VARIETIES OF REGIONALISATION:

THE IMPACT OF REGIONALISM ON REGIONALISATION OF THE CAR INDUSTRY IN THE EU AND NAFTA

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ABSTRACT

States race to regionalise in the hope of future economic gains, Brexit and the crisis of NAFTA notwithstanding. Their move rests on two notions: first, that *regionalism* (the formal process of integration by states) leads to *regionalisation* (the actual process of economic integration); and second, that, from simple free-trade agreements to the EU's complex arrangements, more regionalism leads to more, or qualitatively different regionalisation. Setting off from the puzzling phenomenon that change in intra-regional trade levels does not always correspond to regionalism's regulatory incentives, this thesis takes issue with integration concepts which attribute regionalisation outcomes to regionalism alone or exaggerate its role. It is hypothesised that firms could respond to other influences that shape their cross-border activities, regionalisation could be globalisation in regional disguise, and consequently, regionalisation may not even follow regionalism in its intensity.

Thus, this research explores how regionalism impacts regionalisation and whether a more intensive, deep, highly-institutionalised regionalism (EU) leads to substantially different regionalisation outcomes than a less intensive, shallow, thinly-institutionalised integration (NAFTA). This inquiry moves beyond a unidimensional focus on institutions and equally considers interests, ideas, and institutions to account for regionalism (negative, positive integration measures, and ideational factors) and non-regionalism related factors (e.g. firm or business logic, national politics, and structural factors) that shape varied regionalisation outcomes in the EU and NAFTA. It examines regionalisation processes by taking car manufacturing firms (OEMs) as its units of analysis and the car industry as its universe of cases, which is argued to be particularly well-suited to show the current extent of regionalism's impact. Changes are traced on three major aspects of regionalisation from the 1950s to today: where the product is made (spatial and organisational changes in

manufacturing); how the product is marketed (changes in design, sales, advertisement, etc.); and the emergence of regional products (changes of technical aspects, safety- and emission standards; vehicle-type approvals).

This thesis argues that the intensity of regionalisation is not always directly proportional to the type or intensity of regionalism; instead it is linked to the interplay of regionalism and non-regionalism factors, on the one hand, and the specific aspect of regionalisation where the impact takes place (e.g. production, marketing, product), on the other. This is because regionalisation is always context-dependent and regionalism rarely exerts influence over it on its own. It has varied effects on different firms, and different firm activities (and likely has a different impact on different industries although this is beyond the scope of this project). Non-regionalism factors at times can constrain the strong impact of regionalism, or render it altogether irrelevant, while at others, they can amplify it. The thesis also argues that regionalisation processes are firmly regionally embedded (at least, in the car industry and producer-driven chains). It is also contended that, despite signs of increasing global exposure since the Great Recession, globalisation in this industry is regionally rooted and thus better construed as 'concurrent regionalisations'.

Beyond conceptualising the link between regionalism and regionalisation and raising several theoretical questions about the role of structure in regionalism, the thesis also makes empirical and methodological contributions. It offers original datasets: e.g. a rerun of Rugman's 2001 global-/regional-dependence analysis to trace changes; and historical series of car manufacturers' market shares, both country- and region-levels. The thesis also takes a novel approach to comparing diverse regionalisms: it proposes a dynamic frame composed of variation and similarity drivers (institutional, structural, and ideational indicators) impacting regionalisation in varied ways, which can be applied for further comparative studies.

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When I started this research, I thought: by the time I finish, I will probably be ripe for a mid-life crisis but I will also be financially broke to be able to afford the usual things people do in that situation; buy a fast car, or do El Camino. Reality did not disappoint about the latter. However, instead of a mid-life crisis, here I am, having finished the intellectually most rewarding and longest ever undertaking of my life.

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To Artak Galyan, friend and colleague

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LIST OF ABBREVIATIONS

ABS – Anti-Lock Breaking System

ACEA – European Automobile Manufacturers Association

APTA – Automotive Products Trade Agreement

ASEAN – Association of South East Asian Nations

BG - Bulgaria

BREXIT – Britain Exiting [the European Union]

BRIC – Brazil-Russia-India-China

CCFA – Comité des Constructeurs Français d'Automobiles

CCP – Common Commercial Policy

CEN – European Committee for Standardisation

CENELEC – European Committee for Standardisation

CEO – Chief Executive Officer

CETA – Comprehensive Economic and Trade Agreement

CKD – Completely Knocked-Down

CMF – Common Module Family

CO – Carbon-Monoxide

CUSFTA – Canada-United States Free Trade Agreement

CUV – Crossover Utility Vehicle

CZ – Czech Republic

DG – Directorate-General

DG Comp – Directorate-General for Competition

EC-1992 – Single Market Programme

ECE – East Central Europe

EEA – European Economic Area

EMS – European Monetary System

EMU – European Monetary Union

EU – European Union

EU-6 – European Union 1957-1973

EU-15 – European Union 1995-2004

EU-27 – European Union post-Brexit or minus-Croatia

EU-28 – European Union 2013 -

EC – European Commission

ECJ – European Court of Justice

ECSC – European Coal and Steel Community

EEC – European Economic Community

EFTA – European Free Trade Association

EPA – Environmental Protection Agency

ES – Spain

ESC – Electronic Stability Control

FCA – Fiat Chrysler Automobiles

FDI – Foreign Direct Investment

FTA – Free Trade Agreement

FTC – Federal Trade Commission

GATT – General Agreement on Tariffs and Trade

GDP – Gross Domestic Product

GHG – Greenhouse Gas

GM – General Motors

GTR – Global Technical Regulations

HC – Hydrocarbon

HHI – Herfindhal-Hirschman Index

HU – Hungary

HQ – Headquarters

ISO – International Organisation for Standardisation

IT – Italy

LDV – Light-Duty Vehicle

LED – Light Emitting Diode

MERCOSUR – Mercado Común del Sur / Southern Common Market

MQB – Modularer Querbaukasten / Modular Transversal Toolkit

NAFTA – North American Free Trade Agreement

NGO – Non-Governmental Organisation

NHTSA – National Highway Traffic Safety Administration

NKH – Nemzeti Közlekedési Hatóság / National Transport Authority

NO – Nitrogen Monoxide

NOM – Norma Oficial Mexicana / Official Mexican Standard

NRT – New Regionalism Theory

NTB – Non-Tariff Barrier

NUTS – Nomenclature des Unités Territoriales Statistiques

OECD – Organisation for Economic Cooperation and Development

OEM – Original Equipment Manufacturer

OICA – International Organisation of Motor Vehicle Manufacturers

PKD – Partially Knocked-Down

PL – Poland

PM – Particulate Matter

PPP – Purchase Power Parity

PSA – Peugeot-Citroen

R&D – Research and Development

RO - Romania

SAARC – South Asian Association for Regional Cooperation

SE – Sweden

SEA – Single European Act

SK – Slovakia

SME – Small and Medium Size Enterprise

SUV – Sport Utility Vehicle

TNC – Transnational Corporation

TNI – Transnationality Index

TTIP – Transatlantic Trade and Investment Partnership

UK – United Kingdom

UN – United Nations

UNCTAD – United Nations Conference on Trade and Development

UNECE – United Nations Economic Commission for Europe

US – United States

V4 – Visegrad Group (Czech Republic, Hungary, Poland, Slovakia)

VAT – Value-Added Tax

VW – Volkswagen

WP.92 –World Forum for Harmonisation of Vehicle Regulations

WTO – World Trade Organisation

WW2 – World War 2

Chapter 1 – Introduction

1.1 Wither Regionalism?

Regionalism scholarship has been on a 'Holy Grail' quest to find out why some regional integration schemes succeed, while others fail. Just as the grail, though, the answer remains elusive. However, understanding regional integration has become more pertinent than ever: as the United Kingdom is leaving the European Union (EU), Brexit has shattered belief in the irreversibility of what was thought to be the most solid of integration schemes. Eurosceptic forces have surged in several other countries since the Great Recession, and the Eurozone crisis risked reversing a major achievement of integration for the first time. In North America, 'the model of modern free-trade agreements', the North American Free Trade Agreement (NAFTA) has been on the brink of being dissolved since political consensus over it disappeared in the United States following the 2016 presidential elections; the agreement is now being renegotiated. After decades of moving towards a 'world of regions', the support for regionalism, and certainly for more regionalism, appears to be ebbing.

The EU and NAFTA are regulatory regimes which aim to voluntarily integrate parts, or the entirety of their member states' economies. Their success or failure depends on many factors but crucially on their ability to create 'winners of regionalism' by effectuating transformative change among the economic (and other) actors they regulate. For in the heart of most integration theories and concepts since transactionalism is the concern: who will support (further) integration, and how resilient that support can be.[1] Transformative change is

[1] Karl W. Deutsch, *Nationalism and Social Communication: An Inquiry into the Foundations of Nationality*, Cambridge, MA: MIT Press, 1953.

quite a tall order: it presupposes the support of elites, the citizenry, and regionalism's ability to create regional interdependence. Business actors, firms, are arguably one of the main *loci* of such regional interactions, transnational corporations, in particular. Mattli argues that it is firms which stand the most to gain from calculated, regulated exchange which will push for (further) integration, to internalise the externalities of cross-border exchanges (i.e. reduce transaction costs and easier manage issues that regional market creation brings about).[2]

Thus, to better understand the success or failure of integration, it is critical to better understand how *regionalism*, the formal integration process created by states by means of treaties and/or institutions, is able to create or be conducive to *regionalisation*, the regional re-organisation of firms' activities within a supranational, regulatory regime.[3] As states race to regionalise in the hope of future economic gains, this is not just a theoretically important question, it may also raise policy-relevant concerns. States, especially developing countries, may pay a high price for creating cut-throat competition for local, often infant industries by establishing free-trade areas and regional markets out of fear of losing out on investment. If the role of regionalism is negligible for firms when regionalising their activities, the economic gains expected by states may not materialise, or could materialise anyway. Regionalism however may be a reasonable policy choice for states if firms, especially transnational corporations, consider the institutions offered by the political regionalism important in regionalising their activities.

Karl W. Deutsch, Sidney A. Burrell, Robert A. Kann, Maurice Lee Jr., Martin Lichtermann, Raymond E. Lindgren, Francis L. Loewenheim and Richard W. Van Wagenen, *Political Community and the North Atlantic Area: International Organization in the Light of Historical Experience*, (Princeton: Princeton University Press, 1957), 54;
Max-Stephan Schulze and Nikolaus Wolf, *On the Origins of Border Effects: Insights from the Habsburg Customs Union*, (Coventry: Centre for the Study of Globalisation and Regionalisation Working Paper Series 231/7, June 2007), 1-30

[2] Walter Mattli, "Explaining Regional Integration Outcomes", *Journal of European Public Policy*, (Vol. 6, No. 1, 1999), 1-27

[3] Bjorn Hettne, "Beyond the New Regionalism", *New Political Economy*, (Vol. 10, No. 4, 2005), 545

This thesis questions assumptions that the EU's and NAFTA's regulatory frames have had a blanket effect on regional economic activity. Instead it argues that they have had varied effects on different firms, and different firm activities. The thesis also questions that the EU is the most forceful regional regulator because of its advanced, complex institutionalisation and deep integration – while this is true in many senses, regionalism's effects are always context dependent; thus, other, more thinly institutionalised, shallow integrations (i.e. NAFTA) may achieve the same or more in terms of regionalisation outcomes. The research situates itself at the intersection of two, relatively disparate sets of literatures: regionalism concepts of political science, and regionalisation in the economic literature to explore the impact of regionalism as a political process on regionalisation, the actual process of market integration.

1.2 More Regionalism, More Regional Transactions?

Regionalism, regional integration whether it is a trade agreement or something with political ambitions, is most typically launched and advanced by states for its expected economic benefits: increased trade, investments, growths, and jobs. For Katzenstein, regionalism is an attractive option for states since it helps building economies of scale, encourages intensive trade and investment relations, it increases efficiency and competitiveness through deregulation.[4] For Bowles, the main reason for regionalism is to become attractive for global capital and to ensure participation of the region's members in the global economy.[5] These arguments emphasise regionalism's ability to create, or enhance regionalisation processes similarly to most classical regionalism and integration theories and

[4] Peter Katzenstein, *A World of Regions. Asia and Europe in the American Imperium*, (Ithaca & London: Cornell University Press , 2005), 23

[5] Paul Bowles, "Post-global Financial Crises", In: Shaun Breslin et al (eds.), *New Regionalisms in the Global Political Economy*, (London-New York: Routledge, 2002), 86

concepts (e.g. transactionalism, neo-functionalism, etc.) which build on the assumption: regionalism leads to, and/or increases, regionalisation.

This is what Beeson called the *de facto* process of integration (regionalisation), the outcome of regionalism which is the conscious *de jure* process.[6] In the few instances when the declared purpose of regionalism is partly political rather than market integration in itself (e.g. in the EU and ASEAN), increased economic transactions are also attributed with a functional role: to act as linkages between member states and their peoples who, as winners of regionalism, would press for further integration.[7] Thus, the expectation is that the launch of the formal regionalism process by states, and measures that are aimed at fostering economic activity, would result in 'more' regionalisation; an increase in firm activity, manifesting itself in an increase in intra-regional trade and, to some extent, foreign direct investment.[8]

It is important to note already at this stage that political science integration concepts typically focus on the supply side of regionalism, how rules are made, where and by whom: regional institutions (rules, regulations and standards), or ideational elements (e.g. regional identity, the promise of integration, etc.) which are expected or even assumed to compel regionalising (economic) actors to reorient or expand their activities to the regional level.[9] However, the impact of these measures on *de facto* integration and their feedback mechanism is relatively under-conceptualised apart from a few notable exceptions.[10] The institutionalist

[6] Mark Beeson, *Regionalism and Globalisation in East Asia*, (Houndmills: Palgrave Macmillan, 2007), 5
[7] Joseph S. Nye, "Comparing Common Markets: A Revised Neo-Functionalist Model", *International Organization*, (Vol. 24, No. 4, October 1970), 796-835;
Walter Mattli, *The Logic of Regional Integration: Europe and Beyond*, New York: Cambridge University Press, 1999
[8] Dani Rodrik, "Don't Cry Over Dead Trade Agreements", *Project Syndicate*, (8 December 2016), https://www.project-syndicate.org/commentary/no-mourning-dead-trade-agreements-by-dani-rodrik-2016-12 Accessed: 8 December 2016
[9] Wayne Sandholtz and John Zysman, "1992: Recasting the European Bargain", *World Politics*, (Vol. 42. No. 1, October 1989), 95-128;
Isidro Soloaga and L. Alan Winters, "Regionalisation in the Nineties: What Effect on Trade?", *North American Journal of Economics and Finance*, (Vol. 12, No. 1, March 2001), 1-29
[10] Alex Warleigh-Lack, "Towards a Conceptual Framework for Regionalisation: Bridging 'New Regionalism' and 'Integration Theory', *Review of International Political Economy*, (Vol. 13, No. 5, December 2006), 750-771

focus also excludes most regional regulatory regimes, typically free-trade agreements, which have low institutionalisation with very few intrusive rules as common standards and regulations or permanent bureaucracies to study.

The expectation that there is or there will be response to regionalism by economic actors is actually borrowed by these concepts from the economic literature which widely studies the impact of tariff elimination and other measures on trade. Intra-regional trade is argued to increase even in a free-trade area for several reasons: firms trading inside the region could increase their comparative advantage by accessing a larger market at a lower cost and thus build economies of scale.[11] The trade diversion effect also suggests that imports from third countries would become more expensive and therefore decrease and substituted from the regional market.[12] Underpinning all this is the price reduction effect of tariff elimination: previously inflated prices become lower following the reduction of tariffs, making regional products more competitive and thereby increasing demand and trade.[13] These benefits may be more marked once the region moves further in regionalism and forms a customs union and/or introduces regional standards and rules in a bid to form a single market.

1.2.1 Intra-Regional Trade: A Problematic Indicator

However, data about the levels of intra-regional trade, a traditional measure of intra-regional economic activity, suggest that such an impact of regionalism is not evident in the EU and NAFTA (see Figure 1.1). Intra-regional trade might increase before the start of formal regionalism, and decrease after regional integration is advanced. Moreover, there seems to be

[11] Andre Sapir, "Regional Integration in Europe", *The Economic Journal*, (Vol. 102, No. 415, 1992), 1491
[12] Peter Dicken, *Global Shift – 6th Edition*, (London: SAGE, 2011), 202-3
[13] Dicken, *Global Shift – 5th Edition*, (New York-London: The Guilford Press, 2007), 36

no evident increase in intra-regional economic activity following advances in the intensity of regionalism, notably in the EU. Figure 1.1 encompasses a period of active regionalism in both the EU and NAFTA, between the years of 1980 and 2006. It is the time when the EU embarked on creating a truly Single Market of goods, capital, services and people (signing the Single European Act in 1986 to achieve single market by 1992), and later creating the Monetary Union and the euro in the Maastricht Treaty in 1992 to be achieved by 1999 and 2001. In North America, Canada and the United States, following their experience of sectoral free-trade agreements (e.g. the Auto Pact in 1965), signed the Canada – United States Free Trade Agreement (CUSFTA) in 1988 and a few years later created NAFTA with Mexico in 1994. (Figure 1.1)[14]

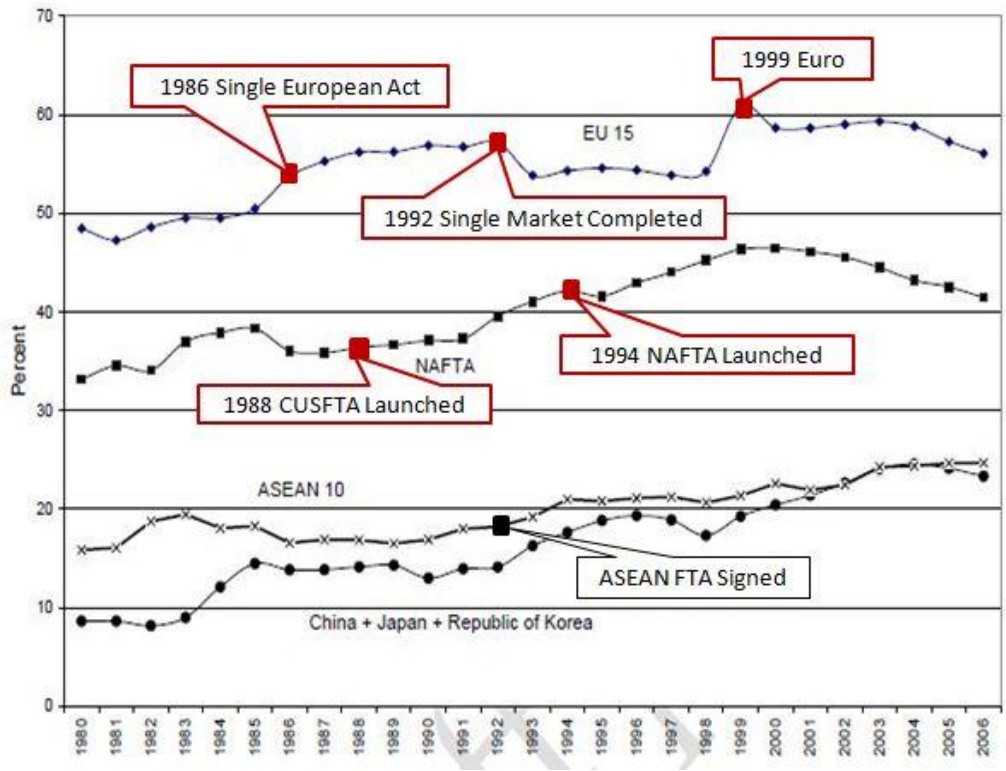

Figure 1.1 – Intra-Regional Trade Levels in the EU, NAFTA, and ASEAN

[14] Chart by Mia Mikic, *ASEAN and Trade Integration*, (UNESCAP Staff Working Paper, 2009), Available: http://works.bepress.com/mia_mikic/2/, (accessed: 4 April 2011), 9; UNCTAD; Regionalism milestones are added by author.

Figure 1.1 illustrates that intra-regional trade level, traditionally considered to be the main measure of regionalisation, is a problematic indicator for at least three reasons: first, the indicator is apparently ineffective to causally link the impact of regionalism to regionalisation, second, it is ill-suited for across-regional comparison because it ignores non-regionalism related factors that contribute to different regionalisation patterns, and third, as an aggregate measure it blankets variations in response by different sectors and firms.

1.2.1.1 The Problem of 'Cause and Effect'

The first main concern is that of *cause and effect*: the ratio of intra-regional trade changes either seemingly independent of changes in regionalism, or it precedes major changes in the regional frame.[15] The level of intra-regional trade in the case of the EU hardly changed between the signing of the Single European Act and 2006, and it even decreased after the completion of the Single Market in 1992, as it did after the fixing of exchange rates in the Eurozone in 1999. In the case of NAFTA, intra-regional trade was already relatively high by the time formal regionalism was launched and, following a textbook case dynamic increase, it slowly returned to pre-NAFTA levels. Similar results, i.e. the low impact of political regionalism on intra-regional trade, were observed by Soloaga and Winters when they analysed changes in intra-regional trade in several regions and trading blocs.[16]

If we accept that intra-regional trade is able to measure regionalisation, there are several plausible explanations for the above described phenomenon: one, regionalism has no impact on regionalisation. This is hypothetically possible but rather doubtful. Second, the correlation is reverse: regionalisation precedes political regionalism. While this is an

[15] Mikic, *ASEAN and Trade Integration*, 9 [Original data from UN Comtrade and WITS]
[16] Soloaga and Winters, *Regionalisation in the Nineties*, 20 and 23

interesting concept in itself, this approach could also hardly explain why the intensification of EU integration since the 1980s was not accompanied by a more robust increase in intra-regional trade, and why it decreased in NAFTA. Finally, macro-indicators like intra-regional trade alone are simply ill-suited to measure the impact of regionalism on regionalisation because the former has a partial and varied impact on the latter: different sectors, firms, and aspects of firm activity respond to the same incentives in a varied way. Today, regionalisation is mostly taking place within and between production networks of firms (crosscutting regional borders) and other forms of intra-firm activity, which are not necessarily captured by changes in intra-regional trade.[17] Regional-level measures may actually capture the impact of 'globalism' (global trade and regulatory regimes), and not regionalism.

1.2.1.2 The Problem of 'Ignorance'

The second concern is with the *difference between varied regional integrations*. From the arguments that more regionalism leads to more regionalisation it is often inferred that the EU has higher intra-regional trade levels than NAFTA (or ASEAN) because its regionalism is more advanced or more intensive.[18] This may be so but the difference may also be caused by other, equally or more important factors (e.g. geographic proximity, etc.) which are considered to be strong predictors of trade between any two countries, in the economic literature.[19] In other words, two regions of identical regional regulatory regimes may still be

[17] Dicken, *Global Shift – 5th Edition*, 7
Gary Gereffi, "Global Production Systems and Third World Development", In: Barbara Stallings (ed.), *Global Change, Regional Response,* (Cambridge: Cambridge University Press, 1995), 113
[18] Katzenstein, *A World of Regions*, 23; Bowles, *Post-global Financial Crises*, 86; Beeson, *Regionalism and Globalisation in East Asia*, 5;
Andrew Hurrell, "Explaining the Resurgence of Regionalism in World Politics", *Review of International Studies,* (Vol. 21. No. 4, October 1995), 331-358, 346-7
[19] Jeffrey Frankel and Andrew Rose, "An Estimate of the Effects of Currency Unions on Trade and Income", *The Quarterly Journal of Economics*, (Vol. 117, No. 2, May 2002), 437-466

very different structurally; e.g. 28 relatively small countries in a geographically squeezed area would probably always trade more with each other (EU), even if they were only linked by a free-trade agreement, than three countries of a vast continent, two of which do not even share a common border, and one has a huge national market on its own (NAFTA). Thus, differences in intra-regional trade levels may not be most relevant when differentiating between the intensity of regionalisation, or *de facto* integration.

1.2.1.3 The Problem of 'Blanket Response'

A third concern is that intra-regional trade level is an *aggregate measure*, and as such it assumes uniformity of response by economic actors. Assuming that regionalism impacts regionalisation, the aforementioned issues with intra-regional trade as its indicator notwithstanding, regionalisation effects may not be observed across-the-board just as policy *compétences* on the regulatory side vary (e.g. EU agriculture policy is federal while education is national). Describing the EU as a single market may not shed much light on whether different sectors and firms within a single sector actually respond to the legal/institutional incentives, just as it does not necessarily mean that the single market exists equally for all areas of economic activity.[20] Trade level is an aggregate measure of firm activity and it does not capture the fact that firms are varied and behave in a variety of ways. At best, intra-regional trade level shows correlation between regionalism and regionalisation; to further link regionalisation outcomes to regionalism's incentives, firm-level strategies and decisions have to be examined.

Pankaj Ghemawat, "Distance Still Matters: The Hard Reality of Global Expansion", *Harvard Business Review*, (Vol. 79, No. 8, September 2001), 138 137-147
Paul Hirst and Grahame Thompson, "The Future of Globalization", *Cooperation and Conflict*, (Vol. 37, No. 3, September 2002), 258 247-265
[20] Sapir, *Regional Integration in Europe*, 1495

Therefore, this research takes firms as units of analysis which can offer new insights into the varied responses to regionalism's incentives.[21] The composition of trading firms, their activities, organisational structure, and global mobility may be different, and these differences can be further impacted by the intensity of the regional regulatory regime in which they operate.[22] More importantly, regionalisation is more than just cross-border sales and transactions; it is a transformative change which can affect the entire organisation of the firm: its production, the technical specifications of the product itself, its design and sales, etc.[23]

Firms interpret their environment, the incentives and constraints offered by regionalism, when making decisions. They respond to global regulatory incentives and the outcome we are witnessing may, in fact, be globalisation in regional disguise. Firms are regionally/globally embedded to a varying degree, depending on a plethora of factors (e.g. their products, commodity chains type, internationalisation, etc.) which, again, is only detectable at the firm level. Different sectors may also have varied disposition to regionalisation and globalisation, in general.[24] Therefore, understanding firm-level dynamics in a regional context promises to better understand the effect diverse regionalisms have on regional economic processes than aggregate measures alone.

[21] John H. Dunning and Karl P. Sauvant, *From the Common Market to EC92: Regional Economic Integration in the European Community and Transnational Corporations*, (New York: United Nations, 1993)
[22] Rob Van Tulder and Denis Audet, "The Faster Lane of Regionalism", In: Jorge Carrillo, Yannick Lung, and Rob van Tulder, *Cars, Carriers of Regionalism?*, (Houndsmills, Basingstoke: Palgrave Macmillan, 2004), 25
[23] Michel Freyssenet and Yannick Lung, "Multinational Carmakers' Regional Strategies", In: Carrillo et al, *Cars, Carriers of Regionalism?*, 44-5
[24] Peter Dicken, *Global Shift – 4th Edition*, (London, Thousand Oaks and New Delhi: Sage Publications, 2003), 200

1.2.2 The Research Questions

Consequently, this research will be guided by the following questions: first, *how does regionalism impact regionalisation in the EU and NAFTA?* Regionalisation outcomes, after all, are also influenced by a set of non-regionalism related factors: global and national-level regulations, and what is often referred to as 'firm, profit, or product' logics. While this research will consider the ensemble of non-regionalism related factors at certain outcomes, it argues that globalisation, as the other main cross-border process, needs particular consideration, and thus will subsequently ask if we are we observing the impact of regionalism or globalism on firms when exploring regionalisation. Differently put, *is it really regionalisation or rather globalisation that we are witnessing?*

Second, this research will also ask: *does the more intensive integration (EU) lead to different regionalisation patterns than the weaker one (NAFTA)?* Essentially, the question is whether the EU has a stronger impact on regionalisation outcomes than NAFTA, or they lead to relatively similar outcomes. The EU is a single market, a deep integration with complex institutions, while NAFTA is a free-trade agreement, a thinly institutionalised, shallow integration, which could lead to varied regionalisation outcomes. On the other hand, non-regionalism related factors could lead to relatively similar regionalisation outcomes. By taking firms as units of analysis, similar actors in different environments can be observed. Choosing the car industry as the universe of cases, heavy-complex, producer-driven chains can be examined which are argued to be particularly suited to map out the current extent of regionalism's impact. (See 2.3)

1.3 The Main Arguments

In response to the question how regionalism impacts regionalisation, this thesis will argue, first, that regionalism impacts regionalisation in multiple and varied ways; different firms are impacted differently, and different aspects of their activities are impacted differently. Regionalism will be argued to lead to dispersed and polycentric production in spatial terms (e.g. relocating plants to new countries but retaining old ones, too), and vertical/horizontal integration in organisational terms (e.g. formerly autonomous, national units become subsidiaries of regional HQ). Regionalism also increases competitive pressures which compel firms to regionalise their products' appearance and technical specifications (if allowed/encouraged by regional regulations). Marketing them as regional products however will be argued to be largely constrained by regionalism's limited ability to achieve regional customer taste convergence. Regionalism's impact on regionalisation will be argued to be influenced by core/periphery dynamics, industry-specific concerns, and national political considerations.

Second, in response to the subsequent question whether it is indeed regionalisation and not globalisation that is being witnessed, this thesis will argue that regionalisation is firmly embedded in regionalism (at least in the car industry and in producer-driven chains). However, 'winner' firms of regionalism, which Mattli argues to be potential supporters of further integration, have an increasing stake in regionalism having 'porous borders'. [25] Firms may well support flexible 'inter-regionalism' and global regulations, rather than 'more regionalism'. Certain aspects of their products and productive processes are also becoming global which increase similarity across regionalisation outcomes. However, it will be argued, that globalisation in the car industry is still better construed as 'concurrent regionalisations'.

[25] Katzenstein, *A World of Regions*, 22; Mattli, *Explaining Regional Integration Outcomes*, 3

Finally, in response to the question whether the more intensive integration (EU) leads to different regionalisation patterns than the weaker one (NAFTA), this thesis will argue that regionalisation outcomes do not depend on the the type/intensity of regionalism alone but on the interplay of regionalism and non-regionalism factors, on the one hand, and the specific part of regionalisation where the impact takes place (e.g. production, market, product), on the other. This is because regionalisation is always context-dependent and regionalism rarely exerts influence over it on its own. Thus, the intensity of regionalisation is not directly proportional to the intensity of regionalism: lower intensity regionalism (e.g. NAFTA) can, under certain conditions, lead to similarly intensive regional linkages as a higher intensity one (e.g. EU). Conversely, high-intensity regionalism (e.g. EU) can, under certain conditions, lead to lower intensity regionalisation than a low-intensity regionalism (e.g. NAFTA).

1.4 The Structure of the Thesis

This thesis will be structured in the following way: in *Chapter 2*, the relevant literature will be reviewed, in particular the relationship between regionalism and regionalisation, and the comparability of varied regional integration schemes to set out the conceptual frame this thesis will apply. The chapter will end with a discussion about case selection, research design and methods, and relevant data issues. *Chapter 3* will provide a brief description of the car industry; the relevant aspects of its historical evolution, the main players, and the main regulatory approaches globally, in the EU, and NAFTA.

Subsequently, three major aspect of regionalisation will be explored in separate chapters, based on empirical data. Each of these chapters will consider regionalism- and non-regionalism related factors in both the EU and NAFTA. *Chapter 4* will track the changing geography of production since the beginning of regionalism (i.e. 'where is made what is made'). In NAFTA's case, it will consider changes since the Auto Pact between the US and Canada in 1965; in the EU since the Treaty of Rome in 1957. It is the story of negative integration, primarily: how the creation of regional space led to spatial and organisational changes in the regionalisation of production and whether manufacturing locations have dispersed to low wage/low cost zones, or the industrial core successfully retained plants. The chapter will also consider three types of firm approaches to production regionalisation: that of home-region firms, embedded regionalisers, and clean-slate entry regionalisers.

Chapter 5 will look at whether regionalism has created a truly regional market of regional customers; how the position of firms changed by increased competition and changing demand. The chapter tracks changes in regional and national customer tastes, and how firms regionalised their product design, marketing, and advertising as a consequence. It is the story of ideational aspects of regionalism but more so its frontiers or limits: how regionalism is limited by entrenched, nationally-segmented customer tastes. *Chapter 6* tracks changes in the technical aspect of the product, i.e. how cars have become technically 'regional'. It is the story of positive integration first and foremost: how intrusive regional rules and institutions can replace national ones by positive integration, and how non-regionalism factors, the dominance of the US, can be conducive to voluntary convergence of technical regulations, safety standards, and vehicle-type approvals.

Chapter 7 focuses on whether regionalisation is increasingly becoming globalisation not just as 'more trade' but from the perspective of productive processes, products, and customers. It accounts for positive and negative integration elements at the global level and the limits of globalisation. It is the story of the 'porous borders' of regionalism.[26] *Chapter 8* will draw conclusions and argue that regionalism has had a varied impact on regionalisation:

[26] Katzenstein, *A World of Regions*, 22

different firms and different firm activities were affected diversely because regionalism's effects are always context dependent. As a result, the EU, the most forceful regional regulator, has had little impact on certain aspects of regionalisation in some instances, while NAFTA, a thinly institutionalised, shallow integration, has led to similar or intensive regionalisation. It will be concluded that 'winner' firms of regionalism have an increasing stake in supporting flexible 'inter-regionalism' and globalisation, and might not push for 'more regionalism' in the regulatory sense. The chapter will argue that regionalism concepts of political science could benefit from further comparative case studies of diverse regionalisms, and from drawing on regionalisation concepts of economics to explore the relationship of the political process on actual integration, and to better conceptualise the relationship between political agency, and structural constraints.

CHAPTER 2 – THE THEORETICAL FRAME

This chapter begins by a review of the relevant literature for the two main quests of this research: the relationship between regionalism and regionalisation, and the comparability of varied regional integration schemes. In the first part, I will map out how political science conceptualises the relationship between regionalism and regionalisation. As part of the latter phenomenon, I will draw on the economic literature about transnationalisation of firms which offers important insights on the mechanisms of firm transnationalisation/internationalisation, and the non-regionalism related factors that contribute to it. It will be contended that a possible gap exists in the transnationalisation literature as well because it largely overlooks the role of regionalism as a political process. The relationship between regionalisation and globalisation will also be reviewed. In the second part of the literature review, the comparability of varied regionalisms or regional integration schemes will be discussed as well as how different types/intensity of regionalism/integration could lead to different intensity of regionalisation.

This will be followed by setting out the conceptual frame for the thesis. This will address the two main lines of this inquiry: a mechanism for how regionalism impacts regionalisation, and two, how seemingly different regionalisms (i.e. the EU and NAFTA) can be meaningfully compared. The chapter will then operationalise the dependent variable, regionalisation, and the main independent variable, regionalism. Since the research considers regionalism and regionalisation complex processes with several factors contributing to certain outcomes, it will also discuss non-regionalism related independent variables, globalisation in particular. Finally, research design and methodology will be set out.

2.1 The Debate – Literature Review

2.1.1 Regionalism and Regionalisation

One of the central questions for comparative regionalism and most integration theories is the interaction of regionalism (the political, institutional process) and regionalisation (the effective integration). Classic integration theories which construe regional integration as a transformative process (e.g. transactionalism and neofunctionalism) do consider the role of non-state actors essential.[27] Early functionalist and neofunctionalist approaches very much focus on creating processes which lead to the shifting of loyalties to the supranational level and thus to the advancement of regional integration by expanding to new areas of transactions through the spill-over effect.[28] Most of these concepts, however, were primarily developed to explain European integration and thus were considered too Europe-centric to be meaningfully applied elsewhere. EU studies, which partially grew out of early theorising, largely abandoned inquiry into the nature of the EU to focus on single policy domains, which have little relevance for other regionalisms.[29]

In the mid-1980s, early 1990s, when the then European Economic Community started to embark on its most ambitious project, the creation of the Single Market, NAFTA was under negotiation, and ASEAN started to develop its trading arm, a new, disparate set of literature started to emerge under the name 'new regionalism', or 'new regionalisms'. New regionalism scholars, while their approach varies, have set off from a relatively common premise: first,

[27] Deutsch et al, *Political Community and the North Atlantic Area*, 54
Philippe C. Schmitter, "Ernst Haas and the Legacy of Neofunctionalism", *Journal of European Public Policy*, (Vol. 12, No. 2, 2005), 256 255-272
[28] Philippe C. Schmitter, 'Three Neo-Functional Hypotheses about International Integration, *International Organization*, (Vol. 23, No. 1, 1969), 162;
Arne Niemann with Philippe C. Schmitter, 'Neofunctionalism', In: Antje Wiener and Thomas Diez (eds.), *European Integration Theory*, (Oxford: Oxford University Press, 2009), 49-50
[29] Christopher J. Bickerton, *European Integration: From Nation States to Member States*, (Oxford: Oxford University Press, 2012), 2

regions are no longer 'closed' or created to rebuild economic autarchy that is impossible to maintain at the state-level, but 'open' to ensure participation of their members in the global economy, second, regions are varied but comparable.[30] Third, the two-layers of regional integration, *regionalism* and *regionalisation,* were also further conceptualised.[31] Regionalism is defined as a programme or strategy by states, which leads to formal institution building, while regionalisation is an empirical process which takes place between firms or other economic actors; it is patterns of cooperation which may precede or follow the emergence of a formal region.[32] By emphasising the integrative role of presumed economic benefits, regionalisation is considered conceptually important as increased interdependence and transactions foster regional identity which, in turn, strengthens political regionalism.

