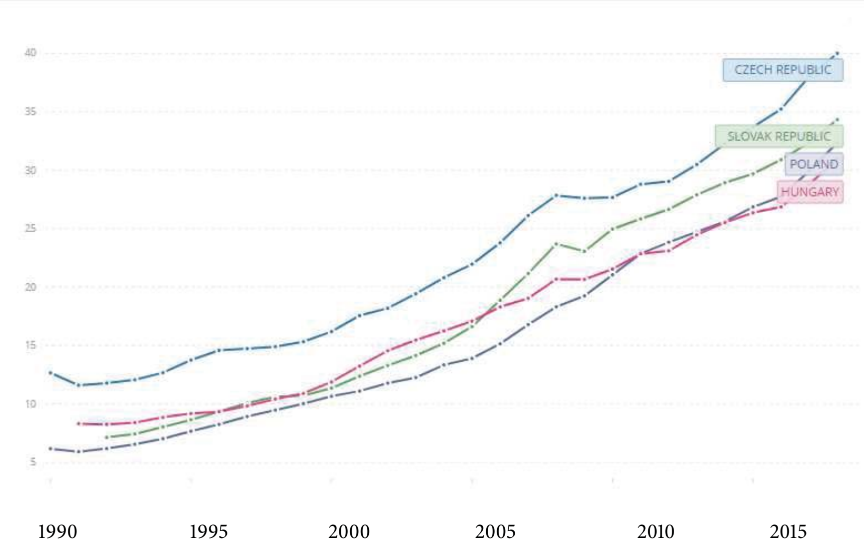
The Velvet Divorce, European Union and the Eurozone Membership

After the end of the Second World War (WWII), Czechoslovakia was conquered by Soviet Union. Joseph V. Stalin expressed his determined will that Soviet army should exclusively liberate Eastern European countries so as to enable the installation of communist-controlled governments after WWII (Janik 2010). Following a long period of communist governments, despite all efforts the agricultural and industrial plans had failed to boost the national economy and the country was in severe stagnation. All levels of economic development were limited, and Czechoslovak economy was not capable of following the developing economies of the Western world (Brown et al. 2011).

The election of the Slovak Alexander Dubček to the position of the first secretary of the Czechoslovak Communist Party, was one of the major elements which led to the event of the 'Prague Spring of 1968'. Prague Spring of 1968 was an attempt to fight for an independent Czechoslovakia under a real democracy. Czechoslovakia had to conform to the previous regime, otherwise a domino effect could affect other Eastern bloc countries (Slovak Ministry of Foreign and European Affairs 2019). As a result, this attempt was suppressed by Soviet armed forces and hardline communists retook power. Other mass demonstrations took place in favor of the human rights during the 1980's in Czechoslovakia, but there was no change until the fall of the 'Iron curtain' which ceased to exist in 1989 leading to a wave of protests against communism in eastern Europe. Despite numerous significant events, including the adaption of a democratic constitution in Hungary, the culmination of the Polish Solidarity movement as well as a mass exodus of thousands of freedom-seeking East Germans via Prague, the Czechoslovak people took little action (Encyclopædia Britannica 2018***)*.** The documented trigger for the Velvet revolution of Czechoslovakia was a violent incident against peaceful student protesters in Prague, leading to mass strikes and protests in the country's industrial centres, protests which escalated and led to the negotiation of ruling parties for a real democracy. As such, in 1990 Czechoslovakia held its first free elections since 1946. After a fragile two-year period, separatism become a momentous issue for Czechoslovaks. Negotiations for a separation were taking place even though politicians were not sure about the public opinion on the matter. Eventually, the separation was so swift and held in such a peaceful manner that came to be known in history as the 'Velvet Divorce'. On the 31st of December of 1992, Czechoslovakia terminated its existence and on the 1st of January of 1993 Slovakia and Czech Republic replaced it.