Based on how different new regionalism scholars conceive the relationship between regionalism and regionalisation, three branches can be defined: 'regionalism-first', 'entanglement', and 'regionalisation-first' branches. For this research, concerned with regionalism's impact on regionalisation, the first one is of primary interest. Nevertheless, the other two branches will be briefly discussed as well.

2.1.1.1 'Regionalism First'

The 'regionalism-first' branch puts an emphasis on regionalism's capability to create regionalisation processes. As I referred to it before, regions here have a functionalist role to help increase trade, build economies of scale, attract FDI, and engage in the global

[30] Bowles, *Post-global Financial Crises*, 86

[31] Bjorn Hettne and Frederik Soderbaum, "Theorising the Rise of Regionness", In: Shaun Breslin, Christopher W. Hughes, Nicola Phillips and Ben Rosamond (eds), *New Regionalism in the Global Political Economy*, (London and New York: Routledge, 2002).

[32] Ibid., 34

economy.[33] While these concepts emphasise the economic rationale for pursuing regional strategies, they do not normally test and conceptualise the actual effect of the region on economic activity; a long term view on aggregated data is taken to argue whether economic activity increases or not. The 'regionalism-first' arguments appear to be underpinned by some degree of structuralist logic: if and when states create regional structures actors will likely respond to incentives (or constraints). This may be so but actors interpret their environment beyond a rational cost-benefit calculus and may respond to the same incentives differently, or not at all. Apart from regionalism (and its regulatory regime), other incentives might equally be at play leading to different outcomes. Therefore, the question is how actors perceive the incentives offered by the region and act upon them. Nevertheless, the argument that economic actors respond to the creation of a free-trade area or customs union, or capitalise on the opportunities provided by a single market in which labour and capital move freely, or that a unified set of regulations enforced by a regional court are conducive to investment and trade is plausible and testable.

2.1.1.2 'Entanglement'

The 'entanglement' branch is, perhaps, the least parsimonious conceptually. It argues that regionalisation may both precede and flow from regionalism. It contends that regionalisation may take place as the result of spontaneous forces; a concentration of activity at a regional level may give rise to the formation or shaping of regions, which may in turn lead to the emergence of regional groups, actors, and organizations.[34] For Acharya and

[33] Katzenstein, *A World of Regions*, 23; Bowles, *Post-global Financial Crises*, 86; Beeson, *Regionalism and Globalisation in East Asia*, 5; Hurrell, *Explaining the Resurgence of Regionalism*, 346-7

[34] Louise Fawcett, "Exploring Regional Domains: A Comparative History of Regionalism", *International Affairs*, (Vol. 80, No. May 2004), 433

Johnston, this activity may stem from globalisation which creates intrusive intra-regional linkages, challenging or bypassing state authority.[35] Soderbaum, on the other hand, construes globalisation as a process integral to regionalism. He argues that we are dealing with different layers of 'globalisms' and 'regionalisms' which are engaged in a complex dynamic.[36] The argument that regionalism and regionalisation are mutually constitutive is also reflected in Hettne and Soderbaum's 'New Regionalism Theory' which argues that it is not possible to state which level is dominant, because actors and processes interact at various levels and their relative importance differs in time and space.[37] While 'entanglement' concepts like New Regionalism Theory provide a flexible framework, and may be the closest description of how regional integration schemes emerge and develop, they remain untested. Moreover, there seems to be little attempt to 'disentangle' the constitutive elements of the process and conceptualise possible (economic) factors that may be conducive to these processes.

2.1.1.3 'Regionalisation First'

The third, 'regionalisation first' branch's argument that economic regionalisation comes first and raises the need for regionalism, is the direct opposite of the 'regionalism first' approach.[38] It argues that regionalisation by firms and potential winners of integration put states under pressure to launch regionalism as a means to remove barriers to trade. The notion that globalisation puts states under pressure to homogenise their economic policies can also

[35] Amitav Acharya and Alastair Iain Johnston, "Comparing Regional Institutions", In: Acharya and Johnston (eds.), *Crafting Cooperation: Regional International Institutions in a Comparative Perspective*, (Cambridge: Cambridge University Press, 2007), 8
[36] Fredrik Soderbaum, 'The New Regionalism in Southern Africa', *Politeia*, (Vol. 17, No. 3, 1998), 84 http://www.unisa.ac.za/Default.asp?Cmd=ViewContent&ContentID=11587&P_XSLFile=unisa/accessibility.xsl
[37] Hettne and Soderbaum, *Theorising the Rise of Regionness*, 33-39
[38] Mattli, *The Logic of Regional Integration*, 1999

be considered as one that explains the rationale of regionalism.[39] This approach certainly has its merits: while the European Coal and Steel Community was understood to be a political project from the outset in which economic regionalisation had a functionalist role to assure political goals, reducing tariffs to induce trade and build economies of scale were also important motives.[40] However, this suggests that economic regionalisation, at the early stages, did not or could not precede the political process of regionalism. This is similar to the case of ASEAN, where economic activity was low or non-existent before the creation of the free-trade area. In any case, this approach is better suited to explain the emergence of regionalism but not its impact on regionalisation by firms.

2.1.1.4 Transnationalisation of Commodity Chains

The economic and business literature, on the other hand, focuses on the internationalisation or transnationalisation of firms, i.e. why firms start operating across borders, and not regionalisation *per se*. Transnationalisation and regionalisation are similar processes, although emerging from two distinct sets of literature, but the latter construes this process in a regional context in which firms seldom remain unaffected by regional policies.[41] Transnationalisation is explained predominantly by profit logic: an outcome of cost-benefit calculation of all possible entry modes to new markets for productivity or comparative advantage gains, and/or the importance of cultural and geographic proximity is emphasised. Transnationalisation of firms is construed as a rational choice decision in which regionalism is present as a regulator; the considered locational factors are often beyond the competences

[39] Hurrell, *Explaining the Resurgence of Regionalism*, 346-7
[40] Raymond Vernon, "The Schuman Plan: Sovereign Powers of the European Coal and Steel Community", *The American Journal of International Law*, (Vol. 47, No. 2, April 1953), 183-202
[41] Shaun Breslin and Richard Higgott, "Studying Regions: Learning from the Old, Constructing the New", *New Political Economy*, (Vol. 5, No. 3, 2000), 344-345

of the region.[42] Factors of production (i.e. the presence of cheap or educated labour, resources, tax policies, state incentives, transport costs, etc.) would be of paramount importance. Thus, the phenomenon that regionalism seemingly has no direct effect on regionalisation could be tentatively explained by the literature on transnationalisation the following way: factors beyond the competence of the region are more decisive for firms when deciding whether to transnationalise their operation than incentives offered by regionalism.

The explanation is tentative because the literature on transnationalisation, and locational competition often overlooks the region and its impact, or the region is taken as a circumstantial given; this is especially the case since the discussion very much focused on economic globalisation rather than economic regionalisation until the mid-2000s.[43] Dicken, for instance, mentions only *en passant* the possibility that regional political structures may impact TNC regionalisation.[44] Mattli also points to this hiatus when he argues that economic institutional theories overlook the 'supply side' of regionalism (i.e. what states are willing to offer as economic integration), and they assume that demand (by firms) will "miraculously generate institutional change".[45] Even though the conduciveness of regionalism to regionalisation is not conceptualised or tested, the literature on transnationalisation and locational competition provides a plethora of non-regionalism related factors that can influence decisions by firms. This set of literature also suggests that taking firms as units of this analysis could offer new insights into how regionalism impacts regionalisation.

[42] Raymond Vernon, "International Investment and International Trade in the Product Cycle", *Quarterly Journal of Economics*, (Vol. 80, No. 2, May 1966), 190-207;
Klaus Schwab, 'Preface', In: Michael E. Porter et al (eds.), *The Global Competitiveness Report 2004-2005*, (Geneva: World Economic Forum, 2004), 2;
Alan M. Rugman and Alain Verbeke, A Perspective on Regional and Global Strategies of MNEs, *Journal of International Business Studies*, (Vol. 35, No. 1, January 2004), 3-18; Dicken, *Global Shift – 5th Edition*, 7;
Gereffi, *Global Production Systems*, 113;
[43] Alan M. Rugman and Chang H. Oh, "Friedman's Follies: Insights on the Globalization/Regionalization Debate", *Business and Politics*, (Vol. 10, No. 2, 2008), 1-14; Rugman and Verbeke, *Regional and Global Strategies of MNEs*, 3-18
[44] Dicken, *Global Shift – 6th Edition*, 165
[45] Mattli, *Explaining Regional Integration Outcomes*, 3

More importantly, however, the literature on commodity chains or global value chains does offer important insights into the varied international strategies of firms in diverse sectors. Gereffi argues that in producer-driven commodity chains (e.g. car industry, aircraft, heavy machinery, etc.) large, transnational manufacturers coordinate production (including backward and forward linkages), whereas buyer-driven commodity chains (garments, footwear, toys, consumer electronics, etc.) do not make, only design and market the branded products – both types of commodity chains leading to varied strategies.[46] For producer-driven chains profits derive from scale, volume, and technological advances thus are characterised by scale-related issues and investment-based vertical networks.[47] Consequently, these features may drive these firms towards supporting calculable, larger-than-state-level regulatory regimes on which they eventually become dependent.

These are typically heavy-complex and heavy-basic industries with high fixed costs in large physical and human capital investments, making them relatively immobile.[48] Less mobility also means that they are more prone to be shaped by the regulatory regime(s) in which they operate, regional-level or otherwise. In Hirschman's terms, these are firms for whom exit is not really an option; their customers and their ecosystems chain them to the region, despite voicing occasional threats of relocation in political bargaining.[49] The firms' loyalty to the region stems not only from being potential winners of regionalism but the lack of alternative. Firms with producer-driven chains are also more interested in the adoption of technical standards and codifying information to reduce the complexity of transmitted information and transaction within their value chains.[50]

[46] Gary Gereffi, *A Commodity Chains Framework for Analyzing Global Industries*, (Duke University, 1999), 1-2
[47] Ibid., 1-9
[48] Bela Greskovits, "Leading Sectors and the Variety of Capitalism in Eastern Europe", In: John Pickles (ed.), *State and Society in Post-Socialist Economies*, (Houndmills, Basingstoke: Palgrave Macmillan, 2008), 30-2
[49] Albert O. Hirschman, *Exit, Voice and Loyalty*, (Cambridge, Massachusetts: Harvard University Press, 1970),
[50] Gary Gereffi, John Humphrey, and Timothy Sturgeon, "The Governance of Global Value Chains", *Review of International Political Economy*, (Vol. 12, No. 1, February 2005), 78-104, 84-5

Buyer-driven chains, on the other hand, have highly competitive and globally decentralised, horizontal factory systems, typically locally owned in developing countries.[51] These firms, light-complex and light-basic industries particularly the latter, are characterised by very high cross-border mobility.[52] This may compel these firms to push for looser, global trade liberalisation internationally. Having more flexible commodity chains, they are better placed at playing regulatory arbitrage; being less dependent on the regulatory environment, their activities are also less shaped by it and in turn, they may have less interest in shaping it. Thus, less mobile producer-driven chains with scale issues are more likely to be embedded in regional regulatory regimes and will have a vested interest in seeing them succeed. Consequently, for the study of regionalisation and to explore the impact of regionalism, producer-driven chains may be more suited because their operations, and to some extent fate, are inextricably interlinked with that of the region(s) in which they operate. At the same time, this also means that findings may not apply to buyer-driven chains.

2.1.1.5 Globalisation vs. Regionalisation

Finally, the debate over whether regionalisation is in fact globalisation in regional disguise, or the two processes are distinct has some relevance here. If regionalisation is simply a 'local' manifestation of economic globalisation in which firms freely move around the 'triad' of North America, Europe, and Asia then the role of regionalism is indeed limited and this could explain why the impact of regionalism on intra-regional trade is not evident.[53]

[51] Gereffi, *A Commodity Chains Framework*, 1-9
[52] Greskovits, *Leading Sectors and the Variety of Capitalism*, 30-2
[53] Thomas L. Friedman, *"The World is Flat: a Brief History of the Twenty-First Century"*, (New York: Farrar, Straus and Giroux, 2005);
Jeffry A. Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century*, (New York: W. W. Norton & Company, 2006), 416

Rugman, Rugman and Verbeke, and Rugman and Oh however cogently argue that, in fact, few transnational corporations can be called truly global or globally mobile, based on their ability to draw income in more than one region of the 'triad'.[54] The Friedmanian view of the global economy as highly integrated, in which firms can move freely and 'shop around' to find the best investment locations was also criticised by Ghemawat, who argues that the current integration of the world economy is rather limited.[55] While sales may not be the indicator that best captures the ability of a firm to 'globalise' its operations, the distinction between 'global' and 'regional' firms in terms of their strategies nevertheless has been the subject of empirical studies of varied sectors.[56]

Beyond the question whether firms are indeed global (i.e. their cross-border operations is global-scale rather than regional), the issue of globalisation *versus* regionalisation is also manifest in the debate whether regional approaches are 'stepping stones' or 'stumbling blocks' to globalisation, in particular in the European context.[57] From this debate on whether regionalism prevents 'globalism' (global regulatory regimes) or rather, it substitutes it, this research takes the notion that as much as regional regulatory regimes can influence the cross-border reorganisation of firms, so can global-level tariffs, standards, and other rules. Thus, the question is whether firms rather regionalise or globalise and subsequently, whether this is due to regionalism or globalism, or the lack thereof.

[54] Alan M. Rugman, *The Regional Multinationals: MNEs and "Global" Strategic Management*, (Cambridge: Cambridge University Press, 2005), 14-15; Rugman and Verbeke, *Regional and Global Strategies of MNEs*, 3-18; Rugman and Oh, *Friedman's Follies*, 1-14

[55] Pankaj Ghemawat, *World 3.0: Global Prosperity and How to Achieve It*, Boston: Harvard Business School Press, 2011

[56] Fragkiskos Filippaios and Ruth Rama, "Globalisation or Regionalisation? The Strategies of the World's Largest Food and Beverage MNEs", *European Management Journal*, (Vol. 26, No. 1, February 2008), 59-72; Erik Schlie and George Yip, "Regional Follows Global: Strategy Mixes in the World Automotive Industry", *European Management Journal*, (Vol. 18, No. 4, 2000), 343-354

[57] Thomas Fetzer, "'Social Europe' as an Answer to Economic Globalisation: British and German Trade Unions and European Integration in the 1980s and 1990s", In: Ann-Christina Lauring Knudsen and Morten Rasmussen (eds.), *The Road to a United Europe – Interpretations of the Process of European Integration*, (Bruxelles: Peter Lang, 2009), 169-170

2.1.2 Comparability of Varied Regionalisms

For this research, it is important to establish on what grounds two regionalisms with different intensity and type of integration (e.g. the EU and NAFTA) can be compared. Most concepts and theories of political science which focus on the progress of regional integrations, or consider the EU *sui generis,* as well as those which take a particularistic approach to analyse the functioning of the EU's institutions and policies, would find it problematic to meaningfully compare different regional integrations. New regionalism concepts however argue that regionalisms are varied but comparable. This is shared by economic approaches which are based on the assumption that regional regulatory regimes aim to integrate part or the entirety of their members' economies, while any difference between them can be described by the intensity of their integration.

Hettne and Soderbaum's New Regional Theory argues that regions are at different degrees of regionness.[58] The logic is similar to Balassa's five-stage economic integration model, which argues that regional trade agreements typically start as free-trade areas then develop into a customs union, then to a common/single market, later to monetary union until complete economic integration is achieved while keeping the previous layers of integration functioning.[59] Similarity between regional integration schemes may also be boosted by the fact that they are not closed units but they are made "porous" by both global and international processes and also by a variety of vertical relations linking them to other political units.[60]

This suggests that regionalisation by firms could be different in regions with different intensity of regionalism: a free-trade area with its non-tariff barriers against market entry still

[58] Hettne and Soderbaum, *Theorising the Rise of Regionness*, 40-4
[59] Bela Balassa, *The Theory of Economic Integration*, (Homewood, Illinois: Irwin, 1961), 1-21
[60] Katzenstein, *A World of Regions*, 22

relatively intact and a single market with free movement of factors of production provide different opportunities and require different organisational structures. In other words, firms in the EU, which has a higher intensity of regionalism, may regionalise their operations differently and/or more than in NAFTA, assuming of course that regionalism has a strong impact on regionalisation. The intensity of regionalism can also be categorised based several aspects of regionalism: depending on the concept, regional integration schemes are argued to differ from each other in their *purpose, governance approach, regional identity, regional hegemon, regional fragmentation, level of integration, institutionalisation, preference for legalism,* and whether they have *regional core/periphery* or not.

2.1.2.1 Purpose

Most regional integration schemes aim to integrate their markets for economic gains but in some instances the process goes beyond this: economic interdependence is considered to be a tool of achieving political goals. The EU's initial narrative to stop the possibility of another war from happening by creating an "ever closer union" and "a peaceful, united and prosperous Europe", ASEAN's declaration to accelerate economic growth, social progress, cultural development and peace, and MERCOSUR's "integration with a human face" to foster social progress signal the non-economic ambitions of these integrations, whereas NAFTA has a much more limited approach: increasing trade and prosperity.[61] Economic integration concepts that explain regionalism outcomes by a supply and demand approach do not

[61] Association of South East Asian Nations, "ASEAN's Aims and Purposes", *ASEAN.org*, Accessed: 7 July 2015, http://www.asean.org/asean/about-asean; North American Free Trade Agreement, "NAFTA", *naftanow.org*, Accessed: 7 July 2015, http://www.naftanow.org/default_en.asp; El Mercado Comun del Sur, "MERCOSUR en Pocas Palabras", *MERCOSUR.int*, Accessed: 7 July 2015, http://www.mercosur.int/innovaportal/v/3862/4/innova.front/en_pocas_palabras; European Union, "The History of the European Union", *Europa.eu*, Accessed: 7 July 2015, http://europa.eu/about-eu/eu-history/index_en.htm

consider stated ambitions too important.[62] However, Wise argues that the scope and quality of initial regional arrangements matter because they have consequences on what member states are willing to provide on the supply side of integration, and influence the strength of regional commitment institutions.[63] The promise of integration and the progress towards an undefined *finalité politique* in the EU's case for instance, arguably had behavioural consequences for both regionalism (e.g. passing the Treaty of Nice to make EU enlargement possible) and regionalisation (e.g. firms anticipating enlargement with their locational decisions). Sacrificing immediate advantages for a longer term purpose could even add to Mattli's explanation as to why in certain regions there is sufficient supply of regionalism to advance integration on the demand of the winners of integration, and not in others.

2.1.2.2 Governance Approach

Governance is understood in a varied way in the literature but as Krahmann argues, a commonality in these notions is that they define governance as the "locus of political authority".[64] Sandholtz and Sweet's distinction between supranational and intergovernmental modes of governance and decision-making is of relevance here.[65] For them, supranationality means that the EU can make binding rules in any given policy area, in sharp contrast to one of the basic assumptions of liberal intergovernmentalism that "[EU] member states are 'masters

[62] Mattli, *Explaining Regional Integration Outcomes*, 1-27
[63] Carole Wise, "The North American Free Trade Agreement", *New Political Economy*, (Vol. 14, No. 1, 2009), 135-149
[64] Elke Krahmann, "National, Regional, and Global Governance: One Phenomenon or Many", *Global Governance*, (Vol. 9, No. 3, July-September 2003), 323-346 323
[65] Wayne Sandholtz and Alec Stone Sweet, "Integration, Supranational Governance, and the Institutionalisation of the European Polity", In: Wayne Sandholtz and Alec Stone Sweet, *European Integration and Supranational Governance*, (Oxford: Oxford University Press, 1998), 1-26

of the treaty'".[66] This research, in partial accordance with Sandholtz and Sweet, considers the EU's governance approach supranational, despite its strong intergovernmental elements, because its supranational institutions (e.g. the Commission, the Court, and the Parliament) have intrusive and 'federal' powers *vis-à-vis* member states; decisions even in its intergovernmental body, the Council, are increasingly made with qualified majority voting.

The EU's supranational approach to governance becomes especially clear when compared to NAFTA's truly intergovernmental decision-making. Despite its scarce occurrence outside of Europe, supranationality is considered a conceptually important marker of 'regionness' in new regionalism; Hettne and Soderbaum argue it to be a characteristic of a 'region-state', the most advanced form of regional integration.[67] Supranationality matters for economic actors because it may increase the likelihood of passing regional-level regulations, and it carries the promise of even-handedness with economic actors regardless of their nationality.[68] Supranationality inherently projects a strong commitment to regional integration as a continuous and transformative process which is essential for long-term planning, hence the recurring normative concerns about the supposed strengthening of intergovernmentalism at the helm of the EU.[69]

[66] Andrew Moravcsik and Frank Schimmelfennig, "Liberal Intergovernmentalism", In: Antje Wiener and Thomas Diez, *European Integration Theory*, (Oxford: Oxford University Press, 2004), 68 67-87
[67] Hettne and Soderbaum, *Theorising the Rise of Regionness*, 467-8
[68] Walter Mattli and Ngaire Woods, "In Whose Benefit - Explaining Regulatory Change in Global Politics", in: Mattli and Woods (eds.), *The Politics of Global Regulation*, (Princeton University Press, 2009), 1-2
[69] Sergio Fabbrini, "Intergovernmentalism and Its Limits: Assessing the European Union's Answer to the Euro Crisis", *Comparative Political Studies*, (Vol. 46, No. 9, 2013), 1003-1029

2.1.2.3 Regional Identity

Regions have both material and ideational dimensions.[70] The ideational element may simply be a purpose, 'maintaining peace' or 'increasing prosperity', especially when the region's ambitions, the promise of integration is low and clearly capped. In other instances, regionalism also aims to construct a developed sense of belonging; one may identify with the region as a political construct or with the region in a cultural/geographical sense or with both. Regionalism often builds on pre-existing regional identities (e.g. the EU on 'Europeanness' or the Visegrad Group on *Mitteleuropa,* and medieval 'Central Europe'); ASEAN's example, on the other hand, demonstrates that regionalism may create regional identity or at least a sense of belonging where previously none existed, when "political circumstances are ripe, bringing together political entrepreneurship, material power, and an idea that reverberates".[71]

Regional identity plays various roles in regionalism. For Hettne and Soderbaum, a certain degree of shared identity is fundamental for the integration to be successful as it contributes to a higher degree of "regionness".[72] Its role is similar to that of national identity: it provides a certain degree of cohesion, shared understandings which may facilitate decision making, and it may increase the region's actor capabilities. Strong regional identity may also increase willingness to further share sovereignty and acquiescence to shift power from the state to the region.[73] Regional identity may have such an impact indirectly as well: shared identity can facilitate direct, sub-state level interactions whether business or other which, in turn, can create upward pressures on states for more regionalism. Common language was found to be increasing trade flows between two countries by 200 per cent, a common

[70] Katzenstein, *A World of Regions*, 10
[71] Ibid., 53
[72] Hettne and Soderbaum, *Theorising the Rise of Regionness*, 467
[73] Neil Fligstein, *Euro-Clash: The EU, European Identity and the Future of Europe*, (Oxford: Oxford University Press, 2008), 217

colonliser by 190 per cent.[74] It is important to stress however that a free-trade area with clearly defined scope conditions can function perfectly well without a regional identity, if it has no further ambitions; a highly legalistic approach may well ensure the necessary shared understandings.

2.1.2.4 Regional Hegemon

Acharya and Johnston argue that there are no examples of “blatant hegemonic regionalism” in the contemporary international system where regional institutions do not reflect the interests and preferences of its members.[75] However, there can be regionalisms in which for geographic, historic, or developmental reasons a single state has uncontested economic power and size that it can be regarded as ‘regional hegemon’; one which can dominate or set regional rule making, or in the absence of which, can put the onus of adjustment (rule taking) on others. In NAFTA, the US is clearly such a country and this has wide-ranging consequences for regional dynamics, for both regionalism (e.g. no regional commitment institutions, etc.), and regionalisation.[76] The EU, on the other hand, is a region composed of a large number of states of varying sizes in which smaller states can balance against the dominant one(s). This may lead to certain choices, i.e. a more legalistic, more institutionalised approach, or to regional compensatory policies.

Germany is sometimes referred to as a regional hegemon or a ‘reluctant hegemon’, particularly since the Eurozone crisis, which prefers to hide behind the Franco-German

[74] Frankel and Rose, *An Estimate of the Effects of Currency Unions*, 437-466
[75] Acharya and Johnson, *Comparing Regional Institutions*, 19
[76] Mark Aspinwall, “NAFTA-ization: Regionalization and Domestic Political Adjustment in the North American Economic Area”, *Journal of Common Market Studies*, (Vol. 47, No. 1, 2009), 1-24

tandem, and European integration when pursuing its interests.[77] Others even reproach Germany that it shies away from acting as a "responsible hegemon" to fix the euro and the EU's other problems.[78] While Germany is certainly *primus inter pares* in the EU based on the size of its economy, population, and side payments contributions, and it may even be reluctant to act as a leader, but it is not a hegemon as defined above. In fact, EU institutions constrain the emergence of a regional hegemon but precisely because they reflect the recognition of past centuries that no single European power can dominate the others uncontested. Thus, the presence or absence of a regionally dominant power or 'regional hegemon' is a pre-existing structural condition which shapes integration dynamics. Considering it allows for capturing regional market dynamics which an institutional focus could leave undetected.

2.1.2.5 Regional Fragmentation

Geography is a contested aspect of the study of regionalism.[79] However, it matters as a factor which influences regional transactions which, in turn, influence the character of regionalism. In other words: geography has direct and indirect behavioural consequences.[80] Globalisation notwithstanding, geographic proximity still matters for business transactions. Ghemawat argues that the amount of trade that takes place between two countries c.8000 kilometres apart is only 20 per cent of the amount that would take place between them, if they

[77] Simon Bulmer and William E. Paterson, "Germany as the EU's Reluctant Hegemon? Of Economic Strengths and Political Constraints", *Journal of European Public Policy*, (Vol. 20, No. 10, 2013), 1387-1405; William E. Paterson, "The Reluctant Hegemon? Germany Moves Centre Stage in the European Union", *Journal of Common Market Studies*, (Vol. 49, No. 1, September 2011), 57-75
[78] Matthias Matthijs and Mark Blyth, "Why Only Germany Can Fix the Euro", *Foreign Affairs*, (17 November 2011), https://www.foreignaffairs.com/articles/germany/2011-11-17/why-only-germany-can-fix-euro Accessed: 2 March 2017
[79] Rick Fawn, "'Regions' and their Study: Wherefrom, What for and Whereto?", *Review of International Studies*, (Vol. 35. No. 1, 2009), 16, 5-34
[80] Katzenstein, *A World of Regions*, 12

were only c.1600 kilometres apart.[81] Hirst and Thompson found geographic distance between two countries to be even more detrimental to trade.[82] In a region, composed of many countries in close proximity of each other like the EU, sub-state level interactions are more likely to be dense: a common border can increase international trade by 80 per cent.[83] Geography's direct impact on the intensity of regionalisation can also have indirect effects: it influences the potential demand for market integration, and eventually the character of regionalism.

2.1.2.6 Level of Integration

The level of integration can refer to two different things: first, what is institutionally offered (i.e. regionalism), and second, what is actually taking place between economic actors (i.e. regionalisation). The latter may be more advanced than the former: big business may have already built up value chains in other countries, in effect arranged free movement of labour through intra-company transfers based on national work permit schemes, created intensive backward and forward linkages which link national economies well beyond regional trade, while regionalism only offers the rules of a free-trade area. An example could be successive EU enlargements: the promise of regionalism is conducive for business to venture into new territories, effectively integrating new countries' economies into the regional market before regionalism follows with *de jure* extension of regional rules (i.e. membership). Conversely, regionalism may have a legal frame and ambitious goals for a common market, where freedom of movement is guaranteed for all factors of production, but regionalisation and demand for regionalism are at a lower level and thus, integration remains superficial or

[81] Ghemawat, *Distance Still Matters*, 138
[82] Hirst and Thompson, *The Future of Globalization*, 258
[83] Frankel and Rose, *An Estimate of the Effects of Currency Unions*, 437-466

hollow. Since the purpose of this research is to better understand the impact of diverse regulatory frames on regionalisation, I will focus on what is offered by regionalism (and what may be relevant to firm activity), and apply the terms of Balassa's five-stage integration model to differentiate between the different levels or intensity of integration.[84]

2.1.2.7 Institutionalisation

Regional market integration takes place in a particular institutional setting, affecting the course of market integration.[85] The presence or lack of supranational institutions is arguably a fundamental difference between regionalisms: regional institutions may have jurisdiction and primacy over states with powers to enforce compliance with decisions, passed perhaps by majority voting. Otherwise they may resemble more to a traditional multilateral organisation's intergovernmental decision making body, governed by public international law, where countries hold equal number of votes, and/or require unanimous decisions, and/or dissenting countries can opt out from acquiescing to a decision. In fact, regional institutions with similar remit and structure can still differ across regions, as culturally-specific practices create diverging procedures and institutional forms.[86] Historical heritage may also leave its mark on institutional settings.[87] Thus, diverse regional institutions likely have a varied impact on both regionalism and regionalisation.

Varied regional institutions also carry the institutional preferences of their creators, the member states. Countries promote their institutional preferences internationally in the hope of

[84] Balassa, *The Theory of Economic Integration*, 1-21
[85] Mattli, *Explaining Regional Integration Outcomes*, 8
[86] Peter A. Hall and Rosemary C. R. Taylor, "Political Science and the Three New Institutionalisms", *Political Studies*, (Vol. 44, No. 5, 1996), 936-957, 946-947
[87] Paul Pierson, *Politics in Time: History, Institutions, and Social Analysis*, (Princeton and Oxford: Princeton University Press, 2004), 6-7

relative gains through institutional arbitrage.[88] Europeanization concepts also draw on this when they argue that institutional adjustments, required by European legislation, are easier for member states in which institutional arrangements are the most similar to community law.[89] A similar concept, "NAFTA-ization", was built on the same premise: to conceptualise the varied adjustment pressures regional institutions create on different member states.[90] Therefore, there is a strong incentive for states to try to shape new legislation and regional institutions in a way that they resemble their own, national ones. This process is not independent of the regionalising strategies of firms and business actors, who often shape regional institutional arrangements directly, circumventing and sometimes even going against the interests of their country of origin.

For firms, regional institution building is a way to internalise externalities related to economic and political uncertainty and a wide range of financial risks that cross borders within a group of countries.[91] Mattli argues that regionalism can reduce even the risk of economic mismanagement and government-level opportunism. While this may not always be the case (one has only to think of the debt crisis in the Eurozone), institutions can indeed reduce uncertainty by providing information about the behaviour of other actors.[92] This may happen by monitoring and lobbying regional decision making bodies, and as a result of the increased calculability, provided by regional laws (e.g. competition rules) and regulations that are enforceable at a regional court of arbitration.

[88] Peter A. Hall and David Soskice, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, (Oxford: Oxford University Press, 2001), 54-60
[89] Frank Schimmelfennig and Ulrich Sedelmeier, "Conceptualizing the Europeanization of Central and Eastern Europe", in: *The Europeanization of Central and Eastern Europe*, Schimmelfennig and Sedelmeier (eds.), (Ithaca and London: Cornell University Press, 2005), 17
[90] Aspinwall, *NAFTA-ization*, 1-24
[91] Mattli, *Explaining Regional Integration Outcomes*, 3 and 10
[92] Hall and Taylor, *Political Science and the Three New Institutionalisms*, 936-957

2.1.2.8 Preference for Legalism

Beyond their levels of integration and institutionalisation, an important difference between different regional integration schemes is whether their approach to regional interactions and emerging problems is formal/legalistic, or informal/flexible. Katzenstein argues that regional integrations are either ‘deep/formal’, or ‘shallow/informal’.[93] For him, Europe illustrates the material, formal, and political aspects of regionalism whereas Asia, the imagined, informal, and economic ones.[94] This is, of course, not independent of a region’s institutionalisation, however, this is a broader approach: a general way of conducting business regardless of how advanced a regionalism may be.

For Duina, this difference is captured by how standardised the activities of these regions are, whether they have standardised rules or shared understandings about the return of goods, food labels, or whether racial discrimination is accepted when firms hire, etc.[95] The EU is often cited as a highly legalistic, rule-based, institutionalised integration scheme from its early days. NAFTA, a free-trade area also favours formal/legalistic, rule-based approaches whereas ASEAN, a free-trade area with ambitions to create a common market, has always emphasised informality and flexibility – the “ASEAN-way”. Legalism in regional integration schemes is argued to improve compliance by increasing the costs of opportunism and cheating, and by increasing the probability of detection.[96]

[93] Katzenstein, *A World of Regions*, 30
[94] Ibid., 36
[95] Francesco Duina, *The Social Construction of Free Trade*, (Princeton and Oxford: Princeton University Press, 2006), 4-5
[96] James McCall Smith, “The Politics of Dispute Settlement Design: Explaining Legalism in Regional Trade Pacts”, *International Organisation*, (Vol. 54, No. 1, December 2000), 137-180, 138

2.1.2.9 Regional Core/Periphery

Certain phenomena with relevance for regionalism bring together geographic and historical explanations. For instance, the emergence of an industrial core (and periphery) is the result of centuries-long agglomeration effects, both in Europe and North America. They have developed at particular locations: in close proximity to natural resources, at geographically predisposed junctions of trading routes. These areas of dense economic activity have not only been pervasive over time but have often been providing the demand side of regionalism: in 19th century Europe, demand for customs unions led to the *Zollverein* and contributed to German unification; in the 20th century such demand was conducive to the emergence and success of the EU, or to CUSFTA and NAFTA in North America.[97] For Krugman, economic geography of the location of production demonstrates path dependency with rare clarity.[98] The role of peripheries in both regions as important low cost locations also suggests that pre-existing structural givens can indeed play an important role in the development of diverse regionalisms.

In this section, I have argued that new regionalism concepts are particularly relevant for this research for three reasons: they consciously move away from studying a single case to the study of regional integrations worldwide; short of full-fledged theories, they provide conceptual toolkits for comparative studies; and they problematise the difference between regionalism as a political/legal process and regionalisation as the effective integration. However, I have also argued that new regionalism concepts leave unexplained in detail how regionalism impacts regionalisation other than arguing that regionalism is conducive to it. This assumption is largely based on economic concepts that regional trade agreements or

[97] Mattli, *Explaining Regional Integration Outcomes*, 16

[98] Paul Krugman, "History and Industry Location: The Case of the Manufacturing Belt", *The American Economic Review*, (Vol. 81 No. 2, May 1991), 80

elimination of trade barriers lead to increasing intra-regional trade, which was argued to be empirically problematic in the EU and NAFTA (Chapter 1). It was also argued that the literature on transnationalisation of firms and locational competition suggests that, first, firms as units of analysis would provide better insights into regionalisation than macro-indicators, second, it provides explanations as to what factors beyond the region could impact firm regionalisation, and third, that it still underplays, or even ignores the possible role of regionalism in regionalisation by firms. It was also contended that different types and intensity of regionalism in the EU and NAFTA could lead to different patterns or varieties of regionalisation, and diverse firms may respond to regionalism's incentives in a varied way.

2.2 Conceptual frame

In the following, I will operationalise the two main lines of inquiry: one, how regionalism impacts regionalisation, and two, how the type and intensity of regionalism (EU and NAFTA) matter in regionalisation outcomes. I will first explain the model of how regionalism functions as an independent variable, then I operationalise regionalisation and how it may be impacted by the main independent variable, and finally I explain the mechanism of cross-regional comparison.

2.2.1 The Impact of Regionalism on Regionalisation

2.2.1.1 Regionalism

The main independent variable in this research is regionalism or **regionalism-related factors**. To reiterate, regionalism is the formal integration process created by states by means of treaties and/or institutions. Regionalism-related factors are mainly relevant policies, legislation, etc., or 'changes in the regional frame'. I argue that the complex process of regionalism, involving interests, ideas, and institutions exerts its influence on regionalisation through three main mechanisms: first, *negative integration*, second, *positive integration*, and third, through the influence of *ideational factors* (e.g. the promise of integration, regional identity, etc. – more below). These three mechanisms act in tandem but to a varying degree, depending on the region, the firm, or the firm activity in question.

I use the terms, negative and positive integration the following way: *negative integration* is the removal of barriers to cross-border/regional activity (concerning the free movement of people, goods, capital, and services), a deregulatory move, whereas *positive integration* is understood here as a common set of rules and/or policies, exercised either by supranational or joint institutions with the aim to ensure and actively help the economic objectives of market integration.[99] These definitions are somewhat different from the mainstream of EU Studies; they would apply a stricter definition to positive integration and would only consider 'common policies' as such. For instance, for Scharpf and Blauberger the EU's competition policy and state aid control would be classic cases of negative

[99] John Pinder, "Positive Integration and Negative Integration: Some Problems of Economic Union in the EEC", *The World Today*, (Vol. 24, No. 3, March 1968), 90
Giandomenico Majone, "Regulation in Comparative Perspective", *Journal of Comparative Policy Analysis: Research and Practice*, (Vol. 1, No. 3, 1999), 310-1

integration.[100] Majone is a bit more accommodating when he argues that there is a "positive side of negative integration", i.e. negative integration also means legislation of non-discrimination to ensure the functioning of the negative integration.[101] However, once we consider regional integration schemes other than the EU, it becomes evident that such regional-level legislations as state aid control, where regional bureaucracies (the Commission and the Court) have strong, intrusive powers of interpretation is well beyond the simple removal of barriers and thus could be considered cases of positive integration. (Each empirical chapter will operationalise these terms.)

Ideational factors (regional identity, the promise of integration, etc.) can have direct and indirect impact on regionalisation outcomes. A direct impact is if regional identity changes the way consumers think of other countries' products. People in different countries are known to have varied value choices, and/or hold stereotypical views of other countries which lead to diverging consumer choices.[102] Strong regional identity could theoretically overtake national identity based choices, or identity based consumer choices could converge over time due to increased interactions, providing an increasingly similar customer base for firms across countries. An indirect impact of ideational factors is, for instance, the way the purpose or promise of integration provides state and non-state actors a frame (a normative template or guiding posts) within which they can anticipate the costs and gains of regional

[100] Michael Blauberger, "Compliance with Rules of Negative Integration: European State Aid Control in the New Member States", *Journal of European Public Policy*, (Vol. 16, No. 7, 2009), 1033;
Fritz W. Scharpf, *Governing in Europe: Effective and Democratic?,* (Oxford: Oxford University Press, 1999), 49
[101] Giandomenico Majone, *Dilemmas of European Integration: The Ambiguities and Pitfalls of Integration by Stealth*, (Oxford: Oxford University Press, 2005), 155-6
[102] Marieke de Mooij and Geert Hofstede, "Convergence and Divergence in Consumer Behaviour: Implications for International Retailing", *Journal of Retailing,* (Vol. 78, No. 1, 2002), 61-69; Fligstein, *Euroclash*, 87-8; Adamantios Diamantopoulos, Bodo B. Schlegelmilch, J. P. Du Preez, "Lessons for Pan-European Marketing? The Role of Consumer Preferences in Fine-Tuning the Product-Market Fit", *International Marketing Review,* (Vol. 12, No. 2, 1995), 38-52

decisions better.[103] Firms can weigh the potential gains from further integration and regional regulation, and the cost of compliance.

Other independent variables considered are henceforth called **non-regionalism related factors**, factors related to the national-level, firm/product logic, and the region's inherited structural characteristics; spatial and ideational influences are also argued to play a role. *National-level factors* are understood broadly; it includes national regulations where applicable (e.g. national standards in the case of NAFTA) but also policy (e.g. the influence of French family policies on the size of certain French-made cars), and politics (e.g. direct political pressure to keep manufacturing in a country). *Firm or product logic* encompasses factors which stem from the very nature of a firm's activities, its products, the wider industry and its competitors. Firms may not respond to certain regional policy incentives (negative or positive integration measures) if it 'does not make business sense' for them, depending on their company strategy, or the technical specificities of their product (e.g. certain parts cannot travel long distances and have to be sourced locally).

Firm/product/profit logics can act as catalysts, or they can drive firms to effectuate these changes; regionalism, in the latter case, is a mere facilitator. The region's *inherited structural characteristics* means several aspects of geographic and historical givens. For instance, the size of European countries and the number of competing jurisdictions in a geographically relatively small area creates scale issues for any firm looking to expand (and that may have consequences for the type of regionalism these states choose). The fragmented nature of the European market along linguistic, cultural, etc. lines may also have a strong bearing on firm strategies before any regionalism-related incentives are considered.

[103] Beate Kohler-Koch, "Framing: The Bottleneck of Constructing Legitimate Institutions", *Journal of European Public Policy*, (Vol. 7, No. 4, 2000), 515;
Martin Rein and Donald Schön, "Frame-reflective Policy Discourse", In: Peter Wagner, Carol Hirschon Weiss, Björn Wittrock, and Hellmut Wollman (eds.) *Social Sciences and Modern States: National Experiences and Theoretical Crossroads*, (Cambridge: Cambridge University Press, 1991), 263

Consequently, regionalism-related measures can either have a **'strong'** or **'weak'** impact on the dependent variable (i.e. regionalisation). These two highly stylized categorisations have conceptual importance only; in reality, they may be two ends of a scale measuring the impact of regionalism-related factors. Strong impact is when incentives or constraints of regionalism were of defining importance in certain outcomes, and counterfactually it is possible to argue that these outcomes would have not happened or would have happened differently (e.g. the impact of the Coal and Steel Community on the French and German heavy industry). Weak impact is when regionalism-related measures have only had limited or no impact on regionalisation outcomes (e.g. European cross-border passenger train services are still predominantly nationally organised, some exceptions notwithstanding, despite numerous directives and legislative packages since 1991).

2.2.1.2 Regionalisation

Regionalisation signifies the regional re-organisation of firms' activities within a supranational, regulatory regime (e.g. EU, NAFTA). Three major aspects of regionalisation are examined: first, spatial changes or the **regionalisation of production**, (i.e. where it is produced what is produced – Chapter 4); second, **regionalisation of sales, marketing, and customers**, (i.e. how it is sold what is produced and to whom – Chapter 5); and third, **regionalisation of the product** (i.e. what is actually produced – Chapter 6). These three major areas cover most aspects of a firm's activities starting from where it is manufacturing, designing, etc. through how its product is technically designed and created to how it is sold and to whom. Not all the possible indicators of regionalisation are included for scale and scope reasons (e.g. regionalisation of labour, or regionalisation effects on pricing) which otherwise could merit further exploration. Each of the three considered areas however encompasses several indicators. In the following, I briefly summarise each but will return to their detailed mechanisms at the beginning of the relevant empirical chapters.

Regionalisation of production

Regionalisation of production is concerned with the spatial and organisational arrangements of the productive processes, i.e. how locational choices have been impacted by regionalism; the *moving of manufacturing to low-wage/low-cost areas*, the *clustering of high added-value activities in high-wage/high-cost zones*, and the *vertical-horizontal integration of firms*. These indicators rest on the observation that increased regionalism and other incentives can lead to the rationalisation of production networks. Regionalism (through negative and positive integration measures) first and foremost creates a 'regional space' in which firms can expand their operations, build scale, and choose what they consider to be the most optimal location, as allowed by the regional frame. In more advanced integrations (e.g. the EU) firms can *de jure* treat the region as an enlarged national market but even a free-trade area offers the chance to move certain operations to cheaper locations or reduce the number of manufacturing locations once tariff-jumping reasons no longer exist. Regionalism could further incentivise such changes with positive integration measures, and to some extent, by ideational factors (e.g. the 'promise of integration').

However, firms may decide to keep their traditional manufacturing locations because of agglomeration effects provide them with the best talent exactly in high-wage/high-cost zones. Political support from the nation state(s) in which they operate, or originate from, may be more important to secure regulatory influence and thus competitive advantages at region-level bargaining than the cost-saving effect of moving to new, low-wage/low-cost areas. Relocation and retraining costs could also outweigh benefits.[104] Certain products or their constitutive elements may not be able to travel at long distances, in effect keeping the original fragmentation of the regional space, or at least some of it. Or simply, regionalism's incentives may not be convincing enough in a low intensity integration scheme (e.g. a free-trade area). Eventually, regionalism and non-regionalism factors could exert influence at the same time, leading to a 'mixed outcome' in which some parts of a firm's operations become highly regionalised spatially, while others remain remain at the national-level.

Changes in sales and marketing

The ultimate purpose of regional market integration from the perspective of firms is the creation of a regional market of goods, which is the core building block of any integration scheme. For firms, a regional market means access to an enlarged customer base and the opportunity to build scale economies, reduce dependence on the original home market, and eventually increase profit, even if the increased competition from rivals end their cosy 'national champion' status. Regionalism, through the free movement of goods (and services), creates the possibility of selling the same line of products within the regional space. More importantly however this may lead to a regionalisation of sales and marketing (including adverts, messages, etc.), design, and eventually to the observable convergence of customer tastes. The question is whether regionalism (and more regionalism) leads to the regionalisation of consumer markets on the demand side, as differences between national markets and national tastes diminish (e.g. customers become 'European' as opposed to French

[104] Jean-Bernard Layan and Yannick Lung, "The Dynamics of Regional Integration in the European Car Industry", In: Carrillo et al, *Cars, Carriers of Regionalism?*, 67

and German in their choices), as well as on the supply side (e.g. 'European ' products are designed and sold).

There are several indicators that signal the regionalisation effect on consumer markets. Customer demand could change: the dominance of national champion firms could decrease on their home markets as consumers have access to a wider variety of products at lower prices, due to the elimination of tariffs and NTBs, and increased competition. Eventually, the dominance of home-region brands could diminish altogether at the country level (i.e. French and German consumers begin to buy French and German products in similar measure), or regionally (i.e. newcomers squeeze home-region firms), or both. The supply side could change: firms could be compelled to approach the regional market increasingly as a regional market, reorganising their sales activities, replacing national-level structures with regional ones. This could happen even if customer demand did not change much across countries as firms would still have an interest in pushing customers to accept a more uniform approach to reduce costs. Firms could also be compelled to gradually change their product design to create 'regional' products in the hope of competing on other (former) national markets of the region. In other words, products could begin to look more alike, and increasingly sold in a similar way.

Changes in product standards

Product standards are technical specifications of design and performance characteristics of manufactured goods.[105] (See product design in previous section.) Product

[105] Walter Mattli and Tim Büthe, "Setting International Standards: Technological Rationality or Primacy of Power?", *World Politics*, (Cambridge: Cambridge University Press, Vol. 56, No. 1, October 2003), 3

standards are also institutionalisations of practices, often reflecting customer tastes. Regional standards, once set, entrench technical and functional differences between even the same products manufactured in different regions, as they often regulate problems particular to a market. Thus, standardisation can be revealing about the impact of regionalism: from the perspective of regionalisation, standardisation and harmonisation of existing standards at the regional level are signs of positive integration. It is the most ‘intrusive’, and direct aspect of regionalism: varied regional regulations replace or complement national rules, or else, an equivalence system of national regulations exist. Theoretically, firms can treat regional regulations as protective, non-tariff barriers against outsiders and support them as they can significantly reduce transaction costs. As ‘winners of regionalism’ this would lead firms to lobby for ‘more regionalism’. Or else, the same firms in varied regionalisms may find regional regulations increasingly as barriers to their global strategies and value chains, and lobby for global regulations.

Figure 2.1 below illustrates how regionalism (through negative and positive integration measures and ideational factors) influences the three discussed aspects of regionalisation:

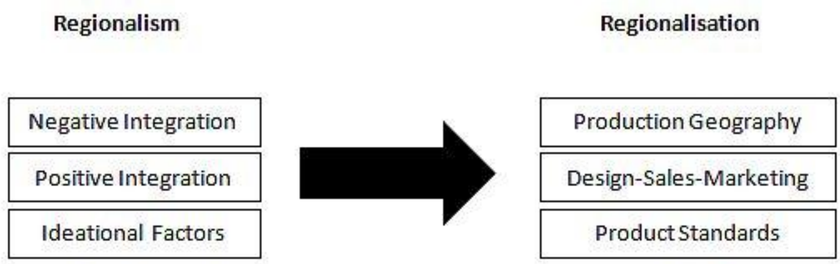

Figure 2.1 – Regionalism-Related Factors and Regionalisation

From the two main lines of inquiry, I have so far set out how regionalism may impact regionalisation. In the following, I shall operationalise how the EU and NAFTA can be compared.

2.2.2 'Varieties of Regionalisms'

Diverse regionalisms can be hypothesised to have a varied impact on firms, which are detectable by looking at their locational choices, how their marketing and product design activities change due to regionalism, whether a regional market with regional customers emerges, and how their products conform to regional standards. This also implies that regionalisation of firms ought to be different in regions which have different intensity of regionalism: a free-trade area, which primarily focuses on negative integration and may have its non-tariff barriers still intact, may provide different opportunities for firms and require different organisational structures than a single market, which includes positive integration elements and assures the free movement of factors of production. In other words, firms in the EU could have regionalised their operations differently, and/or more than in NAFTA, assuming that regionalism has a strong impact on regionalisation.

For this research, the fact that regional integration schemes are different is taken as a given as we are not concerned about explaining variation in the intensity of integration.[106] The EU and NAFTA are considered regional integration processes which aim to integrate parts or the entirety of their members' economies by common rules, regulations, and policies.[107] This is a fundamental commonality despite the obvious differences in the scope and intensity of

[106] Mattli, *Explaining Regional Integration Outcomes*, 1-27;
Walter Mattli, "Ernst Haas's Evolving Thinking on Comparative Regional Integration: of Virtues and Infelicities", *Journal of European Public Policy*, (Vol. 12, No. 2, 2005), 328
[107] Mattli, *Explaining Regional Integration Outcomes*, 8

their regionalism (i.e. *how* they do what they do), and regardless of whether regional market integration is the function of political goals or not. In many ways *what* they do is relatively similar and comparable. The two regional integration schemes differ from each other in their *purpose*, *governance approach,* constructed and pre-existing *regional identity*. NAFTA has a *regional hegemon*, both have a penchant for *institutionalisation* (even if NAFTA's 'relatively high' institutionalisation was only high for an FTA), and a *preference for legalistic approaches* as opposed to informal ones. Both regions have an economic *core and periphery* (i.e. rich and significantly poorer states and regions) and the dynamics this entails.

These aspects of regionalism can act as *similarity* or *variation* drivers in cross-regional comparison (Figure 2.2) to explain differences or similarities in regionalisation outcomes. The three considered aspects of regionalisation may be impacted by different variation and similarity drivers in cross-regional comparison. Considering varied aspects of integrations allows for a dynamic and flexible framework: for instance, if only regional rules were considered, the comparison could only explain diverging regionalisation outcomes because the EU tends to regulate regionally whereas NAFTA does not. This framework however can accommodate and explain similar regionalisation outcomes in the absence of regulatory similarities by considering, for instance, hegemonic/non-hegemonic integration dynamics when rule-taking members adjust to the regional hegemon, etc.

	European Union	NAFTA
Variation Drivers		
Purpose	Political	Economic
Governance approach	Supranational	Intergovernmental
Regional identity	Yes	No
Regional hegemon	No	Yes
Regional fragmentation	High	Low
Level of integration	Single market/Monetary union (incl.FTA)	Free-trade area
Similarity Drivers		
Institutionalisation	High	Relatively high
Preference for legalism	Yes	Yes
Regional core/periphery	Yes	Yes

Figure 2.2 – Similarity and Variation Drivers

Variation, however, may manifest itself in more ways than between the EU and NAFTA at the industry level. There may be variation between different types of firms within the same region: 'home-region firms' (manufacturers which are originally from the region), and two types of newcomers, 'clean-slate entry regionalisers' (firms which enter the regional market as newcomers), and 'nationally-embedded regionalisers' (firms which enter a regional market through merger and acquisition and/or are present there historically). These diverse firm types are distinct on account of their local embeddedness and consequently may follow varied regionalisation strategies. Finally, variation may manifest itself within a firm (e.g. manufacturing becomes regionalised whereas sales not).

Apart from establishing which variation or similarity driver impacts one of the three considered regionalisation outcomes, it is also important to establish whether regionalism's type and intensity plays a **'primary'** or **'secondary'** role in explaining regionalisation outcomes. This is in line with the underlying assumption of this research that regionalism does impact regionalisation even if, at times, only to a 'secondary' extent. Consequently, regionalism can have a 'strong' or 'weak' impact on regionalisation while its type/intensity can play a 'primary' or 'secondary' role. Thus, this research will explore for each of the three considered aspects of regionalisation, first, how regionalism (or non-regionalism) factors shape regionalisation outcomes in the EU and NAFTA respectively, and whether regionalism factors were **'strong'** or '**weak'**; then explain how, if at all, differences in regionalisation outcomes were caused by the varied type/intensity of the two regions, whether their types were of **'primary'** or **'secondary'** importance, and what **'variation'** or **'similarity'** drivers were at play (see Figure 2.3).

Regionalism's Impact / Importance of Type	EU	NAFTA
Regional Space: Regionalisation of Production	Strong or Weak/ Primary or Secondary	Strong or Weak/ Primary or Secondary
Regional Regulations: Regionalisation of the Product	Strong or Weak/ Primary or Secondary	Strong or Weak/ Primary or Secondary
Regional Customers: Regionalisation of Sales	Strong or Weak/ Primary or Secondary	Strong or Weak/ Primary or Secondary

Figure 2.3 – Matrix of Regionalism's Impact

Figure 2.3 will show a complex picture of regionalisation: regionalism's varied impact in both the EU and NAFTA; those aspects of regionalisation which are driven by regionalism and those where it is more of a facilitator; and the aspects of regionalisation where the type and intensity of regionalism matters, and where it is of lesser importance. Beyond this, each chapter will tell a broader story about regional integration: when and where regionalism is most intrusive and successful in creating one out of many, and where the current frontiers of integration are.

2.3 Case Selection and Methods

2.3.1 Single-Sector Design

The primary quest of this research is to establish links between regionalism measures and regionalisation outcomes; it will observe the same transnational actors in different environments, namely in the EU and NAFTA. The EU, while already a widely-studied case, is arguably a benchmark in observing the currently existing scale and scope of regional integration, short of federal and confederate states. However, the comparative perspective may offer new insights into the study of European integration as well. NAFTA, a simple free-trade agreement (though hailed as ambitious and highly legalistic at the time), is sufficiently different to observe variation. NAFTA is a clearly defined economic unit unlike other considered but discarded regionalisms, for instance, ASEAN where the bulk of economic activity and/or regionally influential countries (e.g. China, Japan, and South Korea) are outside of the region proper. Those regionalisms would still merit similar comparative studies but for the exploratory nature of this research well-defined cases were deemed essential.

This was also the rationale behind choosing a single industry. To map out the full extent of regionalism's impact on regionalisation in a given region in this comparative study, keeping the observed firms constant was a priority. A single sector also has many firms with varied strategies and interpretation of the two selected regions which provides enough variation on the dependent variable. In any case, single sector research, as well as single country research, do not render "obsolete the potential for generating important and generalisable findings".[108] This is true of exploratory research and/or empirical testing of a conceptual model. Another motive for keeping the sector and the number of firms low was the

[108] Pepper D. Culpepper, "Single Country Studies and Comparative Politics", *Italian Politics & Society*, (No. 60, Spring 2005), 2-5

possibility of deeper analysis; after all, this research started off by critiquing aggregate measures in part because they assume uniformity of response.

Producer-driven commodity chains (e.g. car industry, aircraft, heavy machinery, etc.) are particularly fitting for a single sector approach in this study. These are typically large, transnational manufacturers which coordinate production (including backward and forward linkages) as well as research and design, and sales and marketing.[109] Producer-driven commodity chains are also less mobile which means, they are more likely to be shaped by regionalism (and its regulatory regime). Differently put, producer-driven commodity chains may be suitable for what Levy called after Frank Sinatra's famous song, the "inverse Sinatra inference – if I cannot make it there, I cannot make it anywhere".[110] If anywhere regionalism's impact (and its difference from globalisation), and the variation between different types of regionalisms ought to show is on producer-driven commodity chains. Buyer-driven commodity chains, on the other hand, would likely reduce the observable activities to research and design, and sales and marketing.

2.3.2 Car Industry

The car industry is particularly well-suited for such a quest; the sector has a relatively small number of OEMs (original equipment manufacturers) or manufacturers (e.g. VW, Toyota, Renault, GM, etc.) but enough to allow for variation between them. Many of them are present in both regions with the whole spectrum of their activities, including design, manufacturing, and sales. Regional integration is very strong at an operational level; the

[109] Gereffi, *A Commodity Chains Framework*, 1-2
[110] Jack S. Levy, "Case Studies: Types, Designs, and Logics of Inference", *Conflict Management and Peace Science*, (Vol. 25, No. 1, February 2008), 12 1-18

industry has recently developed a set of global-scale value chain linkages, yet it retains national and local elements as well, creating a pattern of global integration that is distinctive to the industry.[111] The car industry also offers the chance to study a full range of activities *in situ*: manufacturing, research and design, sales and marketing of everyday-use products, belonging to a limited number of brands, which have national/regional embeddedness but at the same time are essentially global in their function. The car industry however shows the full extent of globalism's and regionalism's impact as well as the current limits of these processes (e.g. catering for 'local' customer tastes).

There are manufacturers of European, American, and Asian origins both in the EU and NAFTA, as well as home-region firms, and newcomers to observe variation due to regional differences. (More in Chapter 3) The unit of analysis is passenger car manufacturing firms (OEMs); supplier firms will not be considered separately to keep the actors consistent and their numbers manageable. Firms are generally considered as groups in their pre-2017 form and not separate brands (e.g. the Volkswagen Group which includes Volkswagen, Skoda, Seat, Porsche, etc.), based on how groups consider themselves (e.g. the Renault Group includes Renault and Dacia but not Nissan of the Renault-Nissan Alliance). When data, especially historic data, considers groups otherwise (e.g. some broke up, some divested from certain brands over the years, new alliances were formed, etc.) I will apply those terms (more on data later).

The car industry's oligopolistic nature also means that from the study of a few, key players, industry-wide inferences can be made. However, the choice of the car industry will likely limit the findings to industries with producer-driven commodity chains. This is particularly true of spatial arrangements (Chapter 4) because of scale-related issues, and of the

[111] Timothy J. Sturgeon, Olga Memedovic, Johannes Van Biesebroeck, and Gary Gereffi, "Globalisation of the Automotive Industry: Main Features and Trends", *International Journal of Technological Learning, Innovation and Development,* (Vol. 2, Nos. 1-2, 2009), 7-24

regionalisation *versus* globalisation debate (Chapter 7) because of mobility issues. However, perhaps, this 'regionalisation-prone' characteristic of the car industry is what makes it especially apt to observe the current extent and limits of regionalism's impact. Even those which follow 'global strategies' are regionally embedded, typically in the triad region of Europe, Asia, and North America, although the vast majority of them realise over 60 per cent of their sales in their home region.[112]

Although other producer-driven commodity chains, aircraft or heavy machinery, for instance, would be similar in most aspects to the car industry, the latter promises a better chance to observe possible changes on customer markets, and the impact of ideational elements on regionalisation outcomes. Cars, as products, are often nationally embedded in the country they are originally from, and reflect the tastes and demands of their traditional customer base. Machinery or aircrafts are much more functional, and internationalised products in this sense; there are no Boeings or Airbuses which cater for European (let alone German or French), or American customer tastes; in any case, their customers are typically other firms.

Cars are also 'household products', and as one of the most important aspirational goods, they are often proxies for self-expression of status, identity, etc., and thus may be sensitive to changes of their customer environment. There is also simply more variation (firms, brands, models) in cars than in passenger aircrafts to observe. Gereffi also considers computers as producer-driven commodity chains but manufacturing has often been outsourced to suppliers in China and other emerging countries in Asia, which would deprive this research from important spatial observations.[113] The computer industry is also relatively recent, and its development has concentrated to a few locations (e.g. Silicon Valley, Japan,

[112] Alan M. Rugman and Simon Collinson, "The Regional Nature of the World's Automotive Sector", *European Management Journal*, (Vol. 22, No. 5, 2004), 471-482
[113] Gereffi, *A Commodity Chains Framework*, 1-9

etc.) from the start, thus it lacks the potential for observing the long-term processes of regionalism and regionalisation.

2.3.3 Data and Method

This research applies mixed methods: both quantitative and qualitative. In line with the holistic approach of this research, I will apply triangulation “not only to examine the same phenomenon from multiple perspectives but also to enrich our understanding by allowing for new or deeper dimensions to emerge”.[114] The basic assumption of triangulation is that the strength of each applied method (in-depth interviews, descriptive statistics, analysis of legal texts, documents, and secondary sources) will compensate the weaknesses of the other ones. For instance, we can infer from historical data, set against major changes in regionalism across several member states, that by increasing competitive pressures regionalism has had a strong impact on customers abandoning domestic manufacturers to regional rivals.

However, we will only know that the shift is (partially) caused by regionalism-related factors from the analysis of marketing materials and other measures, which suggest from the approach of firms that there are regional customers (even though national markets continue to exist). Nonetheless, it is only from interviews that it becomes clear what regionalisation in this instance actually means and how this market ‘duality’ (national fragmentation but regional competition) puts firms under competitive strains. This confirms Jick’s observation

[114] Todd D. Jick, “Mixing Qualitative and Quantitative Methods: Triangulation in Action”, *Administrative Science Quarterly*, (Vol. 24, No. 4, December 1979), 603-4

that occasional divergence in results, when using several methods, can turn out to be an opportunity for enriching the explanation.[115]

Inferences from the results of varied data sources and methods then can be made based on identifying logical patterns and/or organising the materials into a plausible framework.[116] Triangulation is also well-suited for this exploratory project because it is argued that this method likely produces findings which do not fit a theory or model, consequently theories can be readjusted, new ones developed, or it can lead to "synthesis or integration of theories".[117] On the other hand, the chosen approach is sometimes critiqued for the difficulty of replication. Certain interpretative elements and interviews aside, I argue however that the inferences based on publicly available data, together with the analysis of documents (from primary, and secondary sources), reflect reality. A random choice of interviewees from other car manufacturers or industry specialists would likely yield similar results, even if at times the emphasis would perhaps slightly differ.

I will draw on a wide variety of quantitative and qualitative data sources, different for each chapter. Data and method issues specific to each chapter, discussing varied aspects of firm activities, will be dealt with at the beginning of every empirical chapter (Chapter 4, 5, 6, and 7) for reasons of clarity and relevance. Changes are mapped by firm types and at industry level in both regions. Each chapter draws on diverse sets of primary data (e.g. descriptive statistics, analysis of company documents, legal texts, marketing messages, etc.) and secondary data (press interviews, specialist press reports, literature, etc.). Original, historic datasets are compiled from publicly available sources; from industry organisations, public archives, company archives, and in some instances from secondary sources.

[115] Jick, *Mixing Qualitative and Quantitative Methods*, 607

[116] Robert S. Weiss, "Issues in Holistic Research", In: Howard S. Becker, Blanche Geer, David Riesman, and Robert Weiss (eds.), *Institutions and the Person*, (Chicago: Aldine, 1968), 342-350, 349

[117] Jick, *Mixing Qualitative and Quantitative Methods*, 609

This is accompanied in each chapter by data (and at times *in verbatim* excerpts) from a dozen, in-depth, anonymous, semi-structured interviews with high-ranking firms' representatives (both home-region and newcomer manufacturers, and regionalisers in both regions and regionalisers in only one region); regional regulators with decision making powers over car industry regionalisation and/or involved in international negotiations; industry organisations; industry specialists; and national authorities. These anonymous interviews aim to establish the importance firms attribute to various incentives offered by regionalism, the mechanism by which regionalisation takes place to identify the influence of regionalism, and for specific/technical knowledge. Anonymity was granted to ensure the greater willingness of participants to discuss sensitive company decisions and strategies, and because it was deemed that publishing the names of interviewees would not corroborate evidence or add new information. The interviews were conducted in person in Brussels, Paris, and Budapest, and over Skype from London, and Washington D.C.

CHAPTER 3 – THE CAR INDUSTRY

3.1 Introduction

This chapter briefly reviews the historical development of the industry in Europe and North America in a schematic way from the beginning of the 20th century, prior to regionalism. It considers the industry's economic importance, and the relative strengths and weaknesses of its key players, to provide context for regional changes. The chapter also considers the basic regulation of the industry and how it developed. The car industry was called the "industry of industries" for much of the 20th century; a major engine of economic growth and industrial development because of its scale and linkages to other industries and services.[118] This was particularly true during the period of mass motorisation which started already in the first half of the 20th century in North America, and took off in Europe after WW2.

Thus, when regionalism started on both continents, the car industry was in pole position to be impacted by the ensuing regulatory and other changes. On the one hand, the industry has been relatively intransigent: while cars have changed visibly, a driver with a licence from 70 years ago can easily operate today's cars (while forms of long-distance communication, for instance, have changed beyond recognition in the same period). Some of the leading car brands and manufacturers are also still the same as they were at the dawn of motorisation. On the other hand, however, regionalism and globalism have dramatically changed what is being manufactured, where, and how.

[118] Dicken, *Global Shift – 6th Edition*, 332

The chapter will first take a look at the historical developments of the industry of the pre-regionalism era by highlighting three transformative changes: the industry's move from national- to international-level organisation; the change of the defining external environment from Keynesianism to liberalism, and finally the shift from family-level firms to national/regional/international consolidation. This will be followed by a description of the industry today with a particular emphasis on its multiple-level organisation (i.e. global, regional, local character) and regulation. This will include a review of global market shares, market value, as well as the share of various regions from global production. Then a brief overview will follow of the main players and regulatory approaches of the EU, then of NAFTA.

3.2 Historical Development of the Industry

3.2.1 National to International

In the pre-WW2 period, cars of bigger brands (e.g. Ford) were already sold in several European countries (or imported privately), although, almost all industrialised countries had their own manufacturers, even those which since have lost their local brands (e.g. Belgium, the Netherlands, Austria, etc.). Fledgling manufacturers on these inadequately small domestic markets were gradually bought up by rivals, specialised, or went out of business. Despite the huge domestic market, US firms not just exported their products but started internationalising their operations as soon as their first cars rolled off the assembly lines. Ford or GM entered Canada and European countries early on; in some instances half a century before European integration began.

Car manufacturers have always closely monitored their competitors, yet varied international market entry strategies have existed nevertheless. These diverse approaches provided firms with varied international experiences, prior to regionalism. Home region firms have always enjoyed either direct protection by the national governments of their countries of origin, and/or first mover advantages, gained by shaping the regulatory environment to provide them with competitive advantages. Some firms only entered new markets and countries to sell, but this was often done through dealership agreements. Market entry for production abroad however has taken place either by 'clean-slate' entry (i.e. green-field investments), or through various 'buy-in' strategies (i.e. mergers and acquisitions). From US firms, Ford used the former, GM the latter approach in Europe. At the time, the regulatory environment was much more in flux, thus both firms could take part in shaping it, which embedded them in diverse national contexts.

Two out of the American 'Big Three', General Motors (GM), and Ford, entered Europe almost at the same time as they started operations in the United States. Chrysler only followed them in the 1950s and stayed only for two decades. Ford founded Ford of Britain in 1909, which started producing the Model T already in 1911, becoming Ford's first factory outside North America. Ford of Germany was founded in 1925 and started assembling the Model T a year later in Berlin. GM entered Europe three years after its foundation, in 1908, and started assembling Chevrolet cars in Denmark in 1923 and in Belgium in 1925. In the same year, GM bought Vauxhall in Britain, and Opel in Germany, in 1929. In North America, Ford founded its Canadian subsidiary a year after it was incorporated in the US in 1903.[119] General Motors Canada formally exists since 1918 but, in fact, one of GM's founders bought Chevrolet Canada and its manufacturing plant in 1915. Chrysler Canada was incorporated in 1925 when it gained complete control of a Chrysler manufacturing plant in Ontario.

[119] Ford Motor Company, "Our History", *Ford.com*, http://corporate.ford.com/history.html Accessed: 10 March 2017

Thus, initially, the same products were offered on both sides of the Atlantic even though manufacturing and other operations were nationally organised, embedding these firms locally during the following decades. It is partly this historical heritage in international operations which made US manufacturers better placed to regionalise their operations and regard the European Economic Community as a regional unit, even before the Europeans, once incentives were ripe.[120] Ford of Europe was formed in 1967, uniting its previously separate national operations, and GM began merging the product lines of Vauxhall and Opel as early as the early 1970s. European firms became relatively complacent following their market dominance during the '*trente glorieuses',* though their share on their respective home markets began to dwindle, and in some cases to nosedive in the 1970s (e.g. British Leyland in the UK). (More on historic market shares in Chapter 5.)

Consequently, European firms did not have the internationalising experience of their American rivals, especially not in North America, where they missed out on shaping customer tastes early on. This slightly diverging path was further reinforced by the fractured nature of European markets; strong and numerous competitors in other European countries have made achieving scale, and higher market shares very difficult, if not impossible (e.g. French firms could hardly compel Germans to buy French cars for a long time). Thus, mergers and acquisitions initially was a more typical way to buy market share, and to build a diverse product portfolio: first at home (e.g. Peugeot and Citroen, VW and Audi), and later in other countries (e.g. VW and Seat). This approach entrenched European firms' dependence on their home markets, and perhaps made them more cautious as well, but it equipped them with a greater awareness about the importance of local knowledge and localised products.

[120] Yannick Lung and Rob van Tulder, "Introduction: In Search of a Viable Automobile Space", In: Carrillo et al, *Cars, Carriers of Regionalism?*, 11

Japanese and South Korean firms were the quintessential latecomer, clean-slate entry firms in both Europe and North America. Firms like Toyota manufactured and exported from Japan until the 1980s when it started to open its first manufacturing facilities in the US and Europe. They adjusted their products according to local standards and tastes but by and large, and for a long time, they were primarily, small, cheap, and reliable cars which could compete with European models; in North America they found their niche and started conquering markets from there. These firms were partly tools of economic development of their home countries, and thus had long-term strategies; they often viewed entry to new markets as investments in learning and upgrading, appreciating even small market shares, and low returns. Their first internationalising experience was typically in the US, and its strict safety standards and litigious culture has made them very cautious and prudent in Europe and elsewhere. They were technological and organisational innovators.

3.2.2 Keynesianism to Liberalism

Major manufacturers initially developed behind protective tariffs and regulations in most countries; the term, 'national champions' is a legacy from the Fordism-era (understood here as a close connection between large-scale manufacturing, employment, and consumption), which also suited the political economy of the New Deal and post-war welfare states. Car manufacturers were not only some of the biggest employers in their respective countries but their growth was linked to the "stable and predictable growth of wages and to the reduction of inequalities".[121] Most people were buying their first cars, providing huge

[121] Bernard Jullien and Tommaso Pardi, "In the Name of Consumer: The Social Construction of Innovation in the European Automobile Industry and Its Political Consequences", *European Review of Industrial Economics and Policy*, (No. 3, 15 December 2011), 16 http://revel.unice.fr/eriep/index.html?id=3338 Accessed: 9 May 2016

growth opportunities on home markets. Thus, this was the era when national car industries were in a symbiotic relationship with their home countries' industrial policies; people in the US bought American cars, the French French ones, and this virtuous circle maintained growth and employment until the early 1970s.