In the rest of Europe over the next decades, many different steps were undertaken to establish European integration between the different countries of the European continent. The addition of numerous members into the EU was one of these steps. The original European Economic Community has also grown, from six to twenty-five members in the recent years and the process has not yet come to an end (Piedrafita & Torreblanca 2004). After the dissolution of the USSR, the countries of the former Eastern bloc declared their wish to join the rest of the European countries and become EU members; following its declaration of independence. Especially Slovakia aimed to boost its economy end become an EU member state. As Roxburgh (2014) stated, even though the 'divorce' was rushed within a few months and allowed little time for negotiations and adaptations, Slovakia was admitted to international institutions, such as the World Bank and International Monetary Fund (IMF) instantaneously and become a member of the United Nations after just 19 days of independence as a nation. In 1995, Slovakia applied for an accession to the EU. During the following 5 years, Slovakia successfully cultivated an image of a country that was business-friendly, fiscally prudent, and blessed with a lean state (Nič, Slobodník and Šimečka 2014). On May of 2004, Slovakia was one of the 10 countries which joined the EU increasing the EU membership to 25 countries. Central and Eastern European countries managed to transform from passive policymakers to dynamic members of the EU's governance agenda (Schweiger, Visvizi 2018). It is quite noteworthy that especially after 2003, Slovakia had high economic growth; Slovak GDP per capita increased sharply and managed to overpass Hungary's and to reach this of Czech's Republic which was already high among the V4 group countries (Figure 1).

Figure 1: GDP *per capita* among V4 Group Countries (Current International USD)



Source: The World Bank: GDP *per capita* among V4 Group Countries, https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?end=2018&locations=CZ-SK-PL-HU&start=1990&view=chart [accessed on: 15.09.2018].

The next step for Slovakia was the Eurozone membership. For a country to be able to join the eurozone, there are some specific criteria that should be fulfilled. These are convergence criteria related with monetary and fiscal policies but also with exchange and interest rates. According to Maastricht Treaty, the deficit must not exceed 3% of a country's GDP and its debt must not exceed 60% of GDP. Moreover, the previous year's inflation must not exceed 1.5 percentage points of the inflation of the three best performing Member States. It is worth mentioning that there is no specific limitation on the timetable for completing the criteria to join the eurozone. After numerous efforts and changes, such as the reform of the country's pension system, and despite the county's high government's debt (34,1%), Slovakia managed to fulfil all the nominal, real and legal convergence criteria and successfully joined the Eurozone on January 1st, 2009.

The Importance of Automotive Industry in the European Union

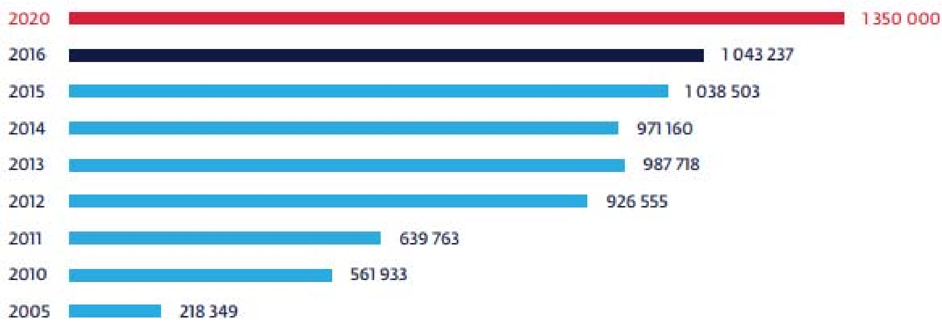
Automotive industry is one of the biggest industries worldwide and it is also of vital importance for the economic wealth of EU, as the EU is one of the biggest producers of motor vehicles worldwide. EU holds the second place with 23% of global production of motor vehicles and competes with the markets of North America, Japan/Korea etc. The automotive sector adds up to 6.1% of the EU's GDP and employs more than 13.3 million people. As Jonnaert (2018) stated, the EU auto manufactures exported 5.9 million motor vehicles in 2017, generating a trade surplus of EUR 90.3 billion for the EU, making automobile exports a vital contribution to the total trade position of the EU. Another leading position for the sector of automotive industry in EU is that it currently is one of the largest private sectors of research and development (R&D). R&D division's significance lies in its profitable competitive ideas as well as in its effort to increase the productivity in the long-term. Among the top 20 spending firms in R&D, six of them are exclusive automotive makers (Gibson 2017). This is partly due to the European Commission's (EC) support for technological harmonization and funding for R&D, aiming to increase the competitiveness of the European automotive industry and to preserve its global technological leadership (EC 2018). Furthermore, as EC strives for the technical harmonization of motor vehicles and for car manufactures to be able to enlarge their markets, they introduced the European Community Whole Vehicle Type Approval (EC WVTA) directive (2007/46/EC) which only applies to new (pre-registration) vehicles (Horiba-mira.com, 2018). Conclusively, the automotive industry is vital for the EU not only because of the number of jobs it offers, but also because it links with other sectors such as this of digitalization and advancements in technology, sectors which are estimated to increase investments in automotive industry by 82 billion USD by 2020 (Newman 2017). The important connections between the car industry and the non-manufacturing sector should also be mentioned; it has been estimated that there are countless jobs related to the automotive industry, such as selling spare parts, fuel stations, rental, transportation and many more that add up to around 10 million positions. Thanks to all the cooperating industries and all those dependent on the automotive industry, there is a multiplier effect. Considering the number of annual sales and the need for just-in-time delivery of automotive vehicles, which characterizes vertically integrated production, Visegrad region is viewed as an ideal region for automotive investment in EU (Jakubiak, Kolesar, Izvorski, Kurekova 2008: 14).