By 1968, the Customs Union was achieved in Europe but as the car industry illustrated, spatial approach to production, firm organisation, regulations, or customer markets were far from becoming regionalised in the way envisaged by the Treaty of Rome in 1957. At the same time, changing customer tastes, information technology, and technological changes to production (e.g. the emergence of the 'just-in-time' manufacturing, or the 'Toyota Production System') created serious competitive challenges to national champions, partly through the appearance of new pretenders: the increasingly popular Japanese car makers. In Europe, increased competition also challenged national industrial policies, and the political bargains on which the Keynesian, welfare-states depended.[122] Therefore, the transformation of European car manufacturers into 'European champions' was not just a side-effect of regionalism; the renewed interest in more intensive regionalism in the 1980s was precisely a response to the need to create 'European champions', or in North America to boost competitiveness, through a complex pattern of deregulation, collaboration, and strategic alliances.[123]

Consequently, the 1980s were characterised by increased competition, the decline of national champions on their domestic markets, and increased interest (and some reluctance for others) in regionalisation and other forms of cross-border activities in both the EU and North America. Increased regionalism by states also changed the regulatory landscape in Europe, and put an end to the cosy relationship between national governments and their firms in

[122] Hurrell, *Explaining the Resurgence of Regionalism*, 346-347
[123] Ibid.

exchange for a promise of an ever closer regional market of seemingly ever increasing size. Solving scale issues were also seen as the best way to address technological and global competitive issues vis-à-vis US and Japanese firms. By the 1990s, regionalisation as an internationalisation strategy by automotive firms became the norm. Transnational corporations began to manage their subsidiaries on a regional basis to build scale, reduce costs, and to embed their operations often through locating strategic decision-making within the host region.[124] Regional headquarters, and regions, which often encompassed larger geographic units, became important nodes for firms to 'locally' implement 'global' strategies, and to convey vital information (regulatory, market, etc.) to the firm about their host regions.[125]

3.2.3 Family Firms to Consolidation

While the US market very rapidly became dominated by the 'Big Three', small brands also existed in the early days which either became gradually defunct, or have been acquired by competitors. Some brands (e.g. Packard, Studebaker, etc.) survived until the 1950s and 1960s. By that time GM and Ford were giants on several continents, having placed their initial strategies on volume and scale, made barriers to entry high for newcomers and small producers. In Europe, companies often started as family firms (e.g. Renault, Citroen, Opel, etc.) but apart from some experimentation with single model, high volume production, they typically manufactured several models at higher costs, and consequently to fewer customers

[124] Henry Wai-chung Yeung, Jessie Poon, and Martin Perry, "Towards a Regional Strategy: The Role of Regional Headquarters of Foreign Firms in Singapore", *Urban Studies*, (Vol. 38, No. 1, 2001), 165
[125] Ibid.

on smaller markets.[126] Smaller brands were acquired by bigger domestic firms; for instance, the Franco-British brand, Talbot was first bought by the French Simca. Simca was bought by Chrysler Europe in 1970 (together with British Rootes and Spanish Barreiros) which was eventually divested to Peugeot when Chrysler withdrew from Europe in 1978. All these brands (though Talbot and Simca are now defunct) are owned by PSA (previously Peugeot-Citroen), itself the result of Peugeot's acquisition of Citroen, in 1976.

In the 1980s, 'joint ventures' of varying shapes, sizes and configurations came into vogue, leading to mergers and alliances in some cases. For instance, after the Franco-British fiasco with Simca and Rootes, Chrysler started one with the Austro-German Steyr-Daimler-Puch to produce a car for Europe. In 1998, Daimler-Benz and Chrysler merged, creating DaimlerChrysler that existed until 2007 when Daimler sold Chrysler. The economic crisis hit Chrysler hard and the US government had to intervene. In 2014, Italy's Fiat bought it and formed Fiat Chrysler Automobiles (FCA). Similar consolidations took place when VW bought Audi (from Daimler-Benz), in the 1960s, became majority owner of Spanish Seat in 1986 (previously a Fiat venture), Skoda in 1994, and Porsche in 2012, etc. As international competition grew and the industry was looking to build scale, to enter new markets, and to reduce R&D costs, mergers and acquisitions, alliances, and other forms of cooperation became the norm.

The industry has, by now, become very oligopolistic, and concentrated where barriers of entry to newcomers are high. Figure 3.1 shows the biggest brands by market value in 2016. Incidentally, market value as a measure also shows its own limitations here: Tesla with barely over 76,000 manufactured cars in 2016 was valued for more than GM with over 10 million.

[126] Patrick Fridenson, "Ford as a Model for French Car Makers 1911-1939", In: Hubert Bonin, Yannick Lung, and Steven Tolliday (eds.), *Ford, 1903-2003: The European History Vol. 1*, (Paris: P.L.A.G.E, 2003), 125-152

Figure 3.1 – Biggest Car Brands by Market Value 2016

Nevertheless, the map shows the concentrated character of the industry, and that only a handful of countries have manufacturer firms, while at the same time manufacturing is becoming more dispersed than ever.[127] (More figures about the industry below.)

3.2.4 Self-Regulation to Multi-Level Regulation

The development of the regulatory environment (technical, safety, emission, etc. standards) followed a similar path to how firms transformed: initially national or even sub-national segmentation (e.g. in the US), followed by intensive regionalism (in the EU) and regional convergence (in NAFTA) by the 1990s, with parallel attempts at globalism from the

[127] Map made by Jeff Desjardins, "Chart of the Week: The World's Largest Auto Maker By Market Value", *VisualCapitalist.com*, (18 August 2017), http://www.visualcapitalist.com/tesla-worlds-4th-largest-auto-maker/ Accessed: 18 August 2017

late 1950s and then from the 1990s onwards. (More on standards and regulations in Chapters 6 and 7) Initially, regulations were concerned with basic technical standards (e.g. fuels), or road safety. Passenger safety (e.g. safety belts, crash tests) however were already considered in the 1930s, often initiated by the firms themselves which profited from first-mover advantages thanks to national standardisation on their respective home markets.

In the post-war period, international regulatory and standard harmonisation came to the fore as a means to facilitate international trade. The UN established the predecessor to the World Forum for Harmonisation of Vehicle Regulations (WP.29) in 1952. Work was based on the 1958 UN Economic Commission for Europe (UNECE) agreement. Initial signatories were exclusively European vehicle producing countries (France, Germany, Italy, Sweden, Hungary, the Netherlands, and Belgium). In 1998, a revised agreement included the US, Canada, and other non-European countries but the process is considered to be slow and difficult. In Europe, the bulk of current regulations came from the harmonisation drive of the EU's Single Market programme in the 1980s and 1990s, whereas in North America some voluntary adjustment to US standards and regulations took place in Canada and Mexico, creating a complex regulatory environment of global, regional, and national regulations.

3.3 Global, Regional, and Local

After decades of post-war development, today's car industry is a mixture of global, regional, and local layers. These layers mean the spatial organisation of operations, regulatory impact, and the logic of customer markets, in an increasingly entangled way. The overwhelming majority of the global passenger car market is controlled by around 15 manufacturing firms (some of which are in alliance with each other), producing a few dozen brands, in line with the oligopolistic nature of the industry. Most of these brands are household names worldwide. However, despite being global, they have also kept their national character in the eyes of many customers (e.g. BMW is a German car, or Toyota is Japanese/Asian), referring to their countries of origin, even if the car in question was designed and manufactured on a different continent.

The global level also represents a regulatory level for the industry (e.g. international safety and technical standards, etc.). Despite increasingly globalised value chains, car production however is typically regionally organised in the 'triad regions' of North America, Europe, and Asia. In fact, over 96 percent of global car production came from North America, Europe, and Asia in 2016.[128] In Europe, and to a lesser extent in North America, the regional-level also means a regional regulatory regime of varying intensity. Elsewhere, it is the national level where the bulk of regulations originate from but even in the EU, diverse national jurisdictions, and tax regimes shape the industry and its customer markets.

3.3.1 The Rise of China

Within the 'triad', production has shifted to Asia in a dramatic way. In 1960, the United States alone gave over 50 percent of the world's automobile production; by 2016 its share was 11.8 percent.[129] In the 2016 US presidential campaign, NAFTA was often referred to as the main culprit for the decline of the American industry, to the extent that President

[128] OICA, World Motor Vehicle Production 2016

[129] European Automobile Manufacturers Association (ACEA), *ACEA Economic and Market Report: Quarter 4 2016*, (Brussels: March 2017), 14; Dicken, *Global Shif – 6th Edition*, 335

Donald Trump threatened with import tariffs to cars made in Mexico.[130] While relocation to Mexico did indeed contribute to job losses, even if all of Mexico's car manufacturing output 'returned' to the US (which by now includes significant Japanese-, and European-owned manufacturing), it would not compensate for the rise of China and East Asia in car production. In 2007, China's share of the world's car production was still only around 12 percent (and zero in 1960).[131] By 2016, it rose to 29 percent, making China the leading producer of passenger cars in the world (see Figure 3.2).

Passenger Car Production	Units	% of Total
WORLD Total	77,706,150	100
EU	16,467,322	21.2
NAFTA	14,017,274	18
CHINA	22,506,385	29
JAPAN	7,748,012	10
SOUTH KOREA	3,907,872	5
Source: ACEA, 2016		

Figure 3.2 – Share of World Car Production by Region/Country 2016

The decline of the US from absolute domination of the world's car manufacturing is the result of dynamic growth in demand on new markets; first in Western Europe, then in the Far East, and now in China and elsewhere. These changes led to a relative decline in production shares, as huge populations entered the markets for the first time. The recent shift to Asia was further

[130] David Welch and Dave Merrill, "Why Trump Tariffs on Mexican Cars Probably Won't Stop Job Flight", *Bloomberg*, (4 January 2017), https://www.bloomberg.com/graphics/2017-trump-mexico-auto-jobs/ Accessed: 14 March 2017
[131] Dicken, *Global Shift – 6th Edition*, 335

enhanced by the Great Recession after 2008, in particular, and the declining demand for new cars in the West, in general. (See Figure 3.3 by ACEA[132])

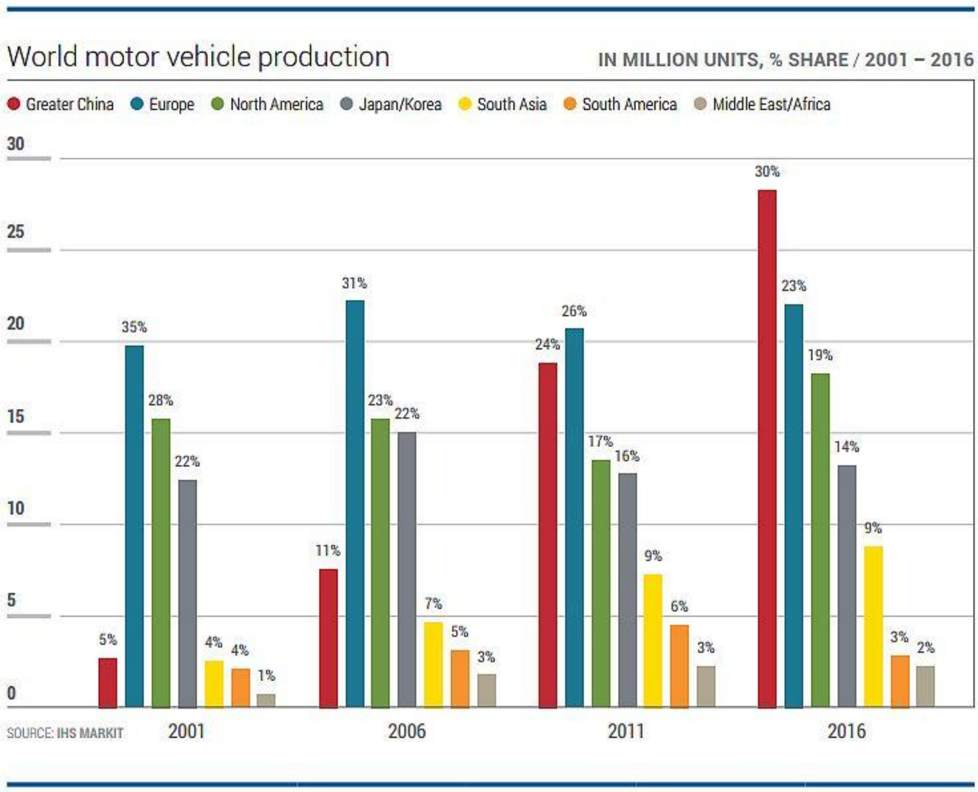

Figure 3.3 – Share of World Motor Vehicle Production by Region 2001-2016

This trend will most likely continue given the diverse motorisation rates in different parts of the world. NAFTA is the most motorised region anywhere in the world (661 vehicles/1000 inhabitants; the US 808/1000 in 2014); the EU/EFTA average (569/1000) is lower as a result of highly developed and dense public transport networks, and the relatively lower figures in Eastern European member states.[133] Growth will inevitably come from Asia (79/1000, including Oceania and the Middle East but excluding Japan and South Korea) where China’s (102/1000) and India’s rates (22/1000) suggest great growth potential. The

[132] Figure by ACEA, *The Automobile Industry Pocket Guide 2017-2018*, (Brussels: European Automobile Manufacturers Association, 2017), 19
[133] OICA, Motorisation Rate Worldwide 2014

motorisation rate grew by 123 percent since 2005 in this region as opposed to 4 percent in NAFTA, and 7 percent in the EU/EFTA.[134] Thus, Western markets, where people can afford new cars, are nearly saturated and buying is anyway less appealing than before (with climate change and lifestyle changes). In emerging markets, where there is a huge, untapped potential for first-time buyers (for practical reasons, and/or as expression of their personal freedoms and arrival in the middle classes), few can afford cars yet. This relatively fragile demand structure makes profitability the industry's most important driver, as opposed to simply focusing on increasing growth and market share.

However, even if production is mainly taking place in Asia (by output volumes), and even if China has become the biggest customer market as well as the biggest producer thanks to its sheer size, the vast majority of cars that are produced and sold even on those markets still belong to the same European, Japanese, US, and Korean manufacturers, confirming their global leader positions, at least for now. (See Figure 3.4)

2016	Sales in Unit	Market Share (%)
VOLKSWAGEN GROUP	10,102,036	11.1
TOYOTA	9,947,416	10.9
RENAULT-NISSAN	8,513,050	9.4
HYUNDAI-KIA	8.175,871	9
GENERAL MOTORS	7,972,401	8.8
FORD	6,295,636	6.9
HONDA	4,906,685	5.4
FCA	4,864,390	5.4
PSA	3,248,108	3.6
SUZUKI	2,855,573	3.1
Source: Focus2Move, 2017		

Figure 3.4 – World's Biggest Car Producer Firms by Global Sales 2016

134 OICA, 2014

The top ten car manufacturing firms represented over 64 percent of global sales, in 2016. However, the 11-20th places of the same list is perhaps more telling about the shape of things to come: after Mercedes-Daimler and BMW (11th and 12th places respectively), five out of the remaining eight positions are Chinese car manufacturers. The last five of the top 25 manufacturers were all Chinese except for the Indian Tata.[135]

Despite the rise of China in production, car manufacturing is still a crucial contributor to the economy in both Europe and North America. In the EU, car manufacturing provided 7.7 percent of all manufacturing employment, and its total value chain activities represented 5.6 percent (or 12.2 million jobs) of all EU employment in 2013.[136] In the United States, similar figures are more modest: less than a million people were employed in motor vehicles and parts manufacturing, and almost two million in the car trade, in February 2017.[137] The importance of the car industry in employment however varies state by state: while in Michigan, 11.2 percent of employment depended directly or indirectly on the automotive industry (Indiana 6.1, Ohio 5.3, and Kentucky 5.1 gradually decreasing towards the South-Southeast to Texas's 1.7 or Florida's 1.1 percent); in most US states it was less than 1 percent.[138] In Mexico, 14.4 percent of all manufacturing employment comes from the car industry, which means more than 875 thousand jobs (December 2015). Not only does the car industry is a significant provider of employment from lower to the highest skills but it is an important contributor to GDP. In Mexico, it represented 3.4 percent of the country's GDP, and 18.3 of manufacturing production in 2015. In the case of Slovakia, for instance, dependence on the almost entirely foreign-owned car industry is even more extreme: 43

135 Focus2Move, "World Car Group Ranking January. Geely Shining While Volkswagen Takes the Grip", *focus2move.com*, (8 March 2017), http://focus2move.com/world-car-group-ranking/ Accessed: 15 March 2017
136 European Automobile Manufacturers Association (ACEA), *The Automobile Industry Pocket Guide 2016-2017*, (Brussels: March 2017), 10
137 US Department of Labour, "Automotive Industry: Employment, Earnings, and Hours", *Bureau of Labour Statistics*, https://www.bls.gov/iag/tgs/iagauto.htm Accessed: 16 March 2017
138 Filippo Biondi, "The Mexican Automotive Industry and Trump's USA", *Bruegel*, (27 February 2017), http://bruegel.org/2017/02/the-mexican-automotive-industry-and-trumps-usa/, Accessed: 16 March 2017

percent of all industrial output comes from the car industry and this is set to increase once Jaguar Land Rover starts production in Nitra.[139]

3.4 The Car Industry in the European Union

3.4.1 The Key Players

Of the world's 77.7 million newly produced passenger cars, 19 percent or 14.6 million new vehicles were sold in the EU-27 (without Malta) in 2016.[140] The EU-28 produced 24 percent of the global total, the same year.[141] This makes Europe still a strong player and an important market but even its own firms look increasingly to Asia for growth opportunities. While Europe is still host to many home-region brands, in fact, only three countries have manufacturing firms in majority local ownership: France, Italy, and Germany. The rest of the firms are either foreign-owned, or have been acquired by firms from the three countries. Europe is also host to US-owned Ford; GM sold Opel/Vauxhall to the French PSA in 2017; there are several Japanese, Korean manufacturers; Indian Tata now owns Jaguar Land Rover; and Chinese Geely acquired Swedish Volvo.

In 2015, the Volkswagen Group was the number one manufacturer in Europe with around 25 percent market share. (See Figure 3.5[142]) This percentage includes all its brands (e.g. VW, Audi, Seat, Skoda, etc.). In total, German-owned/managed brands have over 37 percent share in Europe, partly reflecting the success of VW's multi-brand structure,

[139] Slovak Investment and Trade Development Agency (SARIO), *Automotive Sector in Slovakia*, (Bratislava: SARIO, 2016), 2 http://www.sario.sk/sites/default/files/content/files/sario-automotive-sector-in-slovakia-2017-03-02_0.pdf Accessed: 16 March 2017
[140] ACEA, *The Automobile Industry 2017-2018*, 10
[141] Ibid., 20
[142] Author's calculations based on Comite des Constructeurs Francais d'Automobiles, "New Passenger Car Registrations in the European Union, Switzerland and Norway", *The French Automotive Industry – Analysis and Statistics 2016*, (Paris: CCFA, 2017), 70

Germany's relative size as a market compared to the rest, and the vigorous state of consumer demand in Northern Europe where more powerful and higher-end cars are in demand. The French PSA (Peugeot-Citroen) bolstered its second place by acquiring Opel in 2017, which will increase its European market share to around 17 percent. PSA is followed, at number 3, by the Renault Group (including Dacia but excluding Nissan, which it is in an alliance with). The category 'Japanese' below include Toyota (Lexus, Daihatsu) at 4.2 percent, Nissan at 3.9, and other Japanese brands at 4.9 percent; 'Korean' is Hyundai-Kia.

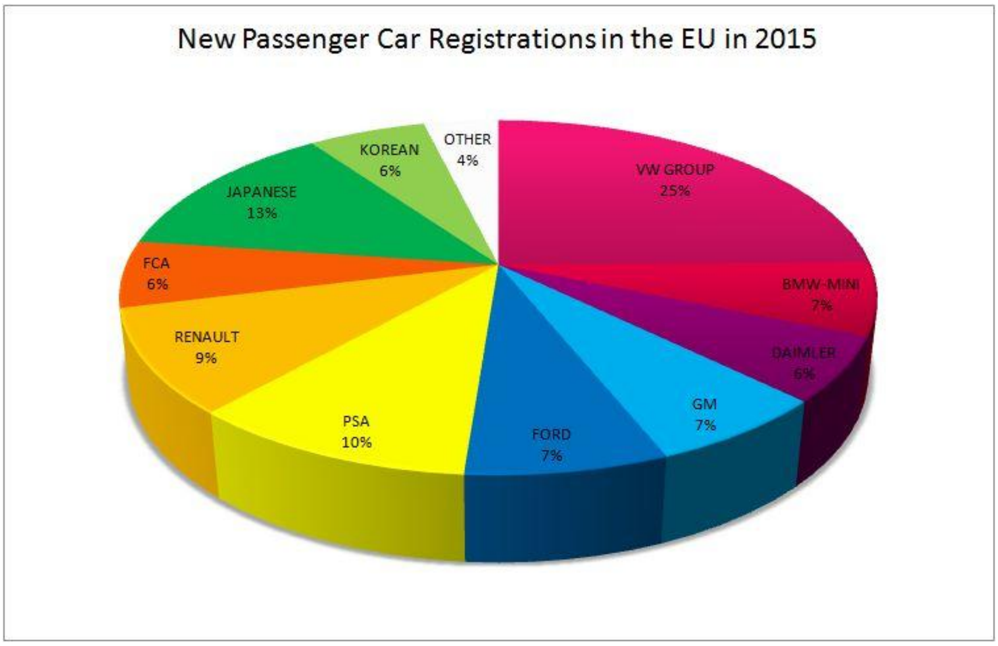

Figure 3.5 – Share of New Passenger Car Registration in EU by Firms 2015

By taking a longer-term perspective, it is also evident that European or 'home-region' firms are still the dominant players, based on their share of new passenger car sales. US firms, or 'embedded regionalisers' (Ford and GM), have been steadily losing ground in the last quarter of a century despite their almost century-long presence in major European markets, to the eventual acquisition of GM (Opel/Vauxhall) by PSA. Asian newcomers, or 'clean-slate entry regionalisers (Japanese and Korean firms) have been increasing their share gradually but eventually, all newcomers combined compete for only around one-third of the sales. (See Figure 3.6[143])

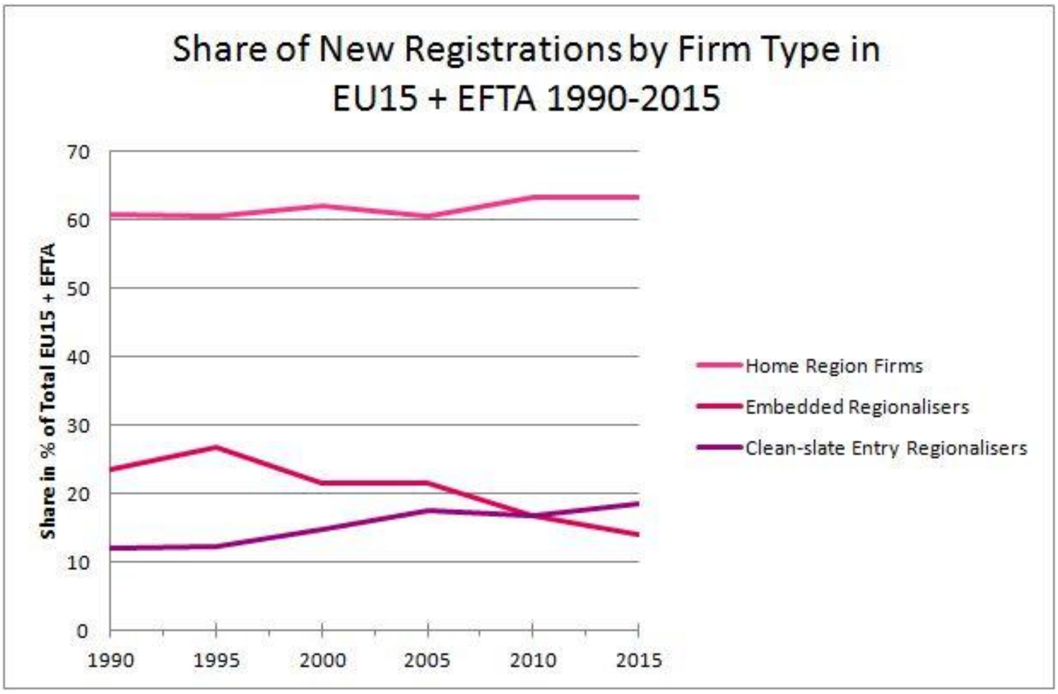

Figure 3.6 – Share of New Passenger Car Registration in EU by Firm-type 1990-2015

Thus, Europe is a highly competitive market of multiple players where the mass-market segment increasingly appears to be a battle-ground between French and German firms, with the dominance of the latter. (More on this in Chapter 5) While these rankings hint at certain dynamics at the regional regulatory level, car manufacturing is no longer about the interests of 'home countries' (where firms are from), as much as it is about the interests of 'host countries' (where firms operate). In 2016, the biggest producer countries were Germany, Spain, Britain, France, and the Czech Republic. The ratio of direct automotive employment of the active population was the highest in the Czech Republic, followed by Slovakia, Germany,

[143] Author's calculations based on data by the European Automobile Manufacturers Association (ACEA), Historical Series 1990-2015 New Passenger Car Registrations in Western Europe (EU-15+EFTA), http://www.acea.be/uploads/statistic_documents/PC_90-15_by_manuf_West_Europe.xlsx; http://www.acea.be/statistics/article/consolidated-registrations-by-manufacturer

and Hungary in 2016.[144] Each of these countries alone has a vital interest in maintaining the competitiveness of the car industry in Europe and of Europe, if not for employment then because the role the industry plays in their economic output.

In this sense, European regionalism was a means to build ‘regional champions’ that could compete internationally. The history of regional market leaders are intertwined with Europe’s (industrial) history. Their preeminent position is ensured by a century of honing customer tastes, the regulatory environment, and occasional intervention by home/host governments. Volkswagen, founded in 1937, has been a market leader in Germany for much of the 20th century but its European status is mainly linked to its merger and acquisition programme from the 1980s, adding complementary brands to its portfolio (e.g. Audi in Germany) and sometimes significant market shares (e.g. Seat in Spain, or Skoda in the Czech Republic, and Eastern Europe). However, its focus on profits, not just market shares, has won it acclaim even from its rivals. (MANUFACTURER 3)

The French (Renault, PSA) and Italian firms (FCA) have also started as family firms and went through mergers and acquisitions. Peugeot, founded in 1810, and a car manufacturer since 1882, is the French market leader. It took over Citroen in 1975, forming PSA. In 1978, it acquired Chrysler Europe under the Talbot brand which was eventually shelved in 1992. A relatively active and experimenting attitude to international operations notwithstanding, it was considered a relatively French-focused firm in terms of its products nevertheless. (INDUSTRY ANALYST 1) This was similar to Renault, established in 1899, which acquired Dacia in 1999, and formed the Renault-Nissan Alliance, a strategic partnership the same year, making it the tenth biggest manufacturer in the world. It holds the second place in France. Fiat was also founded in 1899, and is an Italian market leader despite having been squeezed in the mass segments by competitors at home and abroad. Its brands (e.g. Fiat, Alfa Romeo, Lancia)

[144] ACEA, *The Automobile Industry 2017-2018*, 16

are mostly popular in Italy and Southern Europe. By acquiring US Chrysler, it formed FCA in 2014, making it the world's seventh largest car maker.

3.4.2 The Regulatory Approach

The EU's regulatory approach was supranational from the outset, as the intergovernmental experience with the Organisation of European Economic Cooperation, administering the Marshall Plan, failed to prompt governments into regional market creation. In France, Gaullists were in favour of European integration if it had strong and stable institutions; partly in the hope of promoting their *dirigiste* governance structures in international institutions and thereby gaining comparative advantages, partly to effectively control the German industrial heartland.[145] Britain, the only country which at the time had the clout to propose a different course to European integration (i.e. a regional market, based on negative integration, low institutionalisation, and intergovernmentalism), did not wish to join because it had found the "Gallic logic" of the long text of the treaty, and the supranational institutional approach anathema to "Anglo-Saxon pragmatism" and political culture.[146]

The invisible hand of the United States was rather influential in the process. Jean Monnet, who had worked in Washington D.C. in the early 1940s, consulted his American friends in key government positions about supranationality and limiting national sovereignty. They supported his ideas and were keen to apply the US historic experience in becoming prosperous by interstate commerce and establishing a single market.[147] For the US, European

[145] Henry L. Mason, *The European Steel and Coal Community: Experiment in Supranationalism*, (The Hague: Martinus Nijhoff, 1955), 2
[146] Ibid., 9-10
[147] Desmond Dinan, *Ever Closer Union: An Introduction to European Integration*, (London: Palgrave Macmillan, 2010), 14

integration became part of a "grand design for remaking the Old World in the likeness of the New" as well as a strategy to advance American interests.[148] The EU applied both negative and positive integration measures through supranational institutions already at the Coal and Steel Community in 1951, which became the template for later efforts to achieve market integration. However, in much of the relevant policy domains for the car industry, authority was gradually accumulated by the Commission with the help of the European Court of Justice and the industry.

First, tariff reduction had a major impact. It began with the Marshall Plan already but the full dismantling of tariffs between the EU-6 was only achieved with the completion of the Customs Union on 1 July 1968, earlier than planned but more than a decade after the Treaty of Rome came into force.[149] (Policy measures are only enumerated here; they will be discussed in detail where relevant in subsequent chapters.) Second, the dismantling of non-tariff barriers was a major tool to curtail competing jurisdictions from maintaining market fragmentation by keeping barriers to entry high. The process took place primarily as part of the Single Market programme following the signing of the Single European Act in 1986. This entailed the establishing of common standards or acceptance of equivalent procedures, which aimed at establishing a truly single market by 31 December 1992.

Third, safeguarding competition has been a main governing function of the EU since the Treaty of Rome, even if initially this was considered a "sleepy, ineffectual backwater" within the Commission.[150] For instance, in 1998, when VW was found to have banned its Italian dealers to sell to customers from Germany and Austria, where VW sold for much

[148] Michael J. Hogan, *The Marshall Plan: America, Britain and the Reconstruction of Western Europe, 1947-1952*, (Cambridge: Cambridge University Press, 1989), 53

[149] European Commission, "About the Customs Union", *Europa.eu*, (Brussels, 2008), Accessed: 28 August 2017 http://ec.europa.eu/taxation_customs/40customs/customs_general_info/about/index_en.htm

[150] Tim Büthe, "The Politics of Competition and Institutional Change in the European Union: The First Fifty Years", In: Sophie Meunier and Kathleen R. McNamara (eds.), *Making History: European Integration and Institutional Change at Fifty*, (Oxford: Oxford University Press, 2007), 175-7

higher prices, the EU forced it to stop the practice.[151] These powers have gradually accumulated at the Directorate-General for Competition since the 1960s through extra legislative powers and carefully tested cases at the ECJ. Fourth, DG Comp also plays a crucial influencing role through its merger control procedures; this was already part of the Treaty of Paris (Article 66), establishing the High Authority for the ECSC. The Treaty of Rome did not mention mergers; the EC started to claim it had authority over some mergers in the early 1970s. Until the 1980s, some member states did not want to cede any authority to the Commission over mergers.[152] Even in 1986, the Council refused to define the scope of DG Comp's authority; the uncertainty this created for firms was used by the Commission to build support for supranational rules with the help of the ECJ – Merger Regulation was adopted in December 1989, a Council revision strengthened it in 2004.[153]

Finally, state aid policy is a case in point that the EU is as much about the exception to its rules as it is about keeping them. (INDUSTRY ANALYST 1) The Treaty of Paris banned state aid in "any form whatsoever", as did the Treaty of Rome but the latter already included the possibility for discretionary exemptions.[154] In the 1970s, the Commission rarely challenged state aid which member states considered part of their industrial policies.[155] Only at the end of the 1980s, with the Single Market programme, did the Commission begin to actively extend its powers by encouraging rival firms to lodge complaints against governments at the ECJ for distorting competition with state aid. This led to the gradual increase of its authority as firms started to ask the Commission for preliminary reviews, which the ECJ confirmed *ex post*.[156] The Commission's authority was explicitly confirmed

[151] Büthe, *The Politics of Competition*, 176
[152] Ibid., 186
[153] Ibid., 187
[154] Treaty Establishing the European Coal and Steel Community, (Paris, 18 April 1951), Article 4(c); Traité instituant la Communauté Économique Européenne, (Rome, 25 mars 1957), Articles 92-94
[155] Büthe, *The Politics of Competition*, 190-1
[156] Ibid.

only in 1990, in *France v. Commission*.[157] Thus, regionalism developed gradually, often in tandem with regionalisation.

3.5 The Car Industry in the North American Free Trade Agreement

3.5.1 The Key Players

In NAFTA, 17.3 million new passenger cars were registered in 2016, which is 22.4 percent of the global market. However, 14.4 million (18.6 percent) were sold in the US alone, which is almost the size of the entire EU market.[158] The US is now only the second biggest passenger car market in the world behind China (23 million new cars, 29.8 percent of the world's total sales).[159] GM (prior to sale of Opel) slid back to the position of the world's fifth biggest manufacturer (Ford was sixth in 2016), and is exposed to mature markets, confirming the downward trend North American firms seem to have been undergoing. (See Figure 3.8)[160] Home-region brands of significance, the 'Big Three' (GM, Ford, Chrysler) is now only 'Big Two', to some extent, as Chrysler was acquired by Italy's Fiat, forming FCA. The rest of the firms manufacturing in NAFTA are foreign-owned, mainly Japanese but also Korean and European.

[157] Büthe, *The Politics of Competition*, 190-1
[158] ACEA, *The Automobile Industry 2017-2018*, 30
[159] Ibid., 30
[160] Authors calculations based on WardsAuto, U.S. Vehicle Sales Market Share by Company, 1961-2015

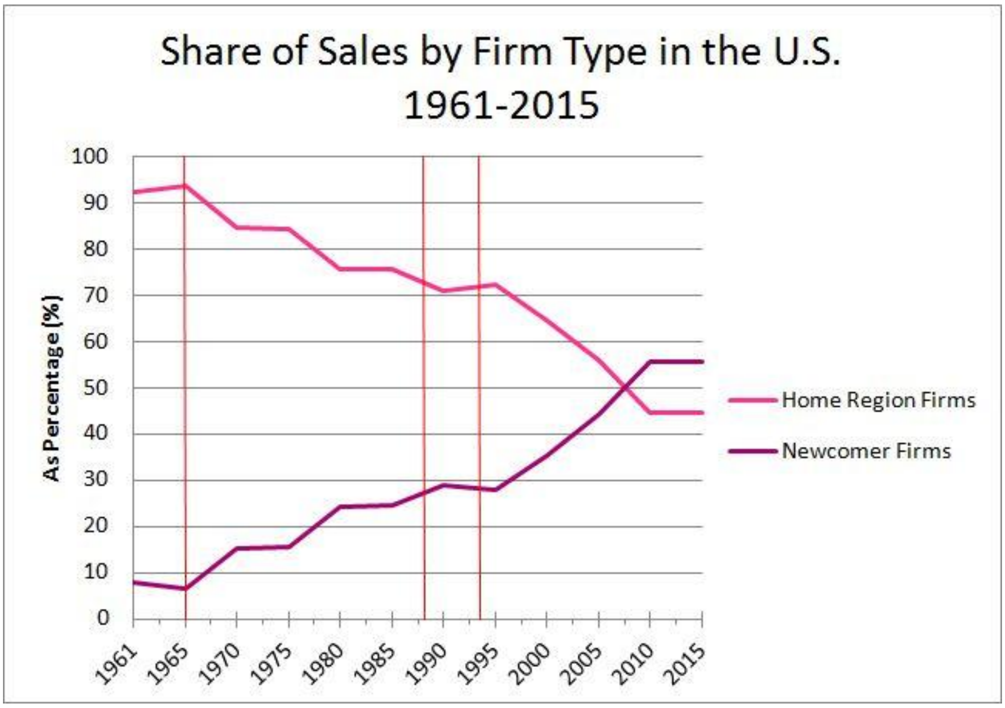

Figure 3.7 – Share of Sales in the US by Firm-type 1961-2015

The 'Big Three', in terms of sales, is no longer an exclusively US group: GM, Ford, and Toyota in the US by 2015; in Canada it was FCA/Chrysler, Ford, and GM in the same year; and in Mexico it was Nissan-Renault, GM, and the Volkswagen Group. Nevertheless, customer demand and market shares have become relatively similar across the three NAFTA countries. Unlike in Europe, Toyota has become a major player in North America as well as Honda, Nissan, and increasingly Hyundai-Kia. (More in Chapter 5) Similarly to the EU, new entrants changed the dynamics of 'home-states' of firms to 'host-states' of manufacturing and sourcing locations, creating an interwoven and highly regionalised production network across the region with repercussion for the regulatory dynamics (see Chapters 4 and 6).