The Slovak Automotive Industry

One of the most important sectors in Slovakia is this of the automotive industry with a share of 44% of the country's total industrial production and volume of exports around EUR 26 billion. Slovakia has a long history in the automotive industry. Some of the brightest examples are the Bratislava Automotive Factory (BAZ) which produced Skoda models and vans for the Trnava automaker-Trnavské automobilové závody (TAZ) industry in the 1970's and 1980's. It is worth to mention that Volkswagen (VW) had already bought the Czechoslovak manufacturer (Skoda) in 1991 and also decided to build a production plant near Slovakia's capital. After Slovakia entered the EU, there was a need for industrial transformation. To achieve that, Slovak government scheduled a series of tax reforms and set the same level of 19% taxation for private income tax, corporate income tax and VAT. The previous tax brackets ranged from 10% to 38%, the national tax system was very complex and many citizens avoided paying taxes. The country's newfound political and economic stability, along with a flat tax rate and attractive investment incentives, including experienced, productive and low-cost workforce, lead to an economic boom in foreign direct investment (FDI) in Slovakia, of which the automotive industry emerged as a key target (Nič, Slobodník, Šimečka 2014: 7).

Other factors which help to improve the reputation of Slovakia and led to the advancement of the automotive industry there, were the entrance of South Korean KIA and of French PSA Peugeot–Citroen to Slovakia. The most recent achievement of the Slovak automotive industry is this of Jaguar Land Rover (JLR). Based on the increased demand for JLR on Chinese markets as well as from the UK, JLR needed to come up with an investment plan and had to create new manufacturing sites. JLR focused on 'Project Darwin' which would take place in eastern Europe and Slovakia managed to secure the JLR production plan from other V4 group countries. To achieve that, Slovakia took various steps: firstly, the Slovak movement designated an authorized group of people who would coordinate to promote Slovak position among other V4 group candidates. Secondly, a new law was introduced to permit the offering of certain financial incentives to JLR and the prime minister was personally involved in the negotiations as well (Balko 2018: 56). The result was the JLR investment of hundreds of millions of euros to expand its manufacturing line and relocate manufacturing to Slovakia. This investment has been estimated to create 3.000 new jobs in Slovakia (Toplensky 2018). Slovakia currently holds the first position in car production per 1000 Inhabitants in the EU with 192 units and this number has been estimated to reach the 249 units in 2020 (Sario 2017); the car production in Slovakia was around 1.043.237 units in 2016 and will consequently increase as well (Figure 2).

Figure 2: Car Production in Slovakia



Note: Year 2020 Estimate.

Source: SARIO. 2017. *Automotive Industry Association of the Slovak Republic (ZAP SR)*, https://www.sario.sk/sites/default/files/data/sario-automotive-sector-in-slovakia-2018-02-01.pdf [accessed on: 20.10.2018].