NAFTA manufactured 18 percent of the 77.7 million passenger cars produced worldwide in 2016.[161] While this makes it the third most important producing region in the world, it has lost its preeminent position to Europe first then to Asia in recent years. (See

[161] ACEA, *The Automobile Industry 2017-2018*, 20

Table 3.3) Within NAFTA, the US is leading the pack but Mexico has also become a major manufacturer country, both in terms of volume and jobs created. In 2016, the US produced 59 percent of all passenger cars manufactured in NAFTA, Mexico 28 percent, while Canada around 13 percent.[162] The increasing importance of Mexico however is not necessarily a net loss to the US: 90 percent of new investment in Mexico since 2009 was announced by European and Japanese firms, shifting capacities there from their home regions.[163] US content in vehicles made in Mexico and sold in the US is at 40 percent today, while before NAFTA it was only 5 percent.[164]

The original Big Three (GM, Ford, Chrysler) started manufacturing in all NAFTA countries well before regionalism began (see 3.2.1). Newcomers, initially mainly Europeans, came after WW2 but their presence has never been robust, and some of the biggest even stopped selling in the US (e.g. Peugeot, Renault), or suspended their sales for a while (e.g. Fiat), or suspended local manufacturing only to return later (e.g. Volkswagen). Their presence was always stronger in Mexico for various reasons. The Japanese started selling from the mid-1960s and 1970s. Later, local manufacturing was established, leading to strong market positions by the 1990s, which further strengthened by the 2000s as home-region firms have weakened. (See Chapters 4 and 5) In fact, NAFTA, and its overwhelmingly dominant market, the US, have become highly competitive of multiple players, similarly to the EU.

[162] Author's calculations based on CCFA, "World Production", 2016, 66
[163] Centre for Automotive Research, *NAFTA Briefing: Trade Benefits to the Automotive Industry and Potential Consequences of Withdrawal from the Agreement*, (Ann Arbor: CAR, 2017), 3
[164] Ibid., 7-8

3.5.2 The Regulatory Approach

NAFTA's approach to integration has been strictly confined to intergovernmentalism, and been shallower in scope and depth. It applied negative integration measures almost uniquely, although its labour and environmental protection side agreements were argued to be more demanding on member states (i.e. right to strike, etc.) than those in the EU.[165] However, there was little incentive for the US (and Canada) to tie their hands with a complex institutional mechanism when there was little demand and need for it. The intergovernmentalist approach also fitted the liberal economic policies of President Salinas of Mexico, who wanted to lock-in his reforms through an international treaty; for this, he had to make a case for overwriting his country's long-held policy of keeping a distance from its northern neighbour.[166]

Disputes are settled through the NAFTA Free Trade Commission of ministerial representatives of member countries, and it also oversees the over 30 NAFTA working groups and committees on trade in goods, rules of origin, customs, standards, government procurement, or cross-border movement of business people, etc.[167] Dispute settlements are administered by the NAFTA Secretariat which has a national section in each capital; these are mirror images of each other, each headed by a secretary who is appointed by the respective national government.[168] Thus, even the institutional set-up is strictly intergovernmental which, in itself, does not exclude the possibility of developing robust regional institutions.

[165] Duina, *The Social Construction of Free Trade*, 108
[166] Tom Long, *Echoes of 1992: The NAFTA Negotiations and North America Now*, (Washington DC: Wilson Center, 2014), 4-5
[167] NAFTA, *NaftaNow.org*
[168] NAFTA Secretariat, https://www.nafta-sec-alena.org/Home/About-the-NAFTA-Secretariat Accessed: 30 August 2017

However, there appears to be relatively little demand by non-state actors and willingness by states to expand their scope and depth.

3.6 Conclusions

This chapter briefly reviewed the historical development of the industry, and argued that three major changes have taken place before and during regionalism which shaped firms' attitudes to regionalisation: the predominantly national organisation of the industry moved towards 'internationalising'; the predominant economic approach in manufacturing countries gradually changed from Keynesianism to liberalism; and the industry moved from self-regulation to multi-level regulation. It was also argued that today, the industry is characterised by the coexistence of national-, regional-, and global-level operation, with increasing transactions between the the triad of manufacturing regions.

The industry's key players in both regions were introduced. In the EU, supranationality was identified as the main logic through which negative, positive and ideational measures of regionalism were exerting their influence on regionalisation. Several policies, relevant for the industry were highlighted and placed in a historical context: dismantling of tariffs, NTBs, standards, competition, merger control, and state aid policy. In NAFTA, intergovernmentalism was highlighted as the driving logic behind mainly negative integration measures (i.e. dismantling of tariffs, some equivalence of standards, etc.). Their role and influence will be discussed in upcoming chapters.

CHAPTER 4 – LOCATIONAL CHANGES IN THE REGIONAL SPACE

4.1 Introduction

This chapter explores locational changes in manufacturing sites in both the EU and NAFTA since regionalism began, and examines the role regionalism played in those changes. In NAFTA's case, it will consider changes since the Auto Pact between Canada and the US in 1964; in the EU since the Treaty of Rome in 1957. The impact of regionalism (negative and positive integration measures, and ideational elements), as well as non-regionalism related factors will be traced on the regionalisation of production chains. It will be argued that regionalism had a relatively *strong* impact in both the EU and NAFTA. Regionalisation was primarily driven by negative integration measures which enabled non-regionalism related dynamics to unfold in both regions. Consequently, it will also be argued that the type and intensity of regionalism in both the EU and NAFTA were *secondary* in determining regionalisation outcomes.

Negative integration measures (i.e. removing barriers to trade and some factor movements) have led to the regionalisation of production in both regions. This meant both *spatial* and *organisational* changes. Manufacturing locations dispersed from previous centres of productions to new locations, typically to low-wage/low-cost zones – this was strongly helped by successive enlargements to low-wage/low-cost countries (e.g. Iberian Peninsula, Eastern Europe, and Mexico), and non-regionalism factors (e.g. cost concerns). However, traditional locations in the industrial core successfully retained plants, and the bulk of production (in NAFTA, partly because uncapped state aid in the US could compete with Mexican wages; in the EU because of the influence of national politics on regional governance). Regionalism also enabled the vertical and horizontal integration of sites into regional production networks. In the EU, regionalism was linked to addressing scale problems; this was of less importance in NAFTA for structural reasons.

Similarity between the EU and NAFTA were driven by similar negative integration measures (i.e. removal of tariffs and barriers to trade), and the inherently similar business/industry-specific logic of the same firms. However, the similar outcome in terms of both *spatial* (i.e. the development of a polycentric and dispersed manufacturing network at the industry level), and *organisational* changes (i.e. the horizontal/vertical integration of sites within firms) is still argued to be unexpected from the perspective of regionalism. After all in the EU several positive integration measures, and ideational factors could also influence regionalisation while these were largely absent in NAFTA. Nevertheless, variation drivers were found to have been weakened by two congruent developments: first, positive integration and ideational factors had less importance for firms, and second, structural and historical differences in the regional development of the industry were balanced out by other measures. The chapter is organised the following way: after a brief overview of regionalism-related independent variables, I will discuss the indicators of regionalisation, and chapter-specific data and research design. This will be followed by a thick description of regionalisation in the European Union and in NAFTA, discussing my empirical findings.

4.1.1 The Impact of Regionalism

Negative integration is the removal of barriers to cross-border/regional activity, concerning the free movement of people, goods, capital, and services; a deregulatory move.[169] (See 2.2.1.1) Its advancement can be through 'widening', that is by adding new areas of tariff elimination (in case of sectoral agreements), or by adding new countries through enlargements; or through 'deepening', that is going beyond simple tariff reduction/removal and tackling non-tariff barriers (NTBs) such as standards, rules of origin, procurement requirements, etc. Negative integration enables economic processes to unfold but it does not create them necessarily. This is why many free trade agreements without proper consumer demand, and/or firms wanting to trade (e.g. SAARC) come to naught. Negative integration and its effects are at the heart of any integration, advanced or otherwise. Thus, the EU's functioning still rests on the same mechanism of negative integration as does NAFTA's, and this acts as a strong similarity driver between the two regions, regardless of the additional layers of integration in the EU.

Regionalisation of operations can also benefit from **positive integration** measures. As argued previously (2.2.1.1), positive integration is a common set of rules and/or policies, exercised either by supranational or joint institutions with the aim to ensure and actively help the economic objectives of market integration.[170] Regional-level legislation, or when regional institutions have strong, intrusive powers are well beyond deregulation and removal of barriers. In this vein common travel areas, which abolish internal and establish common external border-control policies (e.g. Schengen), regional competition policy, rules of establishment, etc. are considered here to be positive integration measures. Such policies may

[169] Pinder, *Positive Integration and Negative Integration*, 90; Majone, *Regulation in Comparative Perspective*, 310-1
[170] Ibid.

simply aim to regulate issues that emerge at an earlier stage of regionalism. They may also be implemented in the hope of further regionalisation, or if member states are unhappy with the responsiveness of economic actors to regionalism's incentives.

This leads to **'ideational factors'** in the broader sense: higher order goals of regionalism, the promise of/commitment to integration, but also shared meanings of regional governance, and rules.[171] While investment decisions are clearly not based on the idea of 'ever closer unions', or what member states of a region would like to achieve, but by their commitment to such goals, or promising more than what is on offer at an earlier stage of integration can help orient firms in their decisions by creating a more calculable environment. Strong commitment institutions, together with the promise of further integration, enlargements, etc. can enhance what Mattli calls 'supply side' of integration.[172] This can influence 'winners of regionalism' in their long-term decisions, and their commitment to regionalisation.

4.1.2 Indicators of Regionalisation

4.1.2.1 Spatial Changes

Removal of tariffs may not necessarily lead to spatial changes initially. Firms can continue operating at existing locations, or if demand increases, add capacity to existing sites; in this case, agglomeration dynamics would be salient. Krugman argues that a peculiar circularity tends to keep the industrial core once it is established, often by historical accidents: manufacturers would choose a single location to minimise transportation costs close to where

[171] Duina, *The Social Construction of Free Trade*, 4-5
[172] Mattli, *Explaining Regional Integration Outcomes*, 1-27

demand is large, and the demand is large where the majority of manufacturers choose to locate.[173] In Europe, the centuries-long development of the industrial core of the 'blue banana', which traditionally gave home to large parts of national car manufacturing, is the result of such pervasive cumulative processes. Once the regional market is created, growing demand could be theoretically satisfied by adding extra capacity to existing plants, demand for extra labour force could be met by internal migration from periphery countries which also mitigates initial wage pressures. After all, similar processes took place in the United States: car production clustered in the 'manufacturing belt' around the Detroit area in Michigan and Ohio, in close proximity to customers and coal from the Appalachian Mountains.

In 1968, only ten years after the Treaty of Rome establishing the European Economic Community came into force, Pinder was already contemplating what he referred to as a "pessimistic scenario" that an economic union could favour the developed core to the detriment of the periphery:

> "The dynamic areas [core] will always be developing new and better products or lower-cost methods of production. [...] If the weaker area is part of the same national economy or economic union its case is even worse, because it probably cannot devalue [or depress its wages]; capital will flow to the dynamic region where, even if wages are higher, the economic and social infrastructure is better and the business environment is such as to lead people to expect higher profits; and the enterprising people will move to the dynamic area, thus continually draining the weaker area of its energy and talent."[174]

This is similar to a more recent argument by Reinert and Kattel on asymmetrical integration.[175]

173 Krugman, *History and Industry Location*, 80-1
174 Pinder, *Positive Integration and Negative Integration*, 96
175 Erik S. Reinert and Rainer Kattel, "Eastern European Enlargement as Europe's Attempted Economic Suicide?", *Working Papers in Technology Governance and Economic Dynamics*, (Norway: The Other Canon Foundation, Tallin: Tallin University of Technology, No. 14, July 2007), 1-33

If however the region has an industrial core and periphery with significant cost and wage differentials between countries or parts of the region, this could also highly incentivise relocation and the setting-up of new sites in low-wage/low-cost zones. When regional competition increases, as some firms always do better at capturing new markets, core-periphery dynamics become more salient as a way to reduce unit costs, particularly in the car industry which has relatively low profit margins.[176]

A regional market also increases competition by attracting newcomers. They often set up manufacturing to be in close proximity to (potential) customers, and/or because regional regulations frequently include import restrictions (e.g. against Japanese firms in the EEC and the US). Newcomers either buy local firms (e.g. GM in Europe), or typically enter 'clean-slate' (e.g. Toyota, Nissan, Hyundai-Kia, etc.). Less constrained by national considerations, especially clean-slate entrants, their company structure and value chains are typically organised regionally from the start. Home-region firms can also take advantage of regionalisation opportunities. As regional competition becomes fiercer, even 'regionalising laggards' have to overcome structural constraints and evolve into fully regionalised ones. As Knickerbocker argues, FDI in manufacturing oligopolies tends to conform to a follow-the-leader pattern of defensive investment; "rival firms in an industry composed of a few large firms counter one another's moves by making similar moves themselves" to minimise risk.[177] Thus, the regionalisation patterns of early adopters can heavily influence the way rival firms regionalise.

[176] Ernst & Young, "EBIT Margin of the Leading Car Manufacturers in 2013", *Statista.com,* Accessed: 3 April 2015, http://www.statista.com/statistics/280346/ebit-margin-of-the-leading-car-manufacturers/

[177] Frederick T. Knickerbocker, Oligopolistic Reaction and Multinational Enterprise, (Boston: Harvard University School of Business Administration, 1973) Cited by Douglas C. Bennett and Kenneth E. Sharpe, "Agenda Setting and Bargaining Power: The Mexican State versus Transnational Automobile Corporations", In Arthur Kohli (ed.), *The State and Development in the Third World,* (Princeton: Princeton University Press 1991), 209-241

4.1.2.2 Organisational Changes

Regionalism, from regional market creation to the the deepening or advancing of regional integration, seldom leaves firms unaffected.[178] With the creation of a 'regional space', even at its most basic form (i.e. free trade area), firms can expand their operations. This may simply be trading across borders but more typically this includes a regional re-organisation of manufacturing and other operations. Firms mainly follow two major types of organisation strategies: a market-oriented organisation (horizontal strategy) and a production-oriented organisation (vertical strategy) or a combination of the two.[179] In horizontally-integrated firms certain products, or parts of a product range are confined to a single location. Vertical integration, the separation of intermediate products and final assembly, may well suit firms operating in an advanced regional integration (e.g. the EU) because comparative advantages of certain geographical locations can be more freely exploited. Vertical integration has indeed been observed at car manufacturers after the start of the Single Market programme.[180]

Moving certain elements of manufacturing to low-wage areas may not be a viable path for all types of firms; the process often involves moving low-added value production segments only, therefore, it may be attractive for those firms whose products contain such segments where they can achieve higher savings than transport and training costs. Layan and Lung argue that although some phases of production have been relocated to other countries within the region, the European automobile industry has displayed a certain amount of geographic inertia, partly because relocation costs (closures and training new workforce) are

[178] Breslin and Higgott, *Studying Regions*, 344-345
[179] Charles Bohan and Berengere Gautier, "Multilevel Analysis of Corporation Networks: A Comparison Between Agro-Food and Automobile Strategies for Urban Development", In: Celine Rozenblat and Guy Melancon (eds.), *Methods for Multilevel Analysis and Visualisation of Geographical Networks*, (Methodos Series, Vol. 11, 2013), 156
[180] Dunning and Sauvant, *From the Common Market to EC92*, 57-85

high.[181] Thus, the EU's expansion to the Iberian Peninsula and East Central Europe has not led to the disappearing of production at Western European sites, or in the US following the opening to Mexico.

In a parallel process, high value-added activities clustered in high-wage/high-cost zones.[182] In the case of car manufacturers R&D increasingly converged to metropolitan areas where highly qualified work-force is abound. Financial activities also concentrated in major international financial centres, or in proximity of corporate headquarters. Inversely, sales activities (including associated financial services) have dispersed in order to increase proximity to consumers. The distribution activities have remained largely organised on a country-by-country basis to fit in with national institutional specificities.[183] Thus, the organisational principle of certain parts of the productive process has become regional, while others remained or moved to a national level.

4.1.3 Chapter-specific Data and Research Design

Data is derived from several sources: semi-structured interviews, documents, relevant regional legislation (treaties, laws, etc.), and specialist press. First, I collected data from firms of their production sites and set them against maps showing the EU's and NAFTA's high wage/high cost and low-wage/low-cost zones. In the EU's case 'percentage of EU average' is used, calculated from the then available GDP per capita in purchase power parity (PPP); in NAFTA, available real GDP per capita maps were used as proxy. The maps on production

[181] Layan and Lung, *The Dynamics of Regional Integration*, 67
[182] Robert Hunter Wade, "The Disturbing Rise in Poverty and Inequality: Is It All a 'Big Lie'", In: David Held and Mathias Koenig-Archibugi (eds.), *Taming Globalization. Frontiers of Governance*, (Cambridge: Polity, 2003), 34
[183] Layan and Lung, *The Dynamics of Regional Integration*, 66

locations set against high/cost-low/cost zones are snapshots of the year 2014 (EU), and for availability reasons, 2008 (NAFTA). While the GDP/capita data can change quickly (especially with the Great Recession), the data is only used to show approximate core-periphery areas within the EU and NAFTA, which are relatively persistent and change little, and only over a long period. Production site locations change over even longer cycles (e.g. c15-30 years), if and when they change, and thus these maps serve their purpose in reflecting developmental differences. In the EU's case at NUTS-2 level (e.g. German *Länder*); in NAFTA's case equivalent state-level (e.g. Ohio, Michigan, etc.) data were used. This was to test as a first step at firm and industry level whether the creation of regional space has led to agglomeration effects to the core, or to the contrary, cost cutting has become the main driver leading to the "giant sucking sound" of the core losing manufacturing to the periphery.[184] It was also to test whether production has become more integrated and lean, or regionally dispersed.

Production locations of individual firms in both the EU and NAFTA were compiled to map out behavioural patterns of firm types, and later regional, industry-level maps were added for further EU-NAFTA comparison. The maps gave a snapshot on the current 'end point' of regionalisation; the start point (national car industries mostly confined to their country of origins) is known. To link locational changes to the advancement of regionalism between the 'end points', timelines of locational changes were drawn up, using primary data from selected firms, and secondary data from specialist press and the literature. This was followed by anonymous interviews with manufacturers' representatives (high ranking members of regional management and national-level directors of home-region and newcomer firms). Questions were starting from general, 'grand-tour questions' (e.g. 'what factors do

[184] Ross Perot, US Presidential Candidate, commenting on the then planned NAFTA's potential effect on US manufacturing, "Transcript of the Second TV Debate Between Bush, Clinton, and Perot", *The New York Times*, (16 October 1992), http://www.nytimes.com/1992/10/16/us/the-1992-campaign-transcript-of-2d-tv-debate-between-bush-clinton-and-perot.html Accessed: 29 January 2017

influence your locational decisions?' or 'could you describe how you choose new manufacturing sites?') to specific ones inquiring about certain locational choices, and specific regionalism-related influencing factors (e.g. abolishing of tariffs, customs union, single market, Schengen, the euro and, at the time hypothetical, counterfactual questions on undoing regionalism with Brexit). Finally, further interviews were conducted with industry-specialists to provide additional context to the data analysis, with regional regulators, and investment agency officials to further qualify the mechanism of locational change.

The chapter will also consider three types of firm approaches to production regionalisation: that of *home-region firms* (firms which are originally from one of the countries of a region – e.g. VW in Europe), and two types of 'newcomers': *embedded regionalisers* (firms which either entered national markets in the region well before regionalism – e.g. Ford in Europe; or entered the market through merger and acquisition – e.g. GM in Germany), and *clean-slate entry regionalisers* (e.g. Toyota in the EU and NAFTA). While this typology has no direct bearing on answering the questions on the impact of regionalism and/or the importance of its type, it is nevertheless argued that different market entry modes, identified at a preliminary stage of the empirical enquiry, have a role in explaining regionalisation dynamics: early regionalisers acted as catalysts, compelling laggards to emulate their approach.

4.2 Regionalisation of Manufacturing Locations in the EU

4.2.1 The Impact of Negative Integration

4.2.1.1 1957 – 1970s: Early Regionalisers vs. National Champions

European integration, at the beginning, had an asymmetric impact: relatively limited effect on home-region firms, while embedded-regionalisers implemented organisational changes. Following the Treaty of Rome in 1957 and the removal of tariffs, European manufacturers were mainly preoccupied with their domestic markets. National car makers in France, Germany, and Italy could initially grow and consolidate on their home markets. This was also the era of Fordism in Europe (see 3.2.2): growth and operations were nationally embedded, and intra-regional trading ('exporting') really started to take off after quantitative restrictions on it were abolished in 1962, and following the completion of the Customs Union in 1968. One of the main barriers for any home-region firm to become regionally more active was that each of the three important markets in the EU-6 (West Germany, France, and Italy) had strong domestic firms, which made any serious market entry attempt very difficult for outsiders.

Fiat, Peugeot-Citroen, and Renault, for instance, could only ever grab around 5 percent of the German market respectively. This was broadly true the other way around, too: until the mid- and late 1970s, the French bought mainly French cars (over 75 percent of all sales until around the early 1980s), and Italians, Italian-made cars.[185] Nevertheless, there was much debate between firms and countries about how they could gain access to non-EEC

[185] Author's calculations based on Comité des Constructeurs Français d'Automobiles, "New Passenger Car Registrations by Make 1980-2014", *The French Automotive Industry – Analysis and Statistics 2015*, (Paris: CCFA, 2016);
Statistische Mitteilungen des Kraftfahrt Bundesamtes Deutschland 1965-2008;
Fiat and FCA Annual Reports

markets (which some of them did), increase intra-regional activity, and compete with embedded regionaliser US firms (present in West Germany and the Benelux), while protecting their respective national (and colonial) positions.[186] Any attempts at federalising car industry governance to become truly supranational failed at member states' resistance.[187]

US car makers present in Europe however started to regionalise much earlier than Europeans, putting considerable pressure on some home-region firms. Ford was able to become the first truly 'Europeanised' carmaker, a status that 'local' Volkswagen only achieved by acquiring Seat and Skoda many years later.[188] Ford of Europe was founded in 1967, merging Ford of UK and Ford of Germany. GM began merging platforms and its regional product line, using the Vauxhall brand in the UK and Opel everywhere from the late 1970s.[189] (More on merging platforms in Chapter 5) GM and Ford were 'European' car makers *par excellence* by virtue of manufacturing in several European countries. Both achieved significant market shares: in West Germany, Ford's market share went from around 8 percent in 1957 to over 18 percent by 1967; that year, GM-Opel and Ford together had over 40 percent market share. In West Germany, GM and Ford were the second and third biggest firms after VW, based on sales until 1980. In the UK, they achieved 35-45 percent market share by the late 1960s. Their early experiences with building scale in North America and becoming internationally active early on (see Chapter 3), had set them apart from others in Europe, and eventually provided a regionalisation template for their rivals.

Early regionalisation by Ford demonstrates the strong impact of regionalism. Already in 1956-57, as the Treaty of Rome was about to be signed, Ford HQ in the US raised the issue

[186] Bernard Jullien, Tommaso Pardi and Sigfrido Ramirez Perez, "The EU's Government of Automobiles", In: Bernard Jullien and Andy Smith, *The EU's Government of Industries – Markets, Institutions, and Politics*, (London and New York: Routledge, 2015), 59
[187] Ibid., 61
[188] Lung and Van Tulder, *In Search of a Viable Automobile Space*, 11
[189] Thomas Fetzer, "Reversing Gear: Trade Union Responses to Economic Crises at Opel (1074-1985)", *Business History*, (Vol. 59, No. 1, 2017), 145-6 141-157

of Ford's dual product line and operation in Europe, arguing that the emerging Common Market was likely to become of great importance. HQ pushed for a more 'European approach' to produce models which could compete with Volkswagen and Opel, and focus on scale instead of the 'dental approach' of trying to fill every market gap.[190] Ford of Europe was planned on the assumption that Britain would soon join the EEC (by 1962); regionalising operations would have not made sense otherwise as Ford was already losing around US$100 on each British-made car it sold in the EEC because of import tariffs.[191] After De Gaulle's veto of Britain's accession in 1963, plans for Ford of Europe were shelved. However when Gaullists weakened in 1966, Britain's membership and the EEC's merger with EFTA returned to the agenda. On the back of renewed optimism about Europe's fate, Henry Ford II took an impromptu executive decision in 1967 to create Ford of Europe, against the turf-protecting managements in the UK and Germany, even if it was "more a declaration of intent than the completion of a process" at the time.[192]

Ford's case supports several hitherto made arguments: first, it demonstrates the strong and direct impact of negative integration on early regionalisation decisions. Regionalism created pressure by increasing competition (and external tariffs), and incentives to regionally rationalise productive processes. Ford's interest in regional reorganisation was clearly linked to the ebbs and flows of (potential) regionalism. Second, it demonstrates how negative integration enables non-regionalism related processes to unfold. Ford's 'endogenous' concern was increasing capacities for the post-war boom; the question was whether this should be done out of Britain even at a loss, or allocate all EEC production to Germany.[193] The decade-long intra-company debates about the difficulty of bringing sought-after models to the

[190] Steven Tolliday, "The Rise of Ford in Britain: From Sales Agency to Market Leader, 1904-1980, In: Bonin et al, *Ford, 1903-2003*, 31-32
[191] Ibid., 41
[192] Steven Tolliday, "The Origins of Ford of Europe: From Multidomestic to Transnational Corporation, 1903-1975, In: Bonin et al, *Ford, 1903-2003*, 155 and 190-1
[193] Tolliday, *The Rise of Ford in Britain*, 41

Continent, rationalising production, adding capacities, while moving away from the confines of national markets became a Gordian knot inside the company which was eventually cut by regionalism when Britain joined the EEC, and enabled the full exploitation of Ford of Europe's potential. Third, it showed that embedded regionalisers had to harmonise competing national considerations simultaneously which put a strong incentive on becoming first movers in regionalisation, and finally, fourth, it showed that regionalism effectuates changes through the diverse ways firms interpret their environment.

4.2.1.2 1970s – 1989: The Japanese, Enlargements, and Gradual Regionalisation

In the 1970s, the arrival of Japanese manufacturers further increased competitive pressure. Scale issues also became more pressing for European manufacturers. It was successive enlargements to more fluid markets that provided the opportunity. In the UK, after its accession to the EEC in 1973, national champion British Leyland began struggling. It faced strong competition from importers and locally producing foreigners (i.e. Ford, GM). The US firms had c.35-45 percent combined market share until the 1990s.[194] Moreover, British Leyland did not have integrated European operations to counterbalance its weakening in the UK. Margaret Thatcher's election as Prime Minister in 1979 meant a shift to *laissez-faire* economics: she encouraged foreign investments on an already competitive market, in effect applying a shock therapy to British Leyland, opening opportunities to rivals.

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[194] Author's calculations based on Timothy Whisler, *The British Motor Industry, 1945-94: A Case Study in Industrial Decline*, (Oxford: Oxford University Press, 1999), 122 and 385; Bonin et al, *Ford, 1903-2003*, 131; Society of Motor Manufacturers and Traders (SMMT), http://www.smmt.co.uk/; BBC News, "Record Car UK Sales During 2003", *BBC*, (7 January 2004), http://news.bbc.co.uk/2/hi/business/3374865.stm Accessed: 15 August 2016

Enlargement to the Iberian Peninsula, Spain in particular, was pivotal; it meant easy access to a low-wage/low-cost periphery for the first time, promising new markets, and the possible acquisition of local brands. In 1975, after Franco's death, Spain committed to full European integration, signalling a calculable roadmap to economic actors.[195] While EEC membership was 11 years away, less risk-averse early regionalisers could move swiftly: Ford set up a factory in Valencia, in 1976, Nissan announced its new Barcelona plant in 1980, GM's Zaragoza factory opened in 1982.[196] Volkswagen began acquiring Seat in 1986, becoming its first step towards regionalising its operations. (Renault has been produced in Valladoid since 1951 under a license agreement but the plant became a fully-owned Renault factory only in 2000) Thus, embedded and clean-slate entry regionalisers were at the forefront to exploit new locations (see Figure 4.1), even if further regionalisation attempts were constrained by nationally governed markets and NTBs.

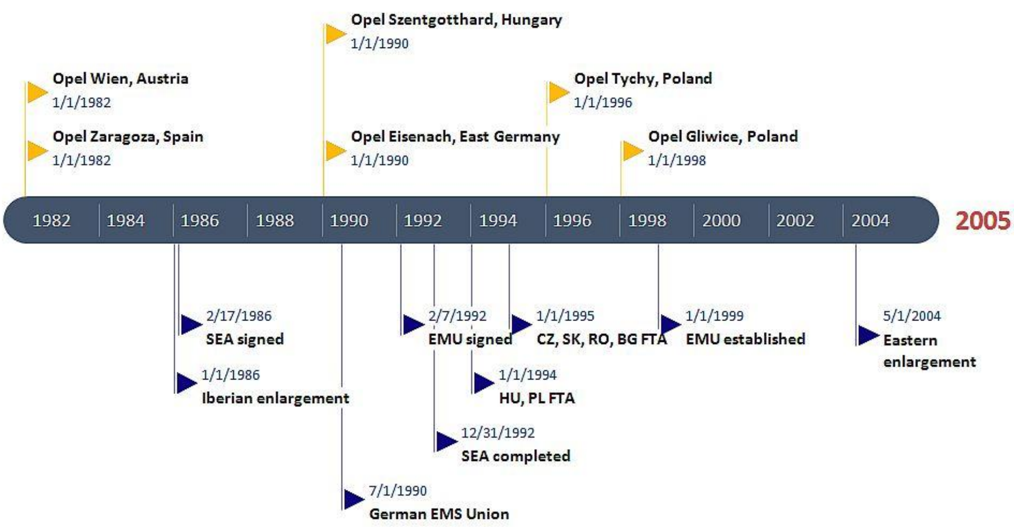

Figure 4.1 – Timeline of GM-Opel Plant Openings in the EU 1982-2005

[195] Charles Powell, *The Long Road to Europe: Spain and the European Community*, 1957-1986, (Madrid: Elcano Royal Institute, 2015), 12, Accessed: 8 May 2017, http://www.realinstitutoelcano.org/wps/wcm/connect/6a64870048b28234b015fb735801e641/DT9-2015-Powell-Long-Road-Europe-Spain-European-Community-1957-1986.pdf?MOD=AJPERES&CACHEID=6a64870048b28234b015fb735801e641

[196] Henry Scott Stokes, "Nissan Sets Production in Spain; Nissan Venture in Spain", *The New York Times*, (New York: 21 January 1980), Page D1

Meanwhile, Japanese firms increased competition in Europe and internationally. The Single Market programme of the 1980s was, in part, a response to this. A trade-off between manufacturers and the EC: less sheltering from national governments on domestic markets in exchange for increasing regionalism (regional rules, standards, etc.) to incentivise market access across the EC. In fact, this ended the initial phase of European integration (1957-1985) which had been constructed around the interest of national champions; instead of becoming more protective, Europe opened up. (INDUSTRY ANALYST 1)

The conception of the regional space also began to shift: firms began to see the potential of a truly common market as opposed to the mosaic of national markets. Embedded regionalisers (e.g. Ford, and GM) were already at the forefront of this. Clean-slate entry regionalisers, (e.g. Toyota, Nissan, etc.) and other foreign firms had no choice but to treat the region as a single space from the beginning. Some even chose Brussels and not the traditional car manufacturing clusters (e.g. Paris, Turin, etc.) to host their regional headquarters, signalling a different, 'regional' understanding of the space.[197]

4.2.1.3 1990 – Today: Winds of Change

By the time the Berlin Wall came down, opening East Central Europe a vast low-wage/low-cost zone in close proximity to main car manufacturing locations and markets, relocation and regionalisation strategies were already common. This included acquisitions (Skoda, Dacia, etc.) but typically new investments: relocating initially low value-added segments of productions (e.g. CKD assembly) often simply to manufacture for re-exporting.

[197] Yannick Lung, "The Changing Geography of the European Automobile System", *Cahier du GRES*, (Bordeaux-Toulouse, No. 10, September 2003), 7

Of previously reluctant home-region firms especially the Germans were quick to expand. (See Figure 4.2)

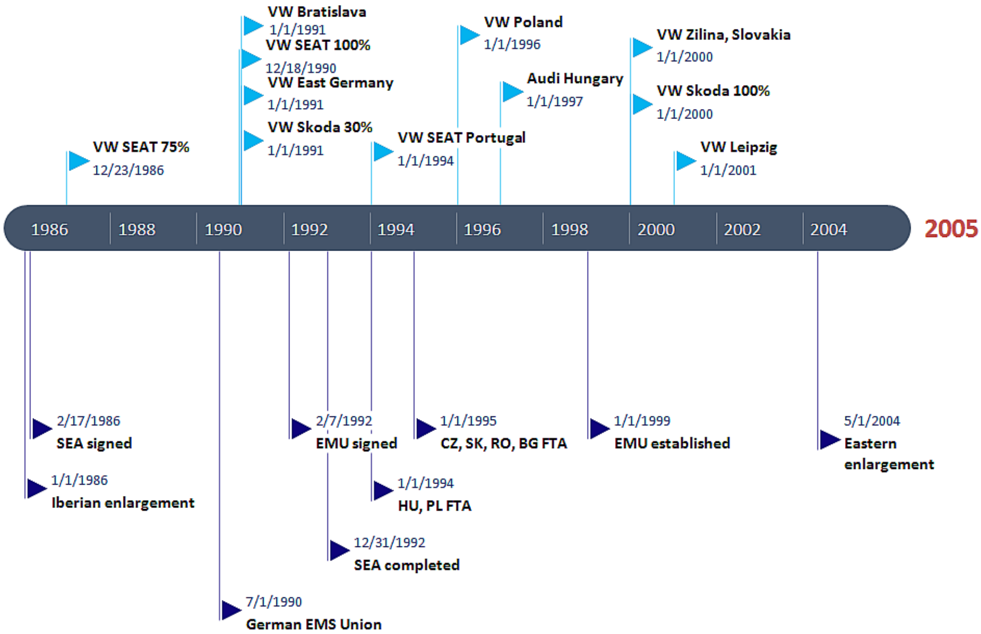

Figure 4.2 – **Timeline of VW Group Plant Openings in the EU 1986-2005**

Figure 4.2 shows that the Single Market programme, the Iberian enlargement, and the promise of and the eventual signing of ‘Europe Accords’ (FTA with the promise of full membership) with ECE countries acted as catalysts for regionalisation; adding new sites, and regionally reorganising operations to build scale, cut costs, develop new markets, and increase market share. The Volkswagen Group’s dynamic merger and acquisition programme also saw it purchase Audi (in 1965), Seat (1980s), Skoda, Bentley, Bugatti, Lamborghini (1990s), and Porsche (2000s). Volkswagen maintained its ‘legacy’ manufacturing sites in areas which are now some of the most expensive high-wage/high-cost zones. Sometimes, it was simply not feasible to build up similar expertise at new locations; customers of Bugatti or Lamborghini, for instance, also attribute extra value to the ‘Made in Italy’ label. This has made VW’s manufacturing network the most polycentric and dispersed in Europe (see Figure 4.3[198]).