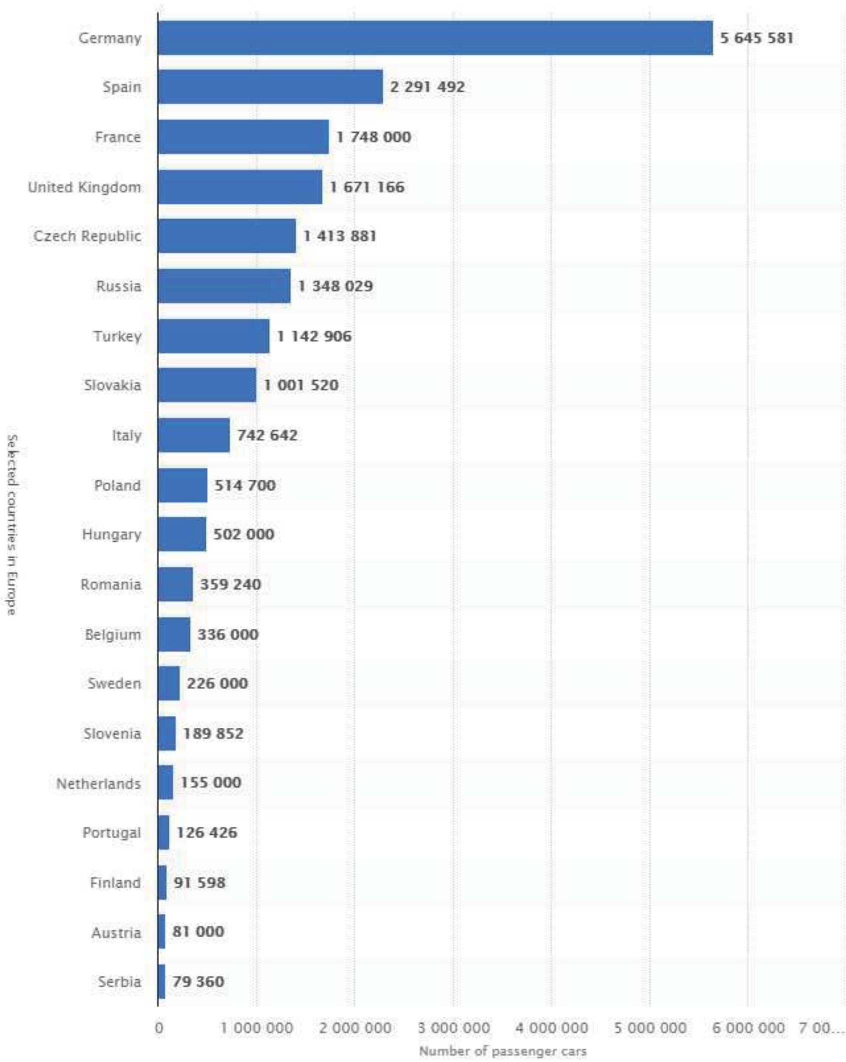
It is worth to mention that Slovakia managed to thrive in the automotive industry and overpass other automotive producers with longer history such as Italy or Poland. (Figure 3).

The European Investment Bank (EIB) will finance "CIE Automotive's" RDI strategy with EUR 80 million under Juncker Plan (EC 2018), a future plan that ensures the dominant position of Slovakia in Automotive industry; a part of these funds will be allocated to facility upgrades, some of which are located in Slovakia.

By observing the map of Slovakia, we can clearly see the importance of the Automotive industry and the high number of supplier network facilities in the country (Figure 4). Especially after the expansion of Volkswagen in Bratislava in 1993, many different suppliers expressed their interest in investing in Slovakia; following the positive experience of Volkswagen, other car producers considered Slovakia as an option for their production base (Jakubiak, Kolesar, Izvorski, Kurekova 2008: 20).