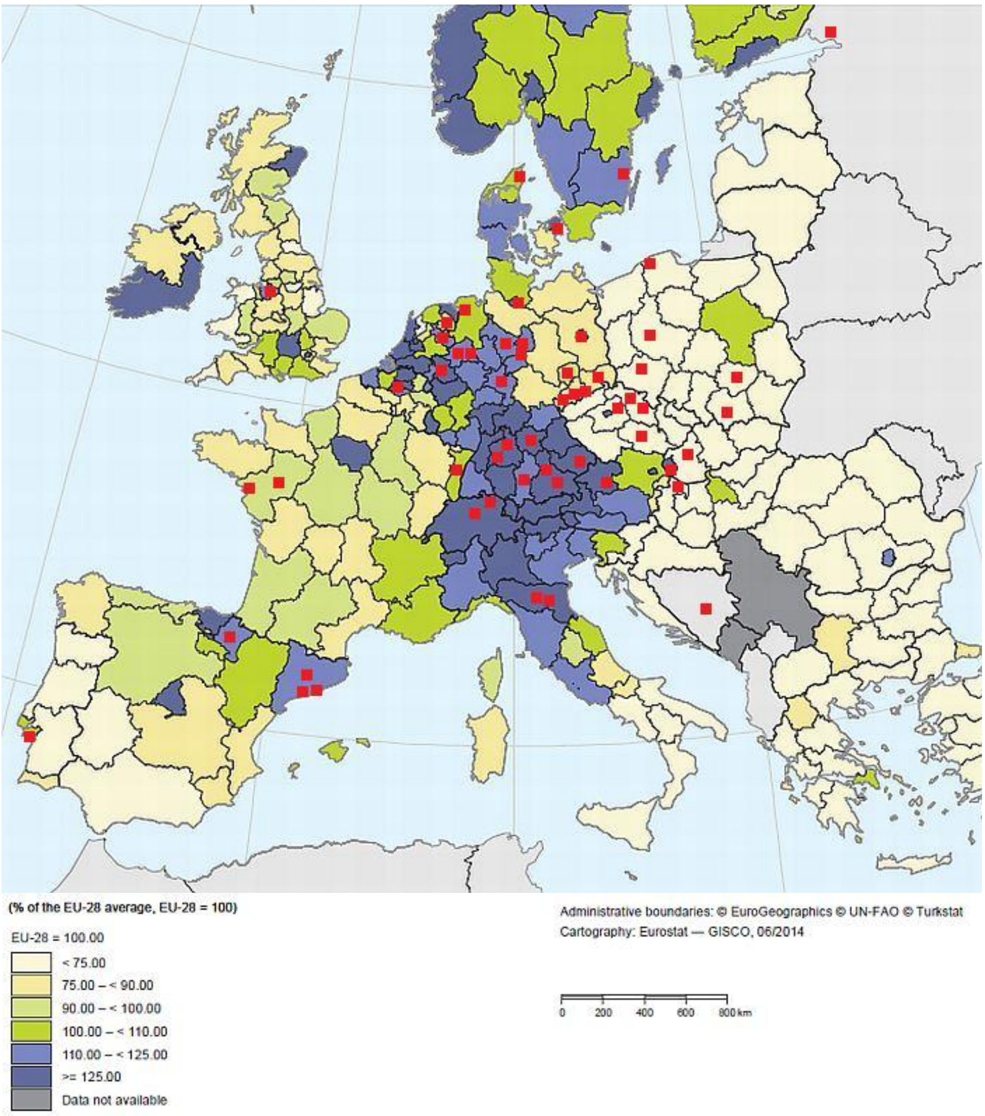

Figure 4.3 – Map of VW Group’s Manufacturing Locations in the EU 2015

[198] Manufacturing sites, marked with red, are set against NUTS-2 regions showing GDP per capita in PPS as percentage of EU-28 average, as available by Eurostat in spring 2015. GDP per capita data are applied here only as proxy for low-wage/low-cost areas to highlight relative core/periphery divisions.
Map made by author based on Eurostat Statistical Atlas, “Regional Yearbook 2014”, http://ec.europa.eu/eurostat/statistical-atlas/gis/viewer/?year=2014 Accessed: 19 February 2015; Volkswagen Group, “Production Plants as of 31 December 2013”, Accessed: 10 February 2015 http://www.volkswagenag.com/content/vwcorp/content/en/the_group/production_plants.html

The more typical layout for home-region firms is exemplified by the PSA Group (prior to its acquisition of Opel): strong reliance on one's home country with additional new manufacturing sites in low-wage/low-cost locations (see Figure 4.4[199]).

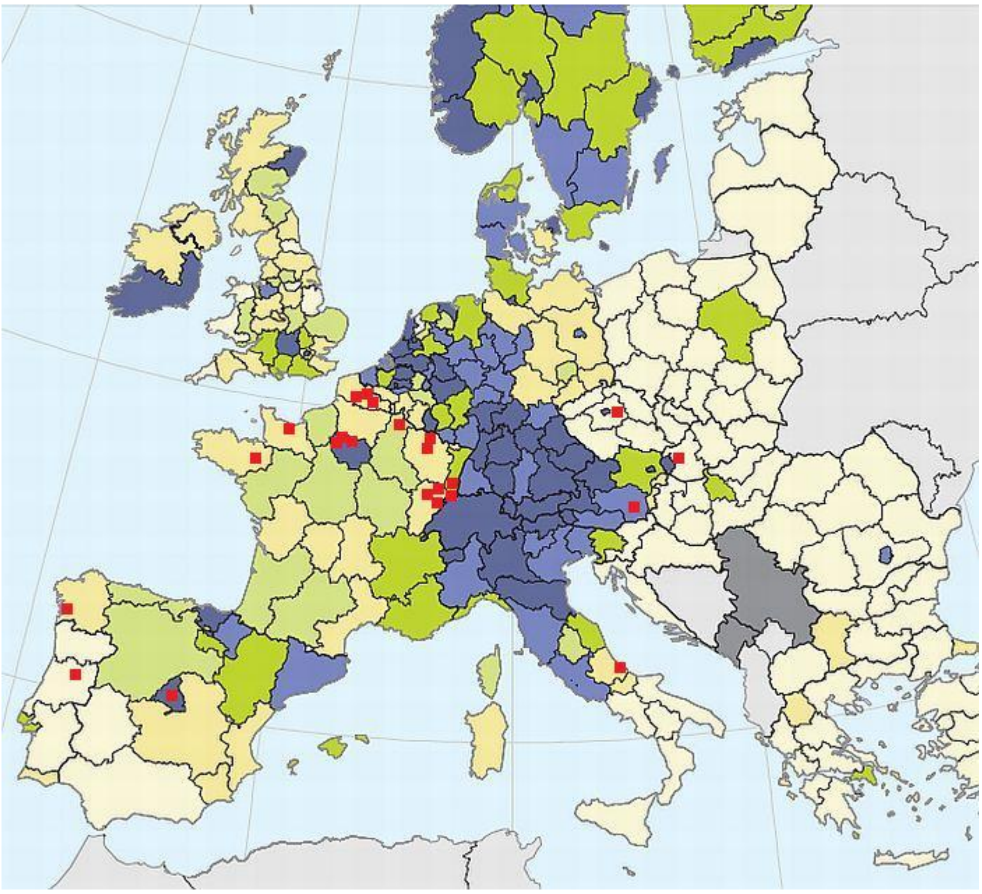

Figure 4.4 – Map of PSA Group's Manufacturing Locations in the EU 2015

The dominance of French NUTS-2 regions in manufacturing, and their exclusivity as R&D and company management sites show persistent national embeddedness, while plants in East Central Europe and the Iberian Peninsula are indicators of a regional outlook. Firms like PSA or VW moved their plants either to export from new sites (i.e. save costs in low-wage/low-cost countries), or to produce for the local market; often it was a mixture of the two. Initially,

[199] Map made by author based on Eurostat Statistical Atlas,; PSA Peugeot Citroen Locations, http://www.psa-peugeot-citroen.com/en/automotive-group/overview/locations-map Accessed: 20 March 2015

car makers placed the production of small cars in Spain and Central Europe believing that this would be more attractive for poorer local customers (as it happened in Mexico). Sometimes, however, relocation decisions were more ambiguous: they were heavily influenced by state aid competition (see 4.2.2.2), and occasionally were done out of fear of rivals gaining a competitive advantage on future markets. (INDUSTRY ANALYST 1)

The appearance of (Asian) clean-slate entry regionalisers further dispersed manufacturing. However, when everybody else was moving East, Toyota chose Britain (see Figure 4.5), which had an active automotive sector in flux, and suitable labour, after the demise of British Leyland. (MANUFACTURER 1)

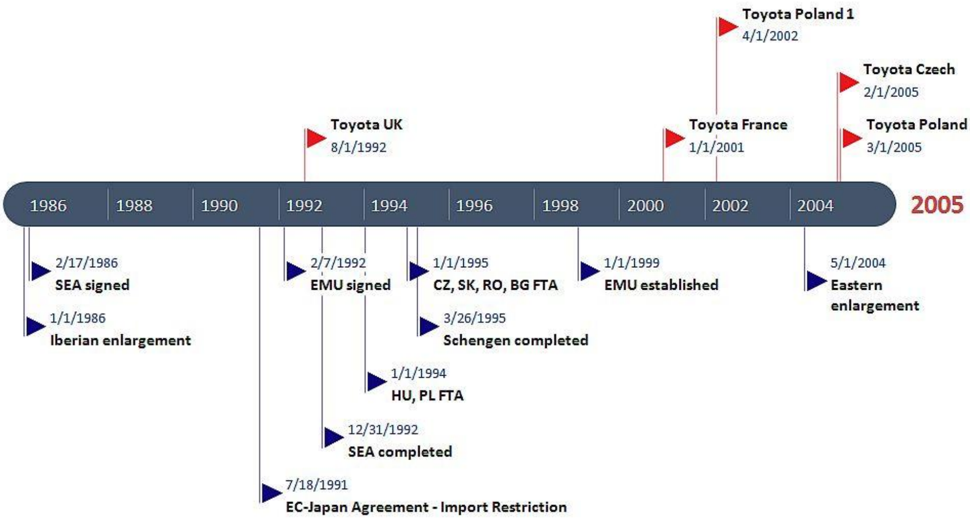

Figure 4.5 – Timeline of Toyota's Plant Openings in the EU 1986-2005

Toyota's relatively late entry to low-cost countries (Poland 2002; Czech Republic 2005) also suggests that regionalism does have significant risk reduction guarantees to firms with less local knowledge. Toyota's company structure shows the signs of both horizontal and vertical integration; its assembly plants are assigned to a few locations in the UK, France, Portugal, and the Czech Republic. (See Figure 4.6)[200]

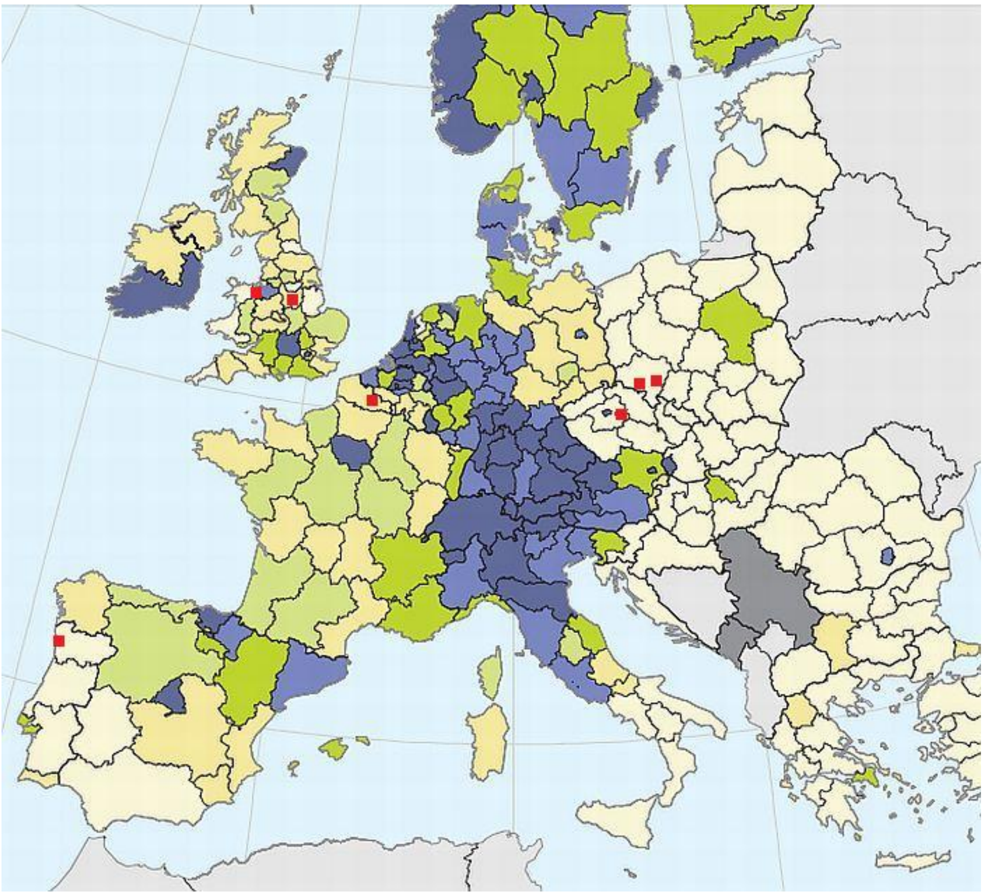

Figure 4.6 – Map of Toyota's Manufacturing Locations in the EU 2015

Additional sites in the UK and Poland manufacture engines and transmissions. Its lean production and value chain is a typical feature of clean-slate entry regionalisers. Kia supplies Europe from a single manufacturing site in Zilina, Slovakia. Suzuki also set up a single European production base in Esztergom, Hungary already in 1991, just as the country signed an FTA with the EU, with the aim to develop "political and economic cooperation in the

[200] Map made by author based on Eurostat Statistical Atlas; Toyota Motor Europe, *Toyota Made in Europe*, Company Brochure, Brussels: November 2014

context of their future membership", in fact, providing a calculable roadmap to firms by long-term commitment to integration.[201]

In spatial terms, the dispersal of manufacturing is also remarkable when looking at the industry level. Figure 4.7 shows the manufacturing sites of car makers which represented nearly 79 percent of total car sales in Europe in 2014 (Toyota, VW Group, GM/Opel, BMW Group, PSA Group, Daimler Group, Ford, Kia, and Renault Group).[202]

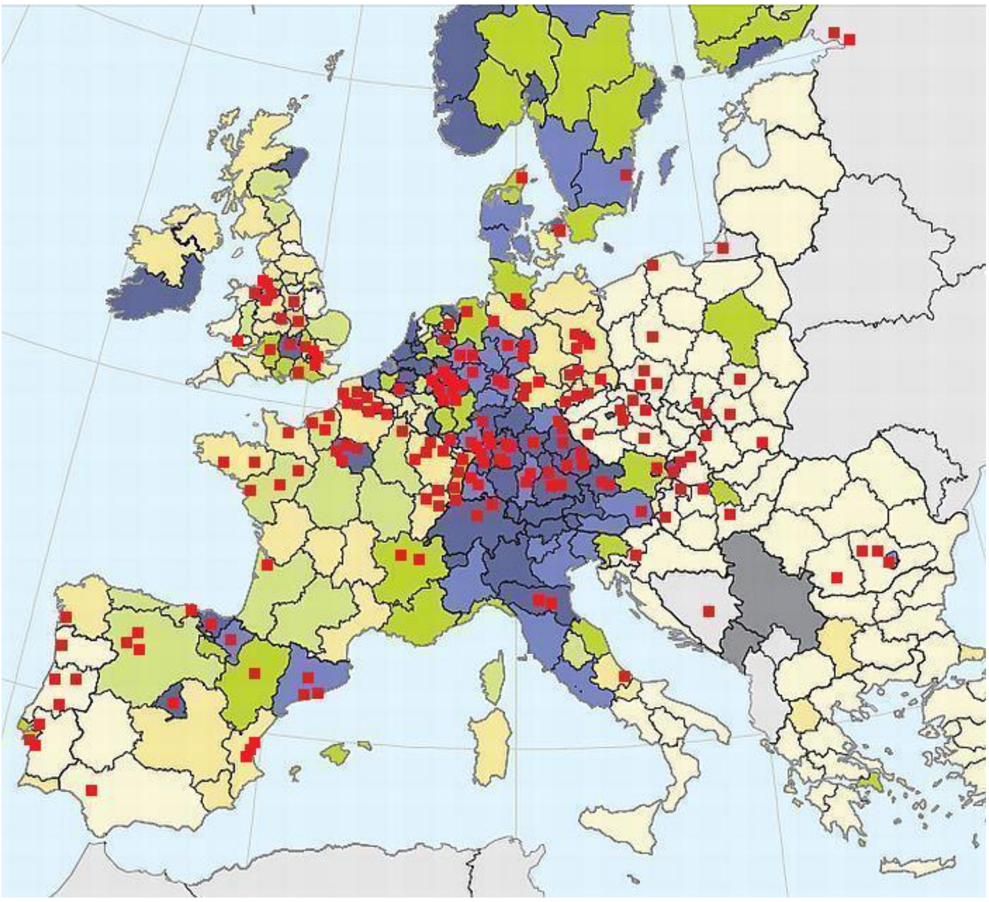

Figure 4.7 – Map of OEM Locations in the EU 2015

[201] European Commission, "Europe Agreements", *EC Press Release Database*, http://europa.eu/rapid/press-release_MEMO-94-7_en.htm Accessed: 13 April 2015.
[202] Map made by author based on Eurostat Statistical Atlas; PSA Peugeot Citroen Locations; BMW Production Worldwide, Accessed: 20 March 2015; http://www.bmwgroup.com/bmwgroup_prod/e/0_0_www_bmwgroup_com/produktion/produktionsnetzwerk/produktionsstandorte/standorte/index.html; Volkswagen Group Production Plants; Henk Bekker, "2014 (Full Year) Europe: Best-Selling Car Brands and Manufacturers", *Car Sales Statistics*, (16 January 2015), Accessed: 13April 2015, http://www.best-selling-cars.com/europe/2014-full-year-europe-best-selling-car-brands-manufacturers/; Opel Sites in Europe, http://media.opel.hu/media/intl/en/opel/company.html Accessed: 20 March 2015

The map shows that the Iberian Peninsula and East Central Europe have become major manufacturing zones. These sites are typically in close geographic proximity to the core, and located not in the cheapest parts of the region. The resilience of old locations is also striking: the industrial core has retained its importance due to strong agglomeration effects. Moreover, new manufacturing sites were added in some high-wage/high-cost regions in Western Europe, too (e.g. UK, Northeast France). Some old manufacturing sites were indeed closed, or scaled back in the core. It is telling though that GM Opel's factory in Bochum, Germany, for instance, was the first plant to be closed in the country since WW2, in 2014.[203]

Thus far, it was argued that negative integration enabled firms to address capacity, scale, and market access issues at lower costs. Regionalism allowed non-regionalism related dynamics come to the fore (see 4.2.4). The first-mover advantages of embedded regionalisers and new entrants increased competitive pressures on home-region firms to follow suit in spatial and organisational regionalisation. Successive enlargements opened up new markets and led to the dispersal of manufacturing to low-wage/low-cost locations. Old locations also retained sites, resulting in polycentric and dispersed production networks.

4.2.2 The Impact of Positive Integration

4.2.2.1 Common Commercial Policy

Positive integration measures, EU policies with the aim to ensure and actively help the economic objectives of market integration, have also influenced the regionalisation of

[203] Dorothee Tschampa, "GM's Opel Confirms Late-2014 Shutdown of Bochum Car Plant", *Bloomberg*, (17 April 2013), Accessed: 9 April 2015 http://www.bloomberg.com/news/articles/2013-04-17/gm-s-opel-confirms-late-2014-shutdown-of-bochum-car-plant

manufacturing.[204] The Common Commercial Policy was one such measure which had an important effect. The CCP had made the setting of external tariffs and negotiating international trade an exclusive prerogative of the Commission. While protective tariffs could keep imports at bay, it had the side effect of compelling new entrants to set up local manufacturing. Ford Britain, for instance, considered setting up manufacturing within the EEC for tariff-jumping reasons (despite the existence of Ford Germany), prior to Britain's accession.[205]

The 1991 European Community-Japan Agreement had a similar effect: it compelled Japanese firms to bring manufacturing to Europe as it limited the number of cars that could be imported between 1993 and 2000, to allow time for European to increase their efficiency as the Single Market came into force.[206] This, of course, did not limit Japanese production at European sites, rather to the contrary. Until the Agreement, Japanese firms were quite reluctant to bring manufacturing to Europe, except for Nissan. As a result of import restrictions, Mitsubishi started manufacturing in the Netherlands in 1991, while Toyota and Honda in Britain in 1992. The relatively high import tariffs on passenger cars to the EU, currently at 10 percent (it is 2.5% to the US), continues to keep foreign firms in Europe.

4.2.2.2 Regional State Aid Policy

Nicolini et al. and Jullien et al. argue that the EU's state aid policy is equivalent to an "implicit [regional] industrial strategy", even if the Commission refuses to recognise it as

[204] Pinder, *Positive Integration and Negative Integration*, 90; Majone, *Regulation in Comparative Perspective*, 310-1

[205] Tolliday, *The Origins of Ford of Europe*, 186-7

[206] Charles Goldsmith, "EC Denies Curbs on Japan 'Transplants'", *The New York Times*, (19 September 1991), http://www.nytimes.com/1991/09/19/business/worldbusiness/19iht-ecca.html Accessed: 10 July 2017

such to avoid an "open and critical discussion".[207] Direct state aid and investment incentives are strictly regulated by the Commission, and only allowed under uniform, common rules in NUTS-2 regions where "GDP per capita in purchasing power standard is below or equivalent to 75% of the EU-27 average".[208] The permission is more automatic in poorer regions. Up to 50% of the sum of the investment can be paid to firms in NUTS-2 regions with 45% or less GDP per capita than EU average, 35% in those with 45-60% GDP per capita, and 25% in regions above 60% of EU-27 average.[209] Much of ECE falls into the first category.

The situation was even more enticing for firms before the Eastern enlargement: these countries already had an FTA with the EU but it had no such jurisdiction over them, and firms could push otherwise poor states into a race-to-the-bottom competition for FDI. Firms often named several 'potential locations' in rival countries to extort more subsidies even when the decision was already made. (NATIONAL AGENCY 1) Hungary, for instance, built a little-used 60-kilometre motorway section for Hankook, a South Korean tyre-maker, which tipped the balance in Hungary's favour over other countries for a new factory.[210] Subsidies were mentioned as the main driver for car makers to set up manufacturing in these countries by several interviewees without prompting, when asked about the reasons to relocate. (MANUFACTURER 1; MANUFACTURER 2; MANUFACTURER 3)

Before the Eastern enlargement, locational competition between the core and periphery was asymmetric. In EU countries, subsidies had to be justified for the Commission in a benchmarking procedure; 'compensation' could be paid as state aid to firms for choosing

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[207] Marcella Nicolini, Carlo Scarpa, and Paola Valbonesi, "Aiding Car Producers in the EU: Money in Search of a Strategy", *Journal of Industry, Competition, and Trade*, (Vol. 13, No. 1, March 2013), 68; Jullien et al., *The EU's Government of Automobiles*, 72-3
[208] European Commission, Guidelines for State Aid 2014-2020, 2013/C 209/01, Article 151 (a)
[209] Ibid., Article 172
[210] Népszabadság, *A Hankook számára az épülő M6-os volt a döntő érv*, (Construction of M6 Decides it for Hankook), (3 November 2005), [in Hungarian], http://nol.hu/archivum/archiv-382863-195682 Accessed: 17 May 2017

a poorer region over a more developed one.[211] However, the true competitors were no longer developed regions in the EU but Eastern Europe, manufacturing at significantly lower costs. Following intense lobbying by Western governments, the Commission agreed to include candidate countries in Western European state aid assessments.[212] Instead of curbing the incentive competition as the Commission had hoped, this only legitimised it, and compelled Central European countries to throw even more money at firms to attract sites.[213]

Nevertheless, some relatively high wage/high cost zones (e.g. Nord-Pas-de-Calais) managed to attract investment this way by offering exceptionally approved state aid (e.g. Toyota in 2001). Firms in Spain, Italy, as well as in France sought regional aid for 'regional development', or 'training' to renew their national manufacturing sites, and to circumvent EU competition policy.[214] Some of this was based on Article 107(3) of the Treaty which allows state aid exceptionally to assist the "economic development" of a region, or where "the standard of living is abnormally low", and there is "serious underemployment" as long as trading conditions would not be "adversely affected".[215] By adopting uniform rules based on GDP/capita levels as opposed to case-by-case assessments in the early 2000s, eventually helped to tame the runaway incentive competition.

Subsidies certainly played an important role in changing the landscape of manufacturing locations but almost always together with other factors. For instance, Fiat's moving of Panda from Poland to Southern Italy was indeed partly due to subsidies but also more flexible labour rights, and the need to free up capacity in Poland. Or, entry to Central Europe in the early 1990s (e.g. VW, GM), but also as late as in 2003 (e.g. PSA) were strategic

[211] Vera Scepanovic, *FDI as a Solution to the Challenges of Late Development: Catch-up Without Convergence?*, (Budapest: CEU Budapest College, 2013), 77
[212] Ibid., 78
[213] Ibid.
[214] Jullien et al., *The EU's Government of Automobiles*, 71
[215] Consolidated Versions of the Treaty on European Union and the Treaty on Functioning of European Union, *Official Journal of the European Union*, (2008/C 115/01)

decisions in the often misguided hope of vast new markets, lower costs, fear of losing out to competition, etc. not just subsidies. Even if subsidies competition had not been restricted in Western Europe, it is unlikely that all manufacturers would have stayed in the core, as NAFTA's case demonstrates. And even if there were no direct subsidies at all, fiscal incentives (e.g. low corporate tax, etc.), and other competitiveness factors (labour skills, rights, etc.) would have most certainly still attracted sites.

4.2.2.3 Schengen

Schengen, an agreement to create a border-free common travel area, including a common visa policy with elements of common border policing (Frontex, Schengen Information System, etc.) is another positive integration measure whose role in spatial or organisational changes is relatively ambiguous. After all, most relocation took place before the creation of the Schengen Area in 1995, or well before new locations became part of it in Central Europe. However, Schengen helps reducing uncertainty, and creates a more calculable environment for firms which especially need this for the tight deadlines of 'just-in-time' production, and when building up supplier clusters. Interestingly, though, the role of Schengen and the free movement of labour in regionalisation only came up in interviews when prompted, and even then it was mentioned in the context of "stability", "calculability", and "ease of access". (MANUFACTURER 1; MANUFACTURER 2; MANUFACTURER 3)

However, when faced with the prospect of tighter border controls and the breakdown of Schengen, manufacturers were almost unequivocal in painting it as a disaster for their lean and vertical production systems. In 2016, Opel's CEO, Karl-Thomas Neumann said that the breakdown of Schengen "would be horrific".[216] The cost and disruption of their 'just-in-time' production chain was also the main concern for Ford, as it was for Daimler's CEO Dieter Zetsche because their factories "run with one or two hours of time buffer":

> The highly interwoven automobile industry heavily depends on [no] borders within the Schengen area. All centrifugal forces that run counter to a strong unified Europe will have negative effects on our industry and its competitiveness.[217]

These statements suggest that Schengen has become important in the regional reorganisation of production, running of the supplier ecosystem smoothly, and for efficiency savings as a factor in the general business environment. President of the European Commission Jean-Claude Juncker estimated the cost of reintroducing border controls at €3bn annually, while the French government put the figure to €110bn for the next decade.[218]

The unhindered movement of labour is also significant in some border areas. In 2014, the share of cross-border commuters was particularly high in Slovakia (5.7%), Estonia (3.5%), Hungary (2.4%), and Belgium (2.4%) – pockets of very high intensity regionalisation.[219] Some of it came from car factories (e.g. Hungarians working in plants in Slovakia, and *vice versa*). Before these measures existed, firms already took into account the fact that the 'catchment area' of potential labour often crosscuts borders. In 1991, when Suzuki opened its factory in Esztergom, Hungary, some of the workers were bussed in every morning from Slovakia, then existing work permit requirements (until 2004) and border

[216] Edward Taylor, "Carmakers Say Tighter EU Border Controls Could Hit Production", *Reuters*, (Geneva, 2 March 2016), http://www.reuters.com/article/us-autoshow-geneva-schengen-idUSKCN0W35CT Accessed: 18 May 2017
[217] Ibid.; Janosch Delcker, "Backlash Grows to Schengen Backlash", *Politico*, (Berlin, 2 April 2016), http://www.politico.eu/article/backlash-grows-to-schengen-backlash-migration-crisis-borders-terrorism-security-borderless-europe/ Accessed: 18 May 2017
[218] Ibid.
[219] Nuria Boot and Guntram B. Wolff, *Cross-border Commuters and Trips: the Relevance of Schengen*, Bruegel, (3 December 2015), http://bruegel.org/2015/12/cross-border-commuters-and-trips-the-relevance-of-schengen/, Accessed: 13 December 2015

controls (until 2007) notwithstanding. Thus, while Schengen's role in assisting regional reorganisation and its importance for the current organisation of operations is clear, its role in spatial changes was rather marginal, if any.

4.2.3 The Impact of Ideational Factors

The development of the current polycentric and dispersed regionalisation of production networks is also partly influenced by ideational factors, broadly understood. Regionalism is also an "idea that reverberates".[220] It provides a frame, normative template, or guiding posts to state and non-state actors within which they can anticipate the costs and gains of regional decisions better.[221] Firms can weigh the potential gains from further integration and regional regulation, and the cost of compliance within a particular political configuration. Thus the way member states and firms construe regionalism can have direct consequences on regionalisation. The promise of, or commitment to integration, or the particular institutional set-up of the EU within which decisions are made, provide firms with such a template that allows them long-term planning and to reduce risks in their strategic decisions.

4.2.3.1 The Promise of Integration

The promise of/commitment to integration has certainly influenced regionalisation, including spatial and organisational changes. Certain treaty and regulatory changes had an

[220] Katzenstein, *A World of Regions*, 53
[221] Kohler-Koch, *Framing: The Bottleneck of Constructing Legitimate Institutions*, 515; Rein and Schön, *Frame-reflective Policy Discourse*, 263

impact even before legal changes took effect. Firms often moved manufacturing to acceding countries, and acquired local firms well before accession talks even started, based on the promise and commitment to full membership (Sections 4.2.1.2; 4.2.1.3; 4.2.2.3). Consequently, much of the new manufacturing sites in East Central Europe preceded enlargement. The car industry was in the vanguard not just of successive enlargements but of European industries; it transformed itself to become one of the most 'European' industries for the Single Market, ahead of 1992.[222]

Once set-up in candidate countries, it was often car manufacturers, their suppliers and other less mobile, heavy-complex industries which became vocal supporters of these countries' accession. This fitted the pattern of how producer-driven chains cultivate close links with their market regulators; their dependence on regionalism is stronger to effectively address their inherent scale and mobility issues than other industries. The strong alliance of industrialists with European integration stems precisely from this mutually beneficial co-dependence: the promise and commitment to regionalism helps anticipating further decisions for firms which, in turn, support these changes to lock-in expected and realised benefits of their investments, made on the promise and expectation of further regionalism.

4.2.3.2 Politics: Between Regional and National

The EU may have federalised policies but its governance structure is largely confederate, thus national-level politics continue to play a crucial role even in economic regionalisation outcomes.[223] The influence of national governments helps keeping old

[222] D. Garel Rhys, "The Motor Industry in an Enlarged EU", *The World Economy,* (Vol. 27, No. 6, 2004), 878
[223] Laszlo Bruszt, "We've Got Five Answers. But What Was the Question? A Political Economy Perspective on the White Paper on the Future of Europe", (Lecture, Annual Doctoral Conference, CEU Budapest, 4 April 2017)

manufacturing locations; in fact, three-quarters of car production still takes place in high wage/high cost zones of the core.[224] This is often the result of a trade-off between firms and the governments of their countries of origin; governments pressure local firms to retain manufacturing jobs in exchange for political support at regional-level bargaining.

> We are not the United States; it's a Europe of nations. Between the first and the second enlargement, you move from a political configuration dominated by the interests of the industry to a political configuration dominated by those who host the industry. Whether you are a producing country or a host country, your focus is on market regulation wrapped in a discourse that 'the competition is very good', and that 'competition will increase', etc., if the market is open. If you are Bulgaria and the Chinese want to come to manufacture in your country, you will consider their interests just as legitimate [as that of home-region firms]. (INDUSTRY ANALYST 1)

Thus, in regional locational competition, governments that try to lure manufacturers will do their utmost to offer the best conditions and lowest costs, and will advocate a free-market approach to regional competition (e.g. no to tax harmonisation, or common fiscal policy). Governments that try to pressure firms to retain manufacturing will appeal to social responsibility, argue against 'social dumping', and advocate the maintenance of a regional structure in which they can offer political clout regionally (e.g. protecting the use of diesel) in exchange for retaining jobs. Countries of the former tend to be smaller, poorer, 'new' member states with little political clout regionally, while the latter are big, rich, 'old' member states with strong political clout at the regional level. While in good times, there is little reason for firms not to take advantage of the benefits offered by the former group ('charmer countries'), hard times make "visible the importance of politics", as Gourevitch argues.[225] Favourable fiscal rules and other form of direct assistance offered by the latter group ('pressuring countries') can be crucial, and may mean the chance for survival for a firm as the Great

[224] The Economist, *Pocket World in Figures 2015 Edition*, (London: Profile Books and The Economist, 2015), 73

[225] Peter Gourevitch, *Politics in Hard Times. Comparative Responses to International Economic Crises*, (Ithaca and London: Cornell University Press, 1986), 17

Recession amply demonstrated. Thus, regional efficiency considerations for firms are limited by the potential price of losing a strong hinterland, leading companies to regionalise in a way that allows them to keep a foot in both camps.

Such national embeddedness saved, for instance, Europe's second largest car maker, PSA which was kept afloat by a more than €400 million investment by the French government over three years before 2014 to offset its €7 billion loss in two years.[226] In 2009, Renault was pressured by the French government to move parts of its production back to Paris from Slovenia.[227] A year later, its CEO, Carlos Ghosn was summoned to the Elysée Palace by the then President of France, Nicolas Sarkozy, who threatened to withdraw state support, if Renault moved production of the new Clio to Turkey.[228] In Germany, the government subsidised Opel workers during the economic crisis through its *Kurzarbeit* programme and was reported to consider for a short while to buy a stake in the then struggling manufacturer to save it.[229] In 1997, when Fiat needed a boost, the government announced tax breaks for new car buyers.[230]

[226] Costas Pitas and Gilles Guillaume, "UK's Foreign-owned Auto Industry Rebounds to Top French Production", *Automotive News Europe*, (12 October 2014), Accessed: 12 April 2015, http://europe.autonews.com/article/20141012/ANE/310019959/uks-foreign-owned-auto-industry-rebounds-to-top-french-production;
The Economist, "Peugeot's Revival Plan: Striving for the Podium", *The Economist*, (19 April 2014), Accessed: 12 April 2015, http://www.economist.com/news/business/21601002-new-boss-seeks-profits-making-narrower-range-pricier-cars-striving-podium?zid=293&ah=e50f636873b42369614615ba3c16df4a

[227] Radio France Internationale, "Renault to Shift Production From Slovenia to Paris Area – For Now", *RFI.fr*, (20 March 2009), http://www1.rfi.fr/actuen/articles/111/article_3221.asp Accessed: 12 April 2015

[228] Libération, "Clio en Turquie: Sarkozy Convoque Carlos Ghosn", *Liberation.fr*, (14 January 2010), Accessed: 15 April 2015, http://www.liberation.fr/economie/2010/01/14/clio-en-turquie-sarkozy-convoque-carlos-ghosn_604375

[229] Der Spiegel, "Fear of GM Job Cuts in Europe: "German Government Considers Stake in Carmaker Opel", *Spiegel Online*, (17 February 2009), http://www.spiegel.de/international/germany/fear-of-gm-job-cuts-in-europe-german-government-considers-stake-in-carmaker-opel-a-608077.html Accessed: 12 April 2015;
Automotive News, "Opel Will Reduce Production in Two German Plants", *Automotive News Europe*, (23 August 2012), Accessed: 12 April 2015, http://europe.autonews.com/article/20120823/ANE/120829958/opel-will-reduce-production-in-two-german-plants

[230] Jennifer Clark, *Mondo Agnelli: Fiat, Chrysler, and the Power of a Dynasty*, (Hoboken: John Wiley & Sons, 2012), Chapter 1

These instances only highlight the tension between what is actually happening and what the EU institutions say they are striving to achieve with integration.[231] By topping up salaries of employees on reduced working hours, and various demand-side measures host-country governments kept sites open with the tacit approval of the Commission. These measures indeed helped to avert the potentially devastating social consequences of large-scale restructuring, which would have probably included more relocation to low-wage/low-cost zones and/or reduction of capacities. However, national-level intervention, again, went against efficiency considerations. Thus, both incentives and constraints by politics are strong to keep old, costly production sites rather than purely consider efficiency, which contributes to the formation of polycentric and dispersed production networks.