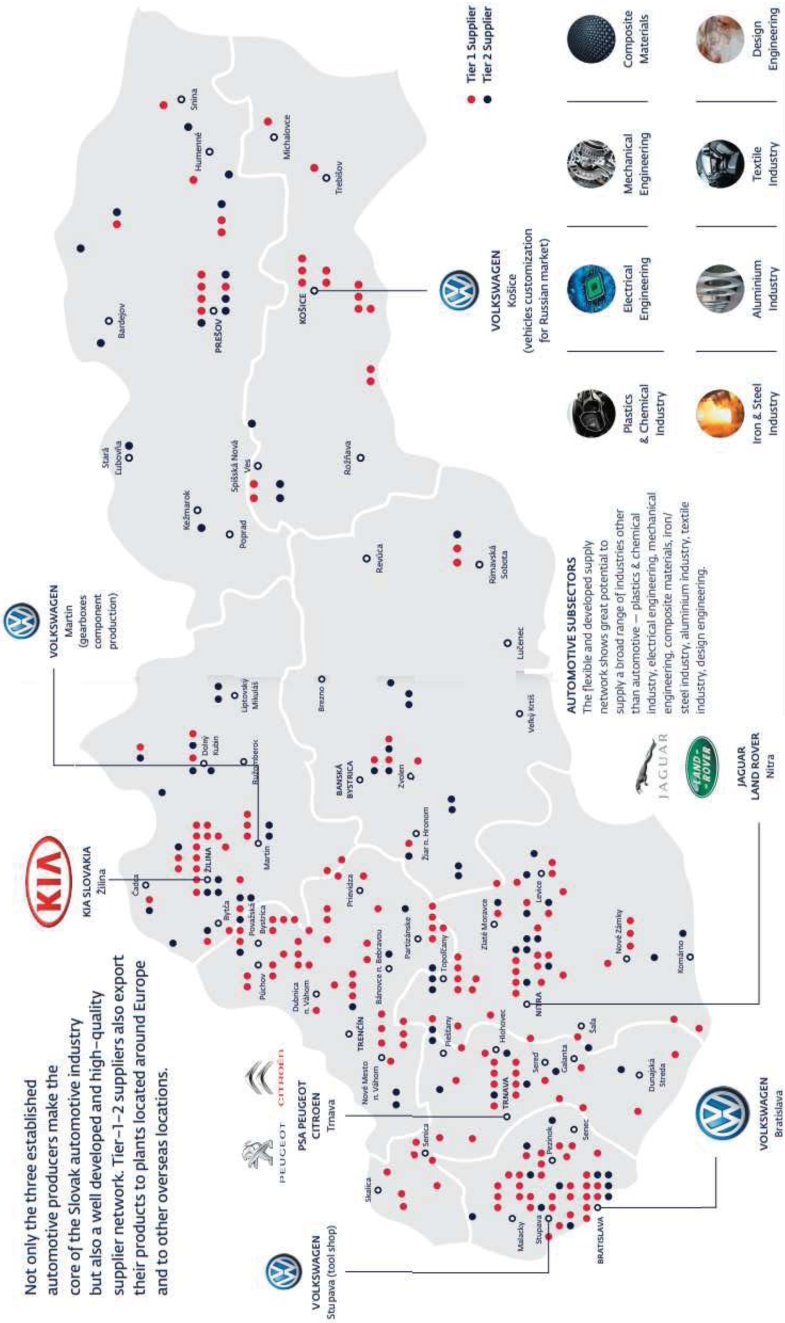
It should be mentioned that the above investments were reinforced by the Slovak government, as it had heavily subsidized the automotive suppliers. Due to the multiplier effect, Slovakia became a hub especially for car production companies as well as for suppliers of various firms.

Figure 3: Number of Passenger Cars Produced in Selected Countries in Europe in 2017



Source: *Number of passenger cars produced in selected countries in Europe in 2017*, https://www.statista.com/statistics/269623/passenger-car-production-in-europe/ [accessed on: 20.10.2018].

Figure 4: Map of Automotive Suppliers in Slovakia



Source: SARIO, *Automotive Suppliers in Slovakia (ZAP SR)*, https://www.sario.sk/sites/default/files/data/sario-automotive-sector-in-slovakia-2018-02-01.pdf [accessed on: 20.10.2018].

Conclusions

Slovakia is considered to be one of the brightest examples of a country which entered the EU and the Eurozone and in less than a decade managed to adapt to the requirements of European integration as well as to gain several various microeconomic and macroeconomic benefits for its citizens and ultimately achieved significant economic growth. Some of the most important benefits that Slovakia gained was the economic upturn of the country's GDP even after 2009 due to the adaptation of the country's economy to the convergence criteria, and the annual decrease of unemployment by 3%. Even the country's infrastructure in many regions has been upgraded, especially where the automotive factories operate. The most important benefit for a small country like Slovakia, was the economic stability and the greater economic security that followed. All the aforementioned benefits transform Slovakia into a more reliable country for future investments in general.

Slovakia, after its introduction to the Eurozone, managed to attract even more potential and actual investors from various industry sectors. The automotive industry, representing a prime example of complex manufacturing, composed of high capital, technology, and skilled labour, became a leading sector in V4 countries (Kurekova 2018). Slovakia not only succeeded in the automotive industry but also managed to compete with other EU members with longer history in this industry. Slovakia's real income has grown rapidly in the past decade and managed to outpace the rest V4 countries; GDP *per capita* now stands at over 76 % of the EU-28 average.

References

Balko T. 2018. Internationalization Patterns in the Automotive Industry: A Case Study of Jaguar Land Rover. https://projekter.aau.dk/projekter/files/281193609/IBE_thesis_Tibor_Balko.pdf [accessed on: 31.10.2018].

Brown M.D., Kovác D., & Teich M. 2011. *Slovakia in History*. Cambridge: Cambridge University Press. http://search.ebscohost.com.acg.idm.oclc.org/login.aspx?direct=true&db=nlebk&AN=409018&scope=site [accessed on: 22.10.2018].

Daniels J.D., Radebaugh L.H. & Sullivan D.P. 2015. *International Business Environments and Operations, Global Edition,* 15th Edition, Edinburg, UK: Pearson (Intl).

EC. 2018. Support for innovation in car industry and EIB finances CIE Automotive's RDI strategy with 80 million loan under Juncker Plan, https://ec.europa.eu/commission/news/support-innovation-car-industry-eib-finances-cie-automotives-rdi-strategy-eur-80-million-loan-under-juncker-plan-2018-jul-25_en [accessed on: 18.10.2018].

Encyclopædia Britannica. 2018, https://academic-eb-com.acg.idm.oclc.org/levels/collegiate/article/Czechoslovak-history/109748 [accessed on: 19.10.2018].

Gibson K. 2017. Six Car Makers Make the Top List if Top 20 R&D Spenders. *The Drive*. http://www.thedrive.com/sheetmetal/15801/six-car-makers-make-the-list-of-top-20-rd-spenders [accessed on: 21.10.2018].

Horiba-mira.com. 2008. European Community Whole Vehicle Type Approval (ECWVTA). https://www.horiba-mira.com/our-services/certification-homologation/european-community-whole-vehicle-type-approval [accessed on: 23.10.2018].

Jakubiak M., Kolesar P., Izvorski I. Kurekova L. 2008. "The Automotive Industry in the Slovak Republic: Recent Developments and Impact on Growth". Commission on Growth and Development: *Working Paper* No. 29, http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth_Commission_Working_Paper_29_Automotive_Industry_Slovakia_Recent_Developments_Impact_Growth.pdf [accessed on: 19.10.2018].

Janik Z. 2010. Twenty Years after the Iron Curtain: The Czech Republic in Transition. *Juniata Voices*. Vol. 10: 99–107, https://www.juniata.edu/offices/juniata-voices/media/janik-twenty-years-iron-curtain.pdf [accessed on: 22.10.2018].

Jonnaert E. 2018. New Figures Underline the Importance of Europe's Auto Industry, https://www.acea.be/news/article/new-figures-underline-the-importance-of-europes-auto-industry [accessed on: 23.10.2018].

Koyama Y. 2016. *The Eurozone Enlargement: Prospect of New EU Member States for Euro Adoption*. Hauppauge, New York: Nova.

Liptakova J. 2018. "Slovakia's Story of Economic Success". *The Slovak Spectator*, https://spectator.sme.sk/c/20766934/slovakias-story-of-economic-success.html [accessed on: 18.10.2018].

Newman D. 2017. "Top 6 Digital Transformation Trends in the Automotive Industry." *Forbes*, https://www.forbes.com/sites/danielnewman/2017/07/25/top-6-digital-transformation-trends-in-automotive/#75fe2d54e1e3 [accessed on: 24.10.2018].

Nič M., Slobodník M., Šimečka M. 2014. "Slovakia in the EU: An Unexpected Success Story?" *German Council on Foreign Relations*, https://dgap.org/en/article/getFullPDF/25437

Piedrafita S., Torreblanca, J.I. 2004. The Three Logics of EU Enlargements: Interests, Identities and Arguments. *Real Instituto Elcano*, http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/dt51-2004 [accessed on: 23.10.2018].

Roxburgh A. 2014. "Slovakia: Life After the Velvet Divorce". *NewStatesman,* https://www.newstatesman.com/politics/2014/03/slovakia-life-after-velvet-divorce [accessed on: 25.10.2018].

Sario. 2017. *Automotive Sector in Slovakia.* SARIO-Slovak Investment and trade development agency, https://www.sario.sk/sites/default/files/data/sario-automotive-sector-in-slovakia-2018-02-01.pdf [accessed on: 17.10.2018].

Schweiger C., Visvizi A. 2018. *Central and Eastern Europe in the EU Challenges and Perspectives Under Crisis Conditions*. New York, U.S.: Routledge.

Slovak Ministry of Foreign and European Affairs. 2019. *1968 – Dubček´s Czechoslovak (Prague) Spring,* https://www.mzv.sk/web/en/slovakia/slovaks-through-the-century/1968-dubceks-czechoslovak-prague-spring [accessed on: 21.10.2018].

Statista. 2018. *Number of passenger cars produced in selected countries in Europe in 2017,* https://www.statista.com/statistics/269623/passenger-car-production-in-europe/ [accessed on: 20.10.2018].

Toplensky R. 2018. "Brussels appoves Slovakia's investments in Jaguar Land Rover plant." *The Financial Times*, https://www.ft.com/content/3c1c4572-c7c0-11e8-ba8f-ee390057b8c9 [accessed on: 21.10.2018].