4.2.4 The Impact of Non-regionalism Related Factors

4.2.4.1 The Importance of Non-regionalism Factors

Thus far, it was argued that positive integration and ideational factors have also had an impact on spatial and organisational changes. However, the main impact was argued to be by negative integration, as it allowed non-regionalism related dynamics to unfold. Non-regionalism factors are some of the most important drivers of spatial changes, at times limiting, at others reinforcing regionalism's impact as they act in tandem. The main non-regionalism factor considered here is 'firm or business logic', relating to the universal process of searching for new markets, and operating abroad. The impact of relevant 'state-level' factors, partly relating to national fiscal policies (e.g. corporate tax and wage levels, GDP per capita, etc.) were also considered as non-regionalism factors. (See Chapter 2)

[231] Jullien et al., *The EU's Government of Automobiles*, 57

Firm or business logic, including cost concerns, proximity to customers, availability of factors of production, and the vast ecosystem that is typical of heavy-complex industries as car manufacturing, was considered by firms the most important factor in their locational choices. The underlying mechanism of business logic is considered constant across any region, making regional variations visible (thus this section briefly summarising these dynamics is also relevant for NAFTA). State-level factors also influence locational choices; they are part of the wider business environment a firm considers when setting up operations. The freedom to set corporation, income tax, and VAT-levels, etc. are considered vital competitiveness factors by governments and are some of the most fiercely protected remnants of national competences in the EU.

4.2.4.2 The Mechanism of Firm Strategies, Cost, Proximity, Ecosystem

Firms are constantly looking for cost saving opportunities to finance increasing safety and emission requirements, the development of ever more complex, digital technologies, and lately autonomous driving, while demand is flattened out on the lucrative but mature markets. Regionalism primarily offers cost saving options for firms: tariff-free movement of parts (WTO tariff to the EU for cars is 10 percent and 4.5 on parts), lower transaction costs (e.g. regional standards and regulations as opposed to several national ones), cheaper access to markets, and the exploiting of low-wage/low-cost zones. Ford of Britain's early loss-making exports to the EEC in the 1960s (see 4.2.1.1), or tariff-jumping manufacturing by newcomers illustrate this well.

"Only the money matters, the money only" was how one manufacturer described what drives their locational choices. (MANUFACTURER 3) As for any firm, this means that the new location would have to bring in more than what it cost. This is where regionalism's cost reduction effect becomes pivotal. Calculations include the availability of competent labour, closeness to potential customers, good transport links, etc., or as the German-Hungarian Chamber of Commerce described it, "what matters for German firms is the three 'Cs': competence, costs and closeness [to the German market]".[232]

> In car assembly, the value added is not too much but it has to produce in high sequence, perfect and durable quality. For that, one needs highly skilled labour. They may only have to tighten a screw but they always have to do that, and they have to do it always well. So there has to be a pool of labour who can do this, and which is not expensive. Transporting engines and body parts is much cheaper; this is why Audi is manufacturing almost all its engines in Hungary. Renault is doing the same in Valladoid, Spain; its 1.5-litre diesel engine is made there and then transported all around the world. But it does the final assembly where it makes more sense: in Portugal, Morocco, Romania, Iran, India, Russia where the cost of labour makes the sales more profitable. (MANUFACTURER 3)

In other words, low wages are just one aspect of a complex calculation, which also includes the cost of (re)training to ensure future labour supply. The latter is more problematic than in the US because of low labour mobility despite regionalism's incentives; in the EU, firms have to move to where labour is.[233] Regionalism makes this possible: either by ensuring free movement of labour, or by allowing that jobs can move freely to where labour is abundant (e.g. to East Central Europe and Mexico).

Cost considerations rest on strategic decisions; first identifying the customers, and understanding local/regional tastes. (More in Chapter 5) To develop local/regional model(s), firms need local designers and engineers. (MANUFACTURER 1) The question then is whether transporting cars is less expensive than opening a new factory. Factories are

232 Gyorgy Balo, "Interview with Dirk Wölfer, German-Hungarian Chamber of Commerce" (in Hungarian), RTL II, 2 February 2015, http://rtl.hu/rtl2/magyarul/a-legfontosabb-barat Accessed: 3 February 2015
233 European Commission, "Geographical and Labour Market Mobility Report 2010", *Special Eurobarometer 337*, http://ec.europa.eu/public_opinion/archives/ebs/ebs_337_en.pdf, Accessed: 6 March 2015, 8; Zuzana Gakova and Lewis Dijkstra, "Labour Mobility Between the Regions of the EU-27 and a Comparison with the USA", *Regional Focus*, (Brussels: DG Regional Policy, No. 2, 2008), 1-8, http://ec.europa.eu/regional_policy/sources/docgener/focus/2008_02_labour.pdf Accessed: 6 March 2015

generally set up where the market potential is significant. (MANUFACTURER 3) Regionalism makes it easier to be in ‘Vernonian proximity’ to customers: either by the setting-up of a single regional centre (e.g. Kia), or in several countries for market and political considerations (e.g. Toyota, VW).[234] If the latter is the case, vertical or horizontal integration of production sites becomes possible in a regional company instead of a ‘multi-domestic’ approach, seen in Ford’s early European history (4.2.1.1).

There is a set of criteria by which a typical company takes such decisions but the mix, the prioritising of criteria depends on the particular circumstance. This is often based on a lengthy questionnaire which enquires about the presence of suppliers, infrastructure, national legislation, state aid, labour and economic data, etc. (NATIONAL AGENCY 1)

> [In one instance] we were looking for a stable economy and political system which has a relative good degree of transparency, state aid is not irrelevant, and clearly the countries of Central Europe played that card extremely effectively. Relative absence of competition is perhaps important too, and the proximity of suppliers. [In another instance] the main reason was the enthusiasm of the governments in question to attract that kind of investment but the proximity of the two plants to one another was certainly relevant, and of course, there is a cluster of companies, suppliers in that region [Central Europe] which makes the whole business of attracting relatively straightforward. So there are a whole lot of different reasons. (MANUFACTURER 2)

The initial strategic question at Renault, for instance, is whether their new site is destined to produce for exports, or for the local market, and the choice determines the weighting of the various criteria. (INDUSTRY ANALYST 1)

Finally, the ecosystem of production can change with regionalism: increased competition between suppliers provide more flexibility. By dispersing manufacturing locations firms can hedge against overcapacity problems, suppliers, and labour.

[234] Vernon, *International Investment in the Product Cycle*, 192

> We are well into the logic of making sites compete with each other, partly to put pressure on the employees and the labour force, which is weaker in organising interest, and because of subcontracting. The latter is stemming from the uncertainty of raising capacities quickly, as firms have learnt that the price of assembling is minor compared to what one can save with manufacturing for cheap around the factory. (INDUSTRY ANALYST 1)

Most car components come from a vast supplier network whose presence in a country can make relocating final assembly financially interesting. Some of the components simply cannot travel long distances because of 'just-in-time' production which requires suppliers to be in close proximity of assembly sites. Production costs can be reduced by keeping wafer-thin inventories; stocks in some plants cover just half a day of production. Some deliveries to Nissan's plant in Sunderland, UK, for instance, are scheduled to within 15-minute time slots.[235] The Skoda factory in Mlada Boleslav, Czech Republic takes up a 2.6 km^2 area; some of the suppliers are just across the motorway to Prague.[236] Thus, to make sourcing more competitive, manufacturers have a strong incentive to disperse their plants if and when they can ensure the seamless flow of parts. At the same time, keeping manufacturing at existing locations is closely linked to the ecosystem that surrounds a plant; closing a site and moving production to a new location would mean building a new ecosystem of suppliers, labour, and achieving the same quality.

Unprompted, interviewees always mentioned business logic to be a main driver of regionalisation. Nevertheless, it is a complex process involving both regionalism-, and non-regionalism related factors, which often go hand-in-hand, with no single explanatory variable. No sites opened since regionalisation in Europe took off were found to be dependent on any particular state-level factor (i.e. wage, corporate and income tax, and social security contribution level – see data in Annex). They all matter but to an always varying degree, and together with other factors. How to construe the role of regionalism in regionalisation

[235] The Economist, "Mini Boost, Major Problems", *The Economist*, (London: 29 July 2017), 23
[236] Author's visit to Mlada Boleslav, Czech Republic on 2 November 2016

outcomes then? Regionalisation can also be understood as a specific way of addressing scale, market-entry, and organisational issues on a regional scale as opposed to global or national level (more in Chapter 7). It is also different from classical 'internationalisation' where horizontally integrated, relatively autonomous units were incorporated, if at all, in countries with market potential, often as part of import substitution programmes. Regionalisation is context-dependent as Europe's case has shown; it becomes 'regional' because regionalism provides the incentives and the opportunity for a different scale and organisational logic to emerge.

In this section (4.2), it was argued that regionalisation of manufacturing in the EU was primarily driven by negative integration (i.e. the removal of barriers to factor movements) which enabled non-regionalism related dynamics to unfold. This has led to *spatial* (i.e. the development of a polycentric and dispersed manufacturing network at the industry level), and *organisational* changes (i.e. the horizontal/vertical integration of sites within firms). The successive 'widening' of negative integration (i.e. enlargements) led to the dispersal of manufacturing to low-wage/low-cost zones (e.g. Iberian Peninsula, East Central Europe); this was strongly helped by state-level incentive competition, and non-regionalism factors (e.g. cost and scale concerns). However, traditional locations in the industrial core successfully retained plants, and the bulk of production because of the influence of national politics on regional governance, and agglomeration effects. Positive integration measures and ideational factors were also found to have been conducive to regionalisation, though to a more limited extent.

4.3 Regionalisation of Manufacturing Locations in NAFTA

4.3.1 The Impact of Negative Integration

4.3.1.1 1965 – 1970s: Organisational Changes

Although NAFTA was only created in 1994, regionalism in the car industry started much earlier. In 1965, Canada and the United States signed the Auto Pact (or APTA) which was a sectoral free trade agreement, removing tariffs on cars, and automotive components between the two countries. In 1988, the Canada-United States Free Trade Agreement (CUSFTA) extended the removal of barriers to trade of goods and service, and capital in all sectors after a ten-year phasing-in period. In 1994, NAFTA was, in a way, an extension of CUSFTA to Mexico. All of these agreements applied negative integration measures, in particular the removal of tariffs and rules of origin regulations, moreover there was no political intention to go beyond the removal of barriers; not even to customs union which has had important consequences for the economy and the politics of both Mexico and the United States. Initially, the main benefit for US firms, already present in Canada and to some extent in Mexico, was the ability to horizontally and/or vertically integrate their existing sites and affiliates into a regionalised production chain.

As part of the Auto Pact, the 'Big Three' (GM, Ford, and Chrysler) committed to keep Canadian car production, local value added, and Canadian content at 1964 levels in exchange for slashing the 17 percent import tariff.[237] Although it led to a sharp increase in car production in Canada, the main beneficiaries were US manufacturers in the absence of Canadian OEMs of significance. The removal of tariffs had a quick and intrusive impact: in a few years, production and sales were quickly regionalised, and the number of models were

[237] CBC Archives, "Canada's Car Industry Before the Auto Pact", *CBC* http://www.cbc.ca/archives/entry/canadas-car-industry-before-the-auto-pact Accessed: 13 July 2016

reduced, and replaced with ones designed for 'North America'.[238] Formerly independent subsidiaries, some of which were set up almost simultaneously with the founding of the firms' US entities, became completely integrated into their parent companies, and were stripped of their decision making rights.[239] Ford and Chrysler had the most to gain in terms of scale but even GM rearranged production: certain models were no longer produced in Canada while the production of other models was scaled up.[240]

While it led to rapid *organisational* changes (i.e. vertical and horizontal integration of production), initially, APTA led to relatively modest changes in *spatial* terms; manufacturing remained concentrated, and stayed at already existing locations. The car industry in North America was never as polycentric and dispersed as in Europe, and as it is now. US firms were traditionally located in the Ohio, Michigan area, the Detroit cluster, in the 'manufacturing belt'. On the Canadian side of the Great Lakes, where much of Canadian economic activity takes place anyway, Toronto's industrial cluster developed in parallel, largely thanks to the same US car manufacturers. Thus, the Auto Pact made the regional rearrangement of existing units into a regional production network easier for the same US firms on both sides of the border.

4.3.1.2 1970s – 1990s: Initial Spatial Changes

The car industry cluster in the US was an 'ideal-type' cluster: it developed in close proximity to resources and customers with good transport links for exports on the Saint Lawrence Seaway. Strong agglomeration effects which formed the car industry cluster began

[238] Dimitry Anastakis, *Auto Pact: Creating a Borderless North American Auto Industry 1960-1971*, (Toronto: University of Toronto Press, 2005), 128
[239] Ibid.
[240] Ibid.

to give way to the search for low-wage/low-cost locations in South-Southwest of Detroit already in the 1970s. This intensified following the oil price shocks and the entry of Asian and German firms in the 1980s. However, the Detroit cluster remained resilient to a large degree, and new locations were also added in Canada by Asian newcomers as CUSFTA (Canada-United States Free Trade Agreement) was signed in 1988. Thus, the difference with Europe was the highly concentrated character of manufacturing, though decentralisation of locations already increased ahead of NAFTA's founding in 1994 (see Toyota – Figure 4.8).

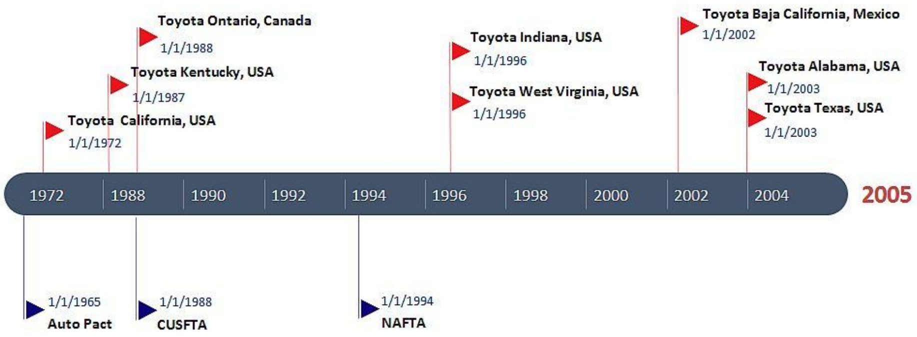

Figure 4.8 – Timeline of Toyota's Plant Openings in NAFTA 1965-2005

The timeline suggests that Toyota was relatively cautious when it entered the US, just as it was the case in Europe. Its primary market objective is visible from the fact that its sites are predominantly located in the US (Figure 4.9).[241] Nevertheless, its corporate structure, Toyota Motor North America, is organised along regional lines.

[241] NAFTA Real GDP per Capita Map: https://www.expertmarket.com/sites/default/files/filemanager/real-gdp-map-new.png, Accessed: 18 September 2017; Toyota Locations, Toyota Corp.

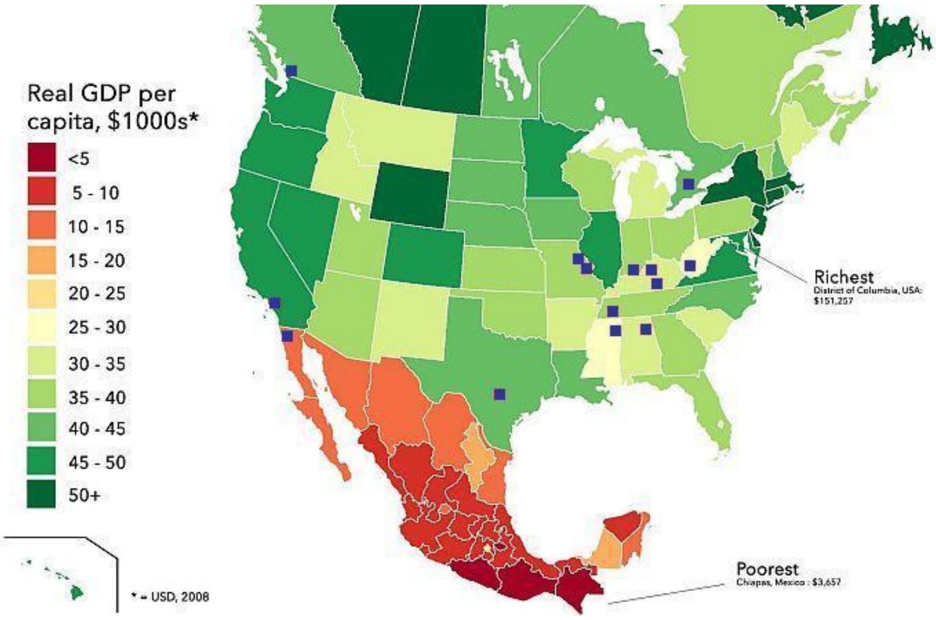

Figure 4.9 – Map of Toyota's Manufacturing Locations in NAFTA 2015

Despite Toyota's eminent market position in the US, the geography of its manufacturing network is clearly different from a typical home-region firm (e.g. Ford).

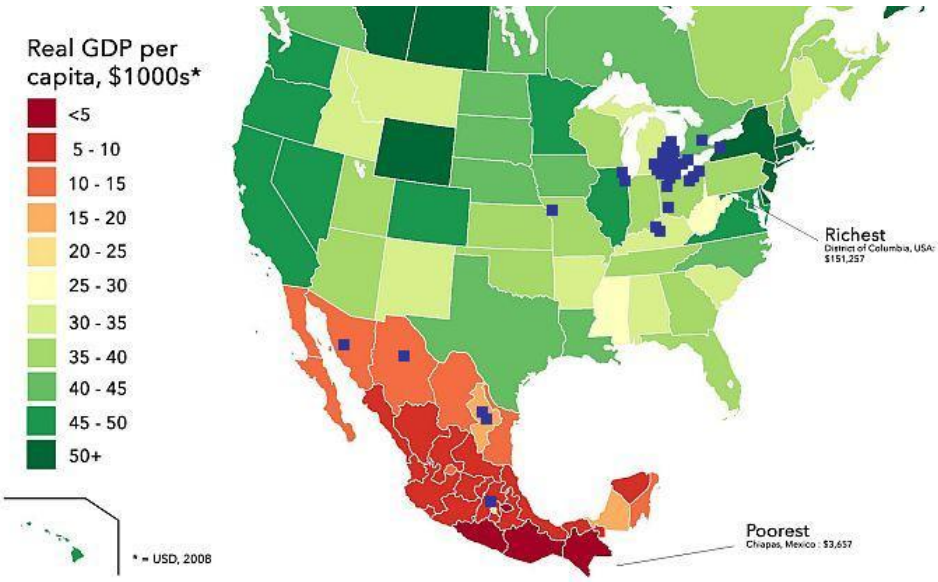

Figure 4.10 – Map of Ford's Manufacturing Locations in NAFTA 2015

Ford's network (Figure 4.10[242]) is built around its traditional manufacturing centre in the Detroit-area; the sites of Ford's early 'venturing out' of Detroit for low-cost locations in the US are also visible, as are long-established and new sites in Canada and Mexico. This layout is similar to the spatial maps of GM and Chrysler. The latter's expansion, following milestones of regionalism is also typical of home-region firms (Figure 4.11), which only includes sites opened since the beginning of regionalism:

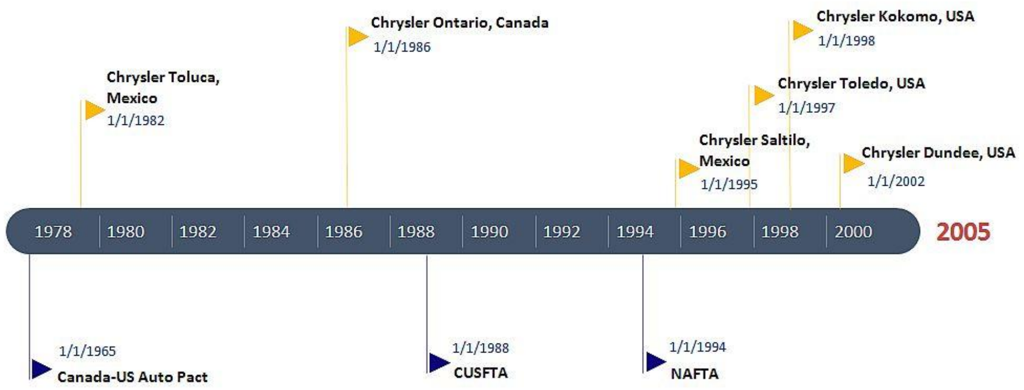

Figure 4.11 – Timeline of Chrysler's Manufacturing Locations in NAFTA 1965-2015

4.3.1.3 1990s – Today: Dispersed Manufacturing

Since its creation, NAFTA has led to both organisational and spatial changes, including an intensification of dispersion of manufacturing locations. According to a production volume-based analysis, the centre of gravity of the US car industry has been shifting to the Southeast by around 14 miles per year since 2000, and is forecast to continue to

[242] NAFTA Real GDP per Capita Map; Ford

do so through 2026.[243] This, to a large extent, happened because NAFTA, unlike its predecessors and similarly to Europe, also had a significantly poorer, low-wage/low-cost backyard able to attract manufacturing plants: Mexico. It had national, import-substituting car manufacturing since the 1920s and some foreign firms (e.g. Volkswagen, starting manufacturing in the 1960s), thus the industry had local traditions and expertise for newcomers to build on. Prior to and following NAFTA's founding, several foreign firms relocated or set up manufacturing in Mexico and non-traditional locations in the US: Asian firms mainly in the Southern states of the US, Europeans in the Southeast and Mexico, which has consequently emerged as a major car manufacturing centre. NAFTA's 'story', to some extent, is the rise of Japanese and later Korean firms to the detriment of home-region ones.

However, unlike in the EU, most newcomers had already been present in the region with manufacturing; only Hyundai (2002) and Kia (2009) set up plants after NAFTA's launch. European firms, represented mostly by German manufacturers, arrived around the time of NAFTA's establishment: Daimler in 1993 in the US, 1994 in Mexico, and BMW in 1992 in the US, 1994 in Mexico. However, German firms have always had very low market shares in the mass-production segments, while the French have been conspicuously missing from the main North American market.

> Renault has already tried it once when it bought Jeep but it sold it, and the experience was not a good one because there are such legal and other conditions which are very difficult to meet. One would have to manufacture there and that needs a huge investment. The American market is very dangerous legally speaking, so if somebody decides to go in, it has to focus on it and nothing else. Renault decided that it rather focuses on other places which are less risky legal and as a consequence financially, e.g. India and China. One needs a lot of money to hold out before any returns and specialised and local knowledge, trying to find the suitable marketing, etc. In the US we have Nissan. Toyota, which is number one worldwide, had a lot of difficulties with recalls and lawsuits, and GM with the ignition switch recalls and Renault, a smaller player, doesn't want to take these risks. (MANUFACTURER 3)

[243] IHS Automotive, "Automotive Industry Growth, Product Cadence Highlight Opportunities Through 2025", *IHS Pressroom*, (5 August 2014), http://press.ihs.com/press-release/automotive/automotive-industry-growth-product-cadence-highlight-opportunities-through- Accessed: 13 April 2015

Another important difference with the EU is the number of home-region firms: notwithstanding the existence of some independent brands with negligible market shares in Canada, neither Mexico nor Canada have had 'national champions' or local brands of significance, thus the 'Big Three' of the US (GM, Ford, Chrysler-FCA) are the only important home-region firms in NAFTA. Unlike their European counterparts, they regionalised early on, entering Mexico and Canada decades before formal regionalism began. Consequently, home-region firms were not only dominating the US market but they became major players on the relatively smaller Canadian and Mexican markets, too. For these firms, regionalisation was mainly organisational rather than spatial; though Chrysler for instance opened a plant in Mexico in 1995 but it also opened several others in the US after NAFTA's founding, suggesting that for home-region firms NAFTA removed a barrier from being able to exploit their already inhabited regional space.

The following map (Figure 4.12) shows the manufacturing sites (assembly, engine, and other parts under direct control) of the Toyota Group, the Volkswagen Group, General Motors, the BMW Group, the Daimler Group, Ford, and Kia, representing nearly 65 per cent of car sales in the United States, in July 2014.[244] Manufacturing sites, marked with blue, are set against states showing real GDP per capita in 2008. While GDP per capita data have certainly changed since, it is only applied here as as proxy for low-wage/low-cost areas to highlight core/periphery divisions. The map clearly shows that the manufacturing belt retained its strong position as a production centre for home-region firms, even if it has become increasingly dispersed, with new locations continuously added to old ones. The continued dominance of the United States in NAFTA as the main manufacturing location is

[244] Map made by author based on NAFTA Real GDP per Capita Map; BMW Production Worldwide, Volkswagen Group Production Plants; Angelo Young, "Here are the July 2014 'Big Eight' US Auto Sales Numbers", *International Business Times*, (1 August 2014), http://www.ibtimes.com/here-are-july-2014-big-eight-us-auto-sales-numbers-gm-ford-chrysler-toyota-honda-nissan-1645592 Accessed: 13 April 2015.

similar to the European case where Germany, Britain, and France remain three of the top four manufacturing centres.

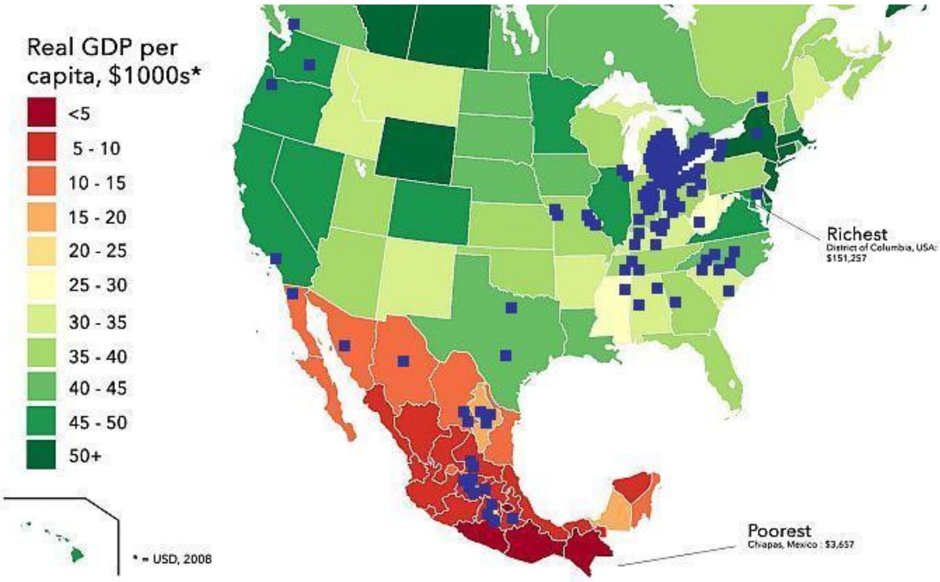

Figure 4.12 – Map of OEM Locations in NAFTA 2015

Despite the shortcomings of this map (it underplays the importance of Southern states in the US as other manufacturers, not shown here, have more plants there), it shows a similar picture to that of the EU: the size of the manufacturing zones now cover a similar geographic area as in the EU, and decentralisation targets both high wage/high cost zones (this is true of the whole of the United States in comparison to Mexico, inter-state variations notwithstanding) and low-wage/low-cost zones as well.

The change from concentrated to polycentric arrangement of production was an inevitable consequence of the arrival of Japanese competition from the 1970s. While their initial business model was exporting from Japan, their increasing popularity made it logical to bring design and manufacturing close to their customers. However, it was the 1981 'voluntary' export restraint imposed by the US government on Japanese manufacturers which forced them to set up local manufacturing in the country. This, in many ways, turned out to be a mixed blessing for the same home-region firms the government had wanted to protect: these sites made Japanese firms better placed than ever to conquer new customers.[245] It was only logical that, as in Europe, the new manufacturing sites were set up not in the traditional car industry clusters but elsewhere where labour was available and cheaper, and potential supplier capacities could still be found or built up. This was the same process with German and Korean firms following suit, all looking for locations away from Detroit.

4.3.2 The Lack of Positive Integration

4.3.2.1 The Lack of Common Commercial Policy

NAFTA's regionalism is mainly characterised by negative integration measures, and the absence of positive ones. By opting not to 'advance' regionalism initially promised more liberty for the more developed ones (i.e. the US and Canada); they did not have to lock themselves to a developing country, and perhaps more importantly to regional commitment institutions. The lack of a common commercial policy, for instance, allowed NAFTA members to pursue their own external trade policies *vis-à-vis* third countries. Mexico could exploit its comparative advantages: it entered into FTA agreements while it had access to the US market, thereby becoming the ideal springboard for low-wage/low-cost manufacturing. Moreover, Mexico's active FTA-seeking policy, most notably with the EU (since 1999), Japan (since 2004), and MERCOSUR (since 2005) allowed it to become not just a regional but increasingly a global manufacturing hub.[246] Audi, for instance, was considering US locations higher wages and costs notwithstanding, but as neither NAFTA, nor the US has

[245] Steven Berry, James Levinsohn and Ariel Pakes, "Voluntary Export Restraints on Automobiles: Evaluating a Trade Policy", *The American Economic Review*, (Vol. 89, No. 3, June 1999), 400-430
[246] Federal Government of Mexico – Trade and Investment Agency, "Trade Agreements", *ProMexico*, http://www.promexico.gob.mx/en/mx/tratados-comerciales Accessed: 4 June 2017

FTA agreements with the EU, it chose Mexico instead to ensure the free flow of parts between Europe and Mexico. Thus, the lack of positive integration measures in trade had indirect effects on spatial changes (more in Chapter 7).

4.3.2.2 State Aid

State aid was considered an important factor in the dispersal of car manufacturing in Europe (4.2.2.2). This is also true of North America where state aid is not capped by a regional policy unlike in the EU. In the EU, regional policy helped the dispersal of manufacturing as poorer, new locations could more freely offer subsidies than richer, old ones. In NAFTA, the lack of regional policy meant that old locations could fight back more forcefully by entering the cut-throat incentive competition but Mexico’s pull was also stronger: wage differentials between Mexico and the US were significantly higher than between Western and Eastern Europe. Thus, in effect, the outcome in NAFTA is relatively similar to the EU: the bulk of new sites were set up in low-wage/low-cost locations but high-wage/high cost countries could retain and occasionally attract new plants. Evidently, the lack of a common policy in capping state aid competition is benefiting the firms while the significantly higher costs of incentive competition are borne by US and Mexican taxpayers.

In fact, state aid already began to change the geography of production in the US before NAFTA. Incentives and the allure of the unbroken lands of the frontier did attract numerous foreign firms to the Southern states, leading to intra-US locational competition. It created a new ‘group’ of manufacturers: the ‘Little Eight’ of the South, the challengers to the ‘Big

Three' of the North.[247] Attracted by the relatively cheap labour of Kentucky, and a US$150 million worth of tax breaks, Toyota for instance moved to Georgetown in 1986. Tennessee, Alabama, Mississippi, South Carolina, Georgia, and Texas have also become hosts to car manufacturers from Europe and Asia, for the first time in their industrial history. Alabama spent US$1 billion to attract around US$7 billion of car industry investment in the 1990s and 2000s; for instance, it paid Mercedes US$169,000 in support for every job created.[248] Toyota, reportedly invested US$17 billion in ten production sites. Meanwhile, Alabama's car production figures went from zero (1995) to 800,000 (2007).[249]

The increasing embeddedness of foreign firms in these states has also created political dynamics at the federal level which are similar to changes observed in the EU: the interests of manufacturing countries/states became the interests of host countries/states at the regional/federal level. Southern states in the US also began to emphasise competition, and oppose assistance to home-region firms by the federal government as did Eastern European countries in the EU. Similarly, lower wages, flexible labour, higher productivity, and generous state subsidies transformed the 'Confederacy' into competition states. In their view, this is in sharp contrast with 'the North', and what they saw as its inflexible, unionised, and federally supported home-region firms (Ford, GM, and Chrysler). East Central European countries were just as opposed to the political conditionality of bringing manufacturing 'back home' (i.e. from Eastern Europe to France, etc.) for state help during the economic crisis, as did Southern states opposed the approval of a US$15 billion federal aid package to the 'Big Three' by the House of Representatives in 2008.

[247] Daniel Gross, "How Foreign Car Factories Have Transformed the American South", *Slate*, (13 December 2008), http://www.slate.com/articles/business/moneybox/2008/12/big_three_meet_the_little_eight.html Accessed: 5 June 2017
[248] Ibid.
[249] Ibid.

> After a while the relocation dynamics creates a bidding war for FDI, and one needs to show its willingness to go the extra mile. It creates a competition dynamics between regions, reinforcing the inconsistencies of the domestic market. There is always a political configuration which creates irreversible effects but which is not written in the DNA of the free-trade ideology. (INDUSTRY ANALYST 1)

As a result of incentive competition, Volkswagen, which has manufacturing in Mexico, decided not only to return to the US with manufacturing but setting up an R&D centre at the same location in Chattanooga, Tennessee, for the first time outside Wolfsburg, Germany. It said that it wanted to listen closely "to the wishes of the American drivers".[250] However, there was something else that Volkswagen listened to: the US$1 billion investment was offset by an incentive package worth of US$577 million, reportedly making a Fiat executive to comment that "with the amount of money US states are willing to throw at you, you would be stupid to turn them down".[251] This is different from the EU where such lavish state aid to lure manufacturing plants is mainly available to the poorest NUTS-2 regions; 57.7 percent of the investment in state aid would in any case be forbidden.

However, Audi which is also part of the Volkswagen Group, for instance, chose Mexico for its US$1.3 billion-plant. This was an instance when state aid simply could not compete with the cost and 'regionalism advantage' of Mexico (i.e. FTAs), even when adding the cost of complete industrialisation (see Chapter 7). Despite this, however, new locations are typically opened in Mexico, also partly because of financial incentives. Between 2009 and 2015 seven new plants opened in Mexico while none in Canada and the United States.[252] One of the reasons behind this was that while the federal and Ontario governments typically offer

[250] Ryan Beene, "Volkswagen Puts Faith in Tennessee", *Automotive News*, (21 July 2014), http://www.autonews.com/article/20140721/OEM01/307219953/volkswagen-puts-its-faith-in-tennessee Accessed: 14 April 2015
[251] Richard Milne, "US Becomes the Low-Cost Site of the Moment for Manufacturers", *Financial Times*, (8 September 2008), http://www.ft.com/cms/s/0/78ed4bd8-7d3c-11dd-8d59-000077b07658.html#axzz3XIumuVKj Accessed: 14 April 2015
[252] Greg Keenan, "Mexico Races Ahead in Auto Industry as Canada Stalls", *The Globe and Mail*, (9 February 2015)

20 percent state aid of an investment, Mexico paid FCA, for instance, almost 73 percent (US$400 million for a US$550 million investment) for retooling an existing plant in Toluca.[253]

4.3.3 The Impact of Ideational Factors

While NAFTA is rarely identified as a regionalism with ideational characteristics in the strict sense of the term, however, based on how ideational factors were defined in Chapter 2 and then in the EU's case, they certainly merit some consideration in NAFTA's case, too. The 'promise of integration' in NAFTA's instance is that the *finalité* is not *politique* as in the EU; no promise of an 'ever closer union', nor expansion of the regional regulatory space through enlargements. The undertaking of regionalism is about free trade and free trade only. This is the normative template and guidelines it provides to firms and thereby makes regionalism and its non-progression calculable. This promise appears to have been solid enough for firms to regionally integrate their operations (e.g. Toyota, GM, etc.), or to opt for placing their North American manufacturing to Mexico alone (e.g. Audi).

Theoretically, NAFTA's weak promise is less calculable than the EU's because it is not backed by (supranational) commitment institutions capable of locking in the benefits of regionalism. This means that national politics in any of the member states can relatively easily undo the *de jure*, or supply-side of regionalism. Indeed, the break-down of political consensus over it in the US led to serious questions about the future of NAFTA following the election of President Trump. A withdrawal from NAFTA, or reintroduction of punitive tariffs would seriously disrupt the industry's production networks and those of its suppliers, all of which

[253] Keenan, *Mexico Races Ahead*, 2015

had been decided on the assumption that regionalism, however limited, was there to stay. This would logically suggest that the lack of commitment institutions lead to such developments. Nevertheless, Brexit in the EU demonstrates that a country can disentangle itself from a supposedly irreversible integration, thus, the solid support of integration to underpin regionalism is as vital as commitment institutions.

4.3.4 The Impact of Non-Regionalism Related Factors

Thus far, the main impact was argued to be by negative integration, as it allowed non-regionalism related dynamics to unfold, just as in the EU. These factors at times act in tandem with regionalism-related measures, at others constrain them. In NAFTA, too, the main non-regionalism related factor is ‘firm or business logic’. Its mechanism is considered constant in any region (see 4.2.4) therefore discussion will be limited to its impact, where relevant. Of non-regionalism factors, cost saving pressure is expected to drive manufacturing to Mexico, while proximity to customers to keep them in the US, or at least close to the US-Mexico border. State-level factors (e.g. corporate tax and wage levels, GDP per capita, etc.) were also considered. Significantly lower wages and somewhat lower corporate tax are also expected to make firms favour Mexico.

The country in close geographic proximity to US customers competes with low-wages/low-costs. Senior stuff at plants in the US and Canada are reportedly paid US$30 per hour while in Mexico only 10 percent of this.[254] This is a significantly higher difference in wages than in the EU, where the highest average car industry salary is 3-4 times of the lowest (see Annex). Sales data and interviewees confirmed that Mexico as a commercial objective is

[254] Keenan, *Mexico Races Ahead*, 2015

almost negligible compared to fact that it provides a low-cost production base with tariff-free access to the US market (INDUSTRY ANALYST 1; MANUFACTURER 3).

> The Mexican market today is [like] the Polish market: 5-8 percent of what they produce end up there actually. Moreover, the few customers they have, are Americanised up to their necks so the product is not "Mexicanised", if you will. So if once the Southern states in the US become much kinder [to manufacturers] than Mexico for five years, there are capacities which could walk back to the US, just as was the case in Tychy with Fiat. So the dynamics are very similar, simply because if there is no thick local market, there will be no solidity in the location [of the site]. And this is all within a very free-trading configuration; it is not a question of customs law. Again, it is a question of being able to create a domestic market, to create a somewhat Fordist dynamic. (INDUSTRY ANALYST 1)

In other words, Mexico is predominantly interesting as a low-cost location for firms, wishing to have easy access to the US and/or as part of their global strategies, not necessarily as a local market. While Mexico competes with the lavish state subsidies of US states, its rivals are also countries like Slovakia, the Czech Republic, or Hungary. Although there are some 'natural' clustering and agglomeration effects due to the industry's needs of close proximity of suppliers, these plants are still enclaves to a varying degree in their host economies.

> There is no demand, it's relatively simple. The East Europeans and Mexicans are obsessed with upgrading and their researchers are spending their life observing that it's not happening. The logic is exactly the same, there are two conditions for upgrading to happen: one, I have a domestic market which has certain specific requirements which could not be addressed correctly without locating my product policy, design, etc. there; the other one rests on local content. The best is to have both but when you only have either one, your capacity to localise is limited. In Mexico and Central and Eastern Europe today, you have the second dynamic (INDUSTRY ANALYST 1).

Eventually, just as in Europe, firms increasingly place the production of small cars, which have high fixed costs and smaller profits per vehicle, in low-wage/low-cost zones. The manufacturing of SUVs and high-end cars typically remain in high-wage/high-cost zones. In good times, when people are more likely to spend on more expensive cars, capacities are added to plants in the core while they may stagnate in plants of the periphery (unless there is increasing demand in the regional periphery, too). When Ford announced that it cancelled plans for its US$1.6 billion new site in Mexico and instead it would invest in an existing plant in Michigan, Mr Trump hailed it as the result his threat of punitive import tariffs on Mexican made cars.[255] However, it was a decision made precisely in light of sagging demand for cheaper and smaller cars on the US market, made in Mexico, and an increased demand for larger and more expensive ones.[256]

While proximity to customers could favour the US as location, Mexico also has some advantages in this regard. It is in proximity of both the US and Latin America with ports open all year. Combined with its network of FTAs, this puts Mexico at an advantage as a manufacturing base compared to Canada, and the US. Some firms (e.g. Renault) even considers Mexico as part of their 'Latin-America Region' from a management perspective, similarly how Romania is considered 'Eurasia' and not the EU also by Renault, simply based on which regional strategic goals those plants serve. In terms of economic activity NAFTA has always been a 'tale of two borders': the US-Canada border region in the North, and the US-Mexico border region in the South. Because of cost, proximity, and ease of access, Mexico can compete with the other two; Canada could only hope to lure investment from the US.

In this section (4.3), I have argued that in the absence of positive integration measures, regionalisation (spatial and organisational) in NAFTA was primarily impacted by negative integration measures which facilitated non-regionalism related processes, similarly to the EU. This led to increasingly polycentric and dispersed production networks in the car industry. While similar in its outcome and main regionalism-related driver (i.e. negative integration),

[255] Bernie Woodall and David Shepardson, "Ford Scraps Plan for $1.6 Billion Plant in Mexico After Trump Criticism", *Reuters*, (3 January 2017)
[256] Daniel Gross, "Ford Isn't Adding U.S. Jobs Because of Donald Trump", *Slate.com*, (3 January 2017)

some of the processes that shaped regionalisation in NAFTA differ from the EU in important ways. First, regional expansion of firm activity (to Canada and Mexico) long preceded the start of regionalism, and second, expansion was not driven by scale issues which in Europe linked regionalisation to the deepening and advancing of regionalism. Third, home-region (US) firms were at the forefront of regional expansion and later regionalisation (i.e. the regional re-organisation of production), and fourth, US firms had no important rivals from and in Canada and Mexico, allowing them to shape regionalisation in NAFTA for a long time.

Initially, regionalism's impact on regionalisation meant the vertical and horizontal reorganisation of production between existing sites of Ford, GM, and Chrysler's US and Canadian operations. Meanwhile, non-regionalism related factors came to the fore. The size and importance of the US market (a scale that Europe could only create by regionalism) attracted newcomers to set up manufacturing. Import restrictions also acted as catalysts. The inherent logic of new entry modes led foreign firms away from traditional locations to ones which had free industrial capacities to become suppliers, and relatively cheaper labour without the powerful trade union traditions of Detroit. The chance to host car manufacturing propelled a cut-throat incentive competition between US states, as seen in Europe, which also supported the move to new locations.

In fact, regionalism's main impact on the dispersion of locations came with NAFTA which added low-wage/low-cost Mexico as an inner periphery to the US-Canada economic space. With NAFTA remaining a free-trade area, Mexico could pursue its own international trade policy, turning itself into an attractive location for manufacturers with access to the EU, the US, Latin-America, etc through a network of FTAs. Thus, in NAFTA, the expectations about the creation of a regional space were structurally lower: it already had a big market (the US), and it already had internationalising home-region firms. By dismantling tariffs, however, regionalism directly led to the regional reorganisation of production, and contributed to the dispersion of manufacturing to NAFTA's low-wage/low-cost regions, most importantly Mexico.

4.4 Conclusions

This chapter examined how regionalism, through the creation of a regional space, impacts the spatial and organisational aspects of firm regionalisation; what role regionalism plays in locational choices, and in the regional integration of operations. It asked whether regionalism plays a relatively *strong* or *weak* role in the process. The chapter also enquired whether the type and intensity of regionalism was of *primary* or *secondary* importance in regionalisation outcomes. By comparing the EU and NAFTA, it asked whether the outcome was *similar* or *different*. Two main groups of factors were considered: regionalism-related (negative and positive integration measures and ideational factors), and non-regionalism related (business/firm/industry-related factors). Regionalism's impact was examined on spatial and organisational changes of firms' production networks (manufacturing sites, etc.). Regionalism was found to have had a relatively *strong* impact on regionalisation outcomes, while the type or intensity of regionalism *secondary*.

The impact of regionalism, in both regions, was found to have been caused mainly by negative integration measures (i.e. the removal of barriers to regional activity), which enabled non-regionalism related economic processes to come to the fore (e.g. scale building, efficiency savings, etc.). In *spatial* terms, this led to the development of dispersed and polycentric production networks at the industry-level. This process was enhanced by successive enlargements, which had added new zones of productions in the low-wage/low-cost periphery (i.e. Iberian Peninsula, East Central Europe, and Mexico). Ensuing locational competition was strengthened by opening to newcomers. However, the core has retained the vast majority of production in both regions, mainly by joining the locational competition, through political pressure, or simply because the logic of being close to the customers dictated it. In *organisational* terms, the creation of the regional space led to the horizontal and vertical integration of sites and national subsidiaries into regional networks, relatively early on. In both regions, US companies were at the forefront of these changes as they had had sites already in several countries, setting the example for second-movers.

Ideational factors of regionalism were also found to have impacted regionalisation outcomes to a lesser extent, in both regions. The promise of, or commitment to integration by suppliers of regionalism (e.g. governments) contributed to regionalisation by increasing the calculability of the regulatory environment. Firms often forewent regulatory changes, enlargements based on informed expectation. This seems to support Mattli's argument that commitment institutions are only a 'weak' supply condition to successful integration.[257] After all, the irreversibility of integration was equally challenged in both thinly-institutionalised NAFTA (by the US), and the deeply-institutionalised EU (by Brexit). Thus, the key for regionalisation may not be so much the existence of institutions locking-in the benefits of integration but that they are accompanied by unwavering commitment by their creators.

Potential political support at the regional/federal level by national governments/states was also argued to have influenced locational choices. The sway of governments of the core (by pressure and/or assistance) contributed to the retention of old sites; governments' support was particularly important in hard times. New locations in the periphery however offered important cost savings and new opportunities in good times. Thus, to reap maximum benefit, firms had the incentive to be present in both core and periphery countries. Of positive integration measures, the EU's regionally-capped state aid asymmetrically contributed to the

[257] Mattli, *Explaining Regional Integration Outcomes*, 4 and 14

dispersal of sites to low-wage/low-cost zones. NAFTA's different, *laissez-faire* approach led to similar outcome; while Mexico's significantly higher wage differential was a stronger pull factor for firms, it was counterbalanced by unrestricted incentives by US states. In the EU, Schengen was also found to be crucial for current regional operations but only had a limited role in the establishment of new sites, if any.

All in all, regionalism-related measures were argued to have had a relatively *strong* impact on regionalisation outcomes in both regions because removal of barriers helped induce changes that otherwise might not have emerged, the impact of non-regionalism related factors notwithstanding. Regionalism created a systemic change: the regional space increased competitive pressures, on the one hand, and provided a calculable environment of reduced risk and transaction costs, on the other. Regionalism also allowed new countries with negligible market potential to emerge as centres of production, as firms could build scale and increase efficiency in low-risk/low-cost environments. In NAFTA, cross-border integration of value chains only took place after the Auto Pact removed barriers, and Mexico could only become a manufacturing centre when barriers to the US market were dismantled by NAFTA. In the EU, regional reorganisation of US firms took place when the Customs Union was completed. For home-region firms regional competition also became acute when negative integration dismantled their national protection.

The type and intensity of regionalism was *secondary* in both regions because it was the initial tariffs removal which set in motion regionalisation processes; other aspects of regionalism were found to have been secondary. *Similarity* between regionalisation outcomes in the two regions was driven by similar negative integration measures, and the inherently similar business/industry-specific logic of the same firms. However, the similar outcome in both spatial (i.e. the development of a polycentric and dispersed manufacturing network at the industry level), and organisational terms (i.e. the horizontal/vertical integration of sites within firms) is still unexpected from the perspective of regionalism. After all in the EU several positive integration measures, and ideational factors also influenced regionalisation while the former were largely absent in NAFTA. It was contended that similarity drivers between the two regions became salient as variation drivers had been weakened by two congruent developments: first, positive integration and ideational factors had less importance for firms, and second, structural and historical differences in the regional development of the industry were balanced out by other measures.

However, despite similar outcomes, the process of regionalisation was found to diverge in several aspects across the two regions. First, the starting point was vastly different. In the EU, production was organised around strong, nationally-segmented and protected markets. Production therefore was polycentric from the start, and consequently regionalism and regionalisation were linked to addressing scale issues. The relatively large number of competing jurisdictions meant that positive integration also had to play a role for regionalisation to become meaningful. In NAFTA, US firms were already dominant in all three countries, and the size of the US market made scale building independent of regionalism. Regionalisation was rather about increasing efficiency by organisational changes. Unlike in the EU, production was geographically concentrated; newcomers and locational competition however made manufacturing similarly dispersed to the EU.

CHAPTER 5 – REGIONAL MARKET:
CUSTOMERS, DESIGN, MARKETING, AND SALES

5.1 Introduction

This chapter explores the impact of regionalism on regionalisation of the markets: how the position of firms changed by increased competition and changing demand, and how they fought back by regionalising their product portfolios, design, and marketing in the EU and NAFTA. It will be argued that regionalism had a *strong* impact in the EU, and the type/intensity of regionalism was of *primary* importance in the process. In NAFTA, the impact is also argued to be relatively *strong* while the type/intensity of regionalism was *secondary*. Consequently, regionalisation outcomes are *different* in the two regions. Regionalism has increased competition in both regions which weakened the position of home-region firms; it compelled firms to design and market increasingly regionalised products. In NAFTA, regionalism's incentives had acted in tandem with structural factors which led to a stronger regionalisation of customer demand. In the EU, a more robust regionalism has led to significant changes on the firms' side but largely failed to overcome pre-existing demand structures. Thus, this chapter will also highlight the 'limits of regionalism' and the role of non-regionalism factors in constraining regional transformation.

In NAFTA, regionalism mainly offered negative integration measures as incentives to regionalise product policies, and shape customer tastes and demand. Regionalism and non-regionalism factors solidified the dominance of US firms as trend-setters in all three countries, which has led to relatively similar customer tastes across the region. In the EU, regionalism's offer was more solid: negative/positive integration measures, ideational factors. Competitive pressures did challenge the dominance of national champions on their home markets, firms did regionalise their products, and partly their marketing but customer taste and demand remained nationally varied nevertheless, persistently keeping the regional market a collection of national markets. This heterogeneity is in contradiction with the alleged convergence that markets have been undergoing.[258] In the EU, the promise of integration, that "increasingly dynamic global processes which circulate commodities through national markets lead to the domestication of foreign things as well as the embrace of commodified difference", has so far remained unfulfilled.[259]

The lack of demand convergence in the EU is unexpected: after decades of intrusive market integration, national identity in economic activity was not anticipated to be so persistent.[260] National market segmentation is also more salient than could be assumed based on value-based variation between consumers in different countries.[261] After all, for a regionalisation process to function, the manufacturer has to offer an identical range of models in the various countries comprising a particular region. This identical product range presupposes the relative homogeneity of these markets, and therefore a relative convergence of national income levels, modes of income sharing, and people's lifestyles (rates and forms of urbanisation, level of road transport infrastructure, role of individual transportation modes, cultural representations, etc.).[262] Inevitably, this raises questions about the limits of regionalism and its ability to create a regional market for products which are also carriers of national identity.[263] The chapter will be organised in the following way: first, the mechanism of regionalism will be discussed briefly, followed by a review of indicators of regionalisation,

[258] Freyssenet and Lung, *Multinational Carmakers' Regional Strategies*, 44
[259] Tim Edensor, "Automobility and National Identity: Representation, Geography, and Driving Practice", *Theory, Culture & Society*, (Vol. 21, No. 5, October 2004), 101-120, 103
[260] Fligstein, *Euroclash*, 87-8
[261] De Mooij and Hofstede, *Convergence and Divergence in Consumer Behaviour*, 61-69
[262] Freyssenet and Lung, *Multinational Carmakers' Regional Strategies*, 44
[263] Edensor, *Automobility and National Identity*, 103

and chapter-specific data and research design. Then a thick description of regionalisation in the EU and NAFTA will follow.

5.1.1 The Impact of Regionalism

Regionalism, through the free movement of goods (and services), creates the possibility of selling the same line of products within the regional space. For Lung, this in itself satisfies the definition of an integrated car market.[264] Selling cars in a region of 28 countries, for instance, is not a simple task: beyond the dealer network, it entails a logistics operation of parts, service and consumer support, perhaps a financial operation for consumer credit, and localised marketing. However, this chapter takes a different approach to Lung's and also looks at whether transformative changes have taken place in customer demand. Thus, the fact, that regionalism makes presence sustainable even on previously non-profitable national markets, is considered only as a starting point of transformative processes. The inquiry, after all, is also about whether regionalism is able to reduce dependence on one's national market and foster 'regionness' by increased economic transactions in the process.[265]

Free trade areas like NAFTA may achieve regional market of goods by negative integration measures (i.e. by removing barriers to trade), while a single market like the EU can introduce positive integration elements (e.g. common standards, federalised regulations, etc.). For firms, a regional market means access to an enlarged customer base and thus the opportunity to build scale, reduce dependence on the original home market, and eventually increase profit, even if the increased competition from rival newcomers and other home-

[264] Lung, *The Changing Geography of the European Automobile System*, 3
[265] Hettne and Soderbaum, *Theorising the Rise of Regionness*, 40-4

region firms ends their cosy 'national champion' status. Regionalism may lead to several changes: it creates the possibility to sell region-wide (negative integration), it may incentivise the design of regionalised products (positive integration), it may lead to some sort of convergence of customer tastes (ideational factors) by exposing customers to new products, and it can compel firms to regionalise their marketing (partly to save costs, partly to help shape regional customer tastes, or to cater for existing ones).

5.1.2 Indicators of Regionalisation

In this chapter three aspects of regionalisation will be considered: first and foremost it means the response of firms to the opportunity of an enlarged market. Firms may introduce several changes to build scale and capitalise on the opportunities offered by regionalism: national market-focused design could gradually shift to a more 'regional' one, both in visible (e.g. chassis) and invisible (e.g. common platforms) terms, in a way which is attractive to both traditional and new customers. Marketing messages (i.e. advertisements) could become regional, with national variations on more important and difficult markets, and marketing could become regionally organised. Second, a heterogenisation of sales could take place: more firms compete for customers on previously hardly-accessible markets. Finally, third, a transformative change in customer tastes can take place – demand could become less segmented along national lines and brands, and become more similar across countries, facilitating entry to new markets for firms.

Regional convergence in demand, it must be emphasised, is not uniformity of taste, although NAFTA countries (the US and Canada in particular) show remarkable similarity in this regard. However, regional market integration to become meaningful for firms presupposes some degree of convergence of demand, as it happened with many other, even culturally more embedded products. Linguistic and cultural differences already make national segmentation difficult to overcome but if French consumers still predominantly purchase French cars and Germans German ones, the region will maintain a “multi-domestic” logic, firms will struggle to realise integration benefits, if at all.

5.1.3 Chapter-specific Data and Research Design

Arguments in this chapter are based on three main data sources: descriptive statistics based on original, historic datasets, semi-structured interviews, and secondary sources (e.g. specialist press). First, it will be mapped out which types of firms and which manufacturing groups did well in the period between 1990 and 2015 on the two regional markets, calculated from sales and new registrations data. The timeframe includes the most dynamic period of regionalism (the completion of the EU’s Single Market, and the Monetary Union and the creation of NAFTA). Changes are also mapped on key national markets between the 1960s and 2015, depending on data availability, to explore if former national champions lose ground to regional competitors, and how customer tastes change. For NAFTA, historic data is compiled for the United States partly because it represents an overwhelming majority of all NAFTA sales, partly because it is the only country to have had domestic car industry of significance. Historic data is complemented with national-level new car registration data for 2014/2015, for more states to demonstrate variation or similarity.

Datasets are compiled from publicly available sources; from industry organisations, public archives, company archives, and in some instances from secondary sources. The longer we go back in time, the less reliable some of the specific data may be for several reasons: in a few instances, mergers, divesting, etc. makes it difficult to know what brands were actually included for a particular year, though this was cross-checked as much as possible. There may be some differences even between how one company reports its own sales and/or new registration in a given year and modifies the data at a later date, for instance, in its annual report the following year. There are also slight differences between what is considered a passenger car in the EU and in the US; light duty vehicles (i.e. pick-ups, *furgonettes*) are traditionally excluded from passenger car statistics but not always in the US and Italy. Italy's historic dataset was notoriously difficult to compile as opposed to Germany's where a federal authority collects such information. Nevertheless, the data are only important to demonstrate long-term trends and changes. The aforementioned statistics demonstrate increasing competition, and the extent of changing customer demand as a result of regional market creation. This is then followed by an examination of the supply side (i.e. how firms change the design and marketing of their products) to further link changes to regionalism. This is based on semi-structured interviews with firms, industry-experts and an analysis of marketing messages (e.g. commercials), and secondary sources (e.g. specialist press).

5.2 Regionalisation of Markets in the EU

The EU achieved the Single Market through several negative and positive integration measures. Removal of tariffs and barriers to trade made it potentially easier to sell cars in other countries – this created competitive pressures as vehicles of other countries became cheaper. Consequently, market leaders began to lose ground to rivals on most major car markets. Positive integration measures, including common standards, vehicle-type approval, etc. (more in Chapter 6) helped firms to move to common platforms and towards 'regional' design. Notwithstanding the role of negative and positive integration, this section (5.2) will also highlight the importance of ideational factors, broadly understood, and non-regionalism factors to describe regionalisation outcomes.

Of ideational factors, the concept of 'Europeanness' is argued to have played a role; either construed as a regional identity proper replacing or complementing national identity, or as 'unity in diversity', an assemblage of national identities, something the EU has actively tried to foster. In fact, the 'higher order goal' of European integration is precisely a sense of regional belonging, a co-dependence which makes war unimaginable. Feeling European instead of German, of course, does not automatically make anyone buy French or Italian cars, and in any case not in an equal measure. However, regional identity/belonging does have the ability to soften the sharp, exclusionary contours of national identities, including any aversion to products which are carriers of national identities, such as cars. (INDUSTRY ANALYST 1)

It may help alleviating the "stereotypical images about various countries", and how "these images affect the way in which the countries' products are evaluated".[266] The direct impact of regional belonging, that people are nowadays more ready to buy 'foreign' cars, either because newcomers have slowly become 'part of the landscape' and lost their nationalities or consumers are just after any car that suits them, was confirmed by several interviewees. (MANUFACTURER 1; MANUFACTURER 2) The indirect impact of Europeanness was present in firms' marketing approaches: fostering a sense of belonging to the region, or the using or humorously mocking of national *clichés* and rivalries in a characteristically European way, were some of the favourite ways firms pushed regionalised marketing messages. In the following, the impact of negative, and positive integration will be examined, then the impact of ideational and non-regionalism factors will be mapped out.

[266] Nicolas Papadopoulos, Louise Heslop, Francoise Graby, George Avlonitis, "Does 'Country-of-Origin' Matter?: Some Findings From a Cross-Cultural Study of Consumer Views About Foreign Products", *Marketing Science Institute Paper*, (1987), 3, Cited in Diamantopoulos et al, *Lessons for Pan-European Marketing?*, 38-52

5.2.1 The Impact of Negative Integration

Firms have been selling cars in other than their home countries since well before regionalism started anywhere. If a national market seemed promising they would pay tariffs, finance the cost of local presence, and adjust the vehicles to local standards. Firms were then, as much as now, looking for new markets 'to be developed' to push their products. However, post-WW2 tariffs made market entry costly, and demand sagging. Thus, removal of tariffs did promise increased choice and competition. However, early competition had varied effect on firms and even 'within' firms (i.e. how the same company performed in different countries). Ford is an example to the latter: after the Treaty of Rome, its market share in the Netherlands rapidly declined, whereas in Germany it increased (see Figures 5.1[267] and 5.2[268]).

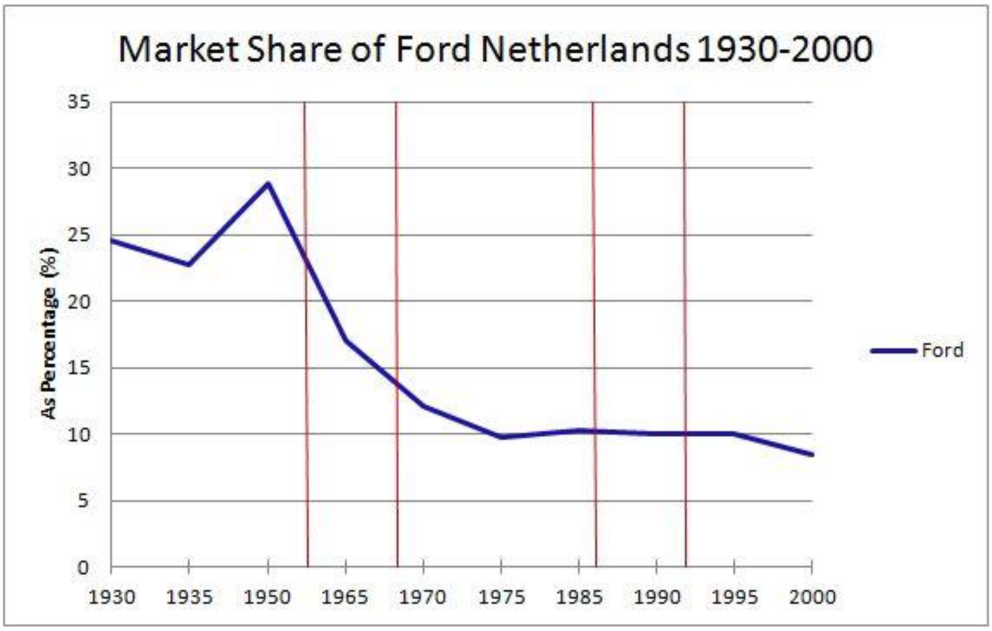

Figure 5.1 – Market Share of Ford Netherlands 1930-2000

[267] Author's calculations based on Ferry de Goey, "Ford in the Netherlands: 1903-2003. Global Strategies and National Interests", In: Bonin et al, *Ford, 1903-2003*, 241; Red lines: singing of the Treaty of Rome (1957); completion of the Customs Union (1968); signing of the SEA (1986); completion of the Single Market (1992);
[268] Author's calculations based on Paul Thomes, "Searching for Identity. Ford Motor Company in the German Market 1903-2003", In: Bonin et al., *Ford: 1903-2003*, 172 and 174

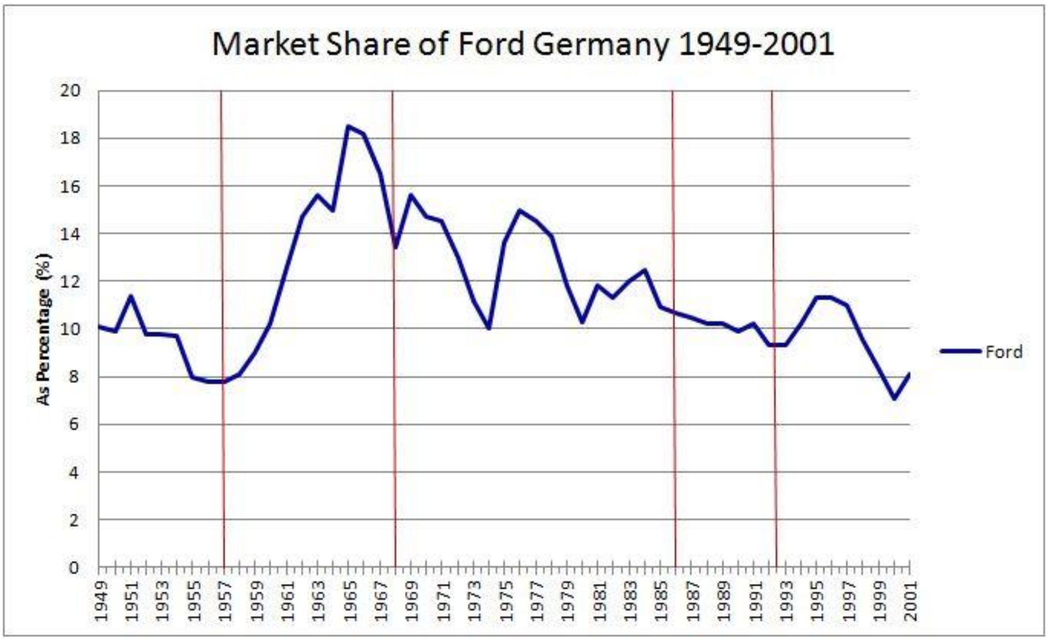

Figure 5.2 – Market Share of Ford Germany 1949-2001

These country variations already indicate that the European car market largely remained a collection of markets. (INDUSTRY ANALYST 1) It is characterised by many different players: strongly embedded former national champions, dominating their home countries and having strong positions wherever they set foot historically. Embedded regionalisers (e.g. Ford), which entered Europe well before regionalism and, in many ways, had become ‘national’ car makers, were the earliest to recognise the need for regional differentiation in product planning.[269] Finally, there are Japanese and Korean clean-slate entry regionalisers which produce ‘regional products’ for ‘regional customers’. Thus, by virtue of their historic development in Europe, there are firms which were and are national market dependents, branching out regionally from their traditional hinterland, and others which have no choice but to try to challenge that with regional products.

[269] Tolliday, *The Origins of Ford of Europe*, 178

5.2.1.1 Varied Country-Level Impact

Despite regional competition, home-region firms did not lose their 'national champion' status until the 1980s. French, German, and Italian firms were protected, (sometimes partly state-owned) market-leaders which, independently of their privileged position, understood their home markets the best nevertheless. Regionalism however did challenge their positions on their respective home markets, as Figure 5.3 demonstrates.[270]

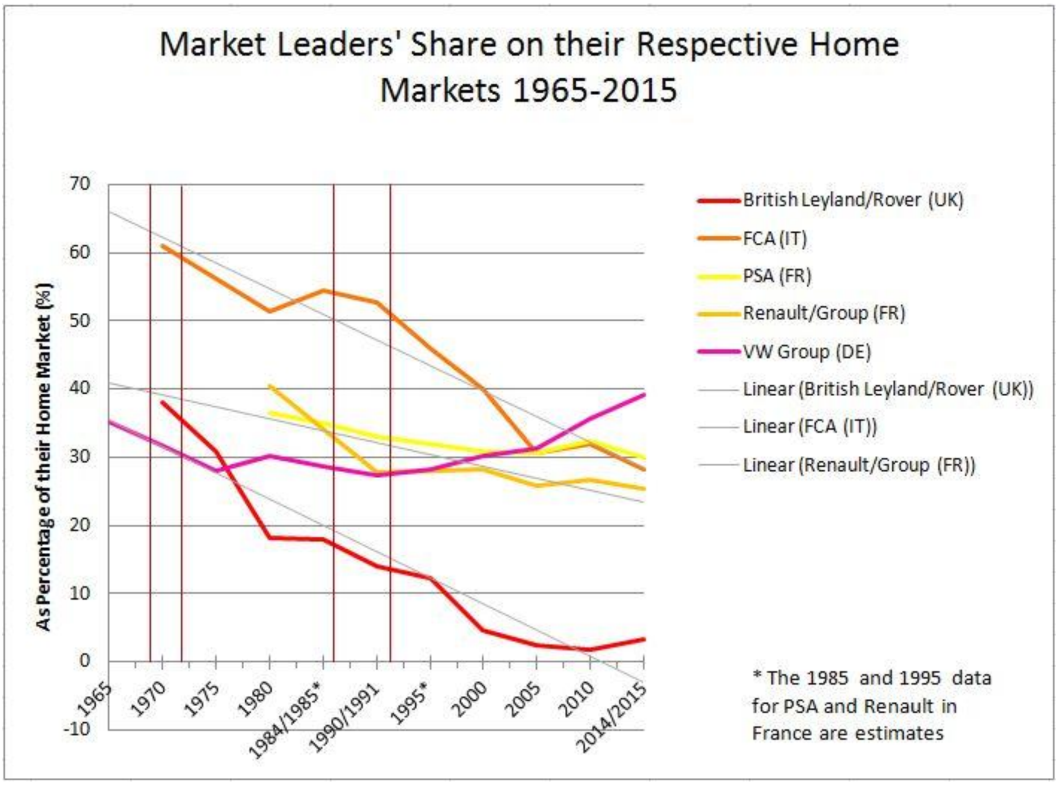

Figure 5.3 - European Market Leaders' Share on Their Home Markets 1965-2015

With the exception of Volkswagen, which turned the tables, all home-region firms lost significant market shares between 1965 and 2015, though to a varying degree. British Leyland/Rover practically nosedived as soon as the UK joined the EEC in 1973, Fiat was also

[270] For sources see country statistics.

sliding but its most difficult days, together with the two French, only came later on. As seen above, VW, unlike Peugeot and Renault, did improve its position by successful acquisitions.

How well or badly market-leaders performed on their home markets, of course, also depended on their competitors. VW's exceptional rise since the 1990s is not too surprising in regional comparison: although it was a market-leader in Germany, it did not have such a high market share as Fiat in Italy, Renault and PSA in France, or British Leyland in the UK. In fact, Ford and GM/Opel together had a higher market share than VW until the late 1970s. (See Figure 5.4[271]) As the US firms weakened in Germany, due to firm-related issues and divesting from other brands, VW simply took their place by mergers and acquisitions, and by offering more attractive products.

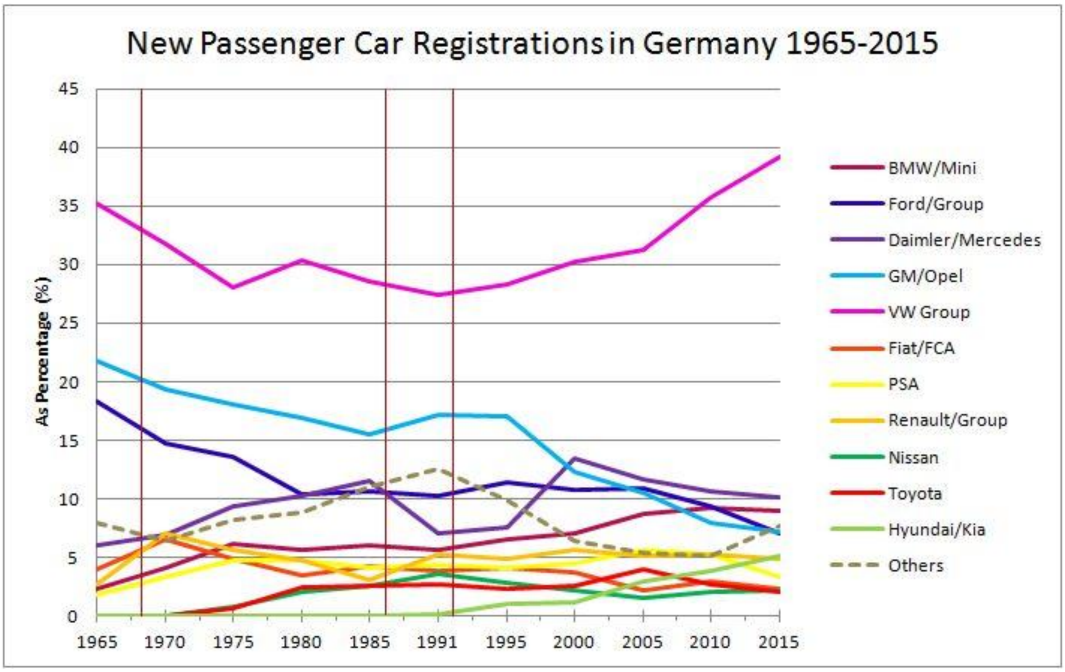

Figure 5.4 – New Passenger Car Registrations in Germany by Firm 1965-2015

Apart from VW's changing fortunes and the steady decline of Ford and GM/Opel, it is noteworthy that only German firms (e.g. BMW, Daimler) could increase their shares

271 Author's calculations based on Kraftfahrt-Bundesamt, Germany, 1965-2015, (data points: every five years).

significantly between 1965 and 2015. Other European and Asian firms could only capture around five percent of the market each.

Changes in the UK were relatively similar (i.e. national market leader, Ford, GM), though regionalism made the market even more volatile than in Germany, as Figure 5.5 demonstrates.[272]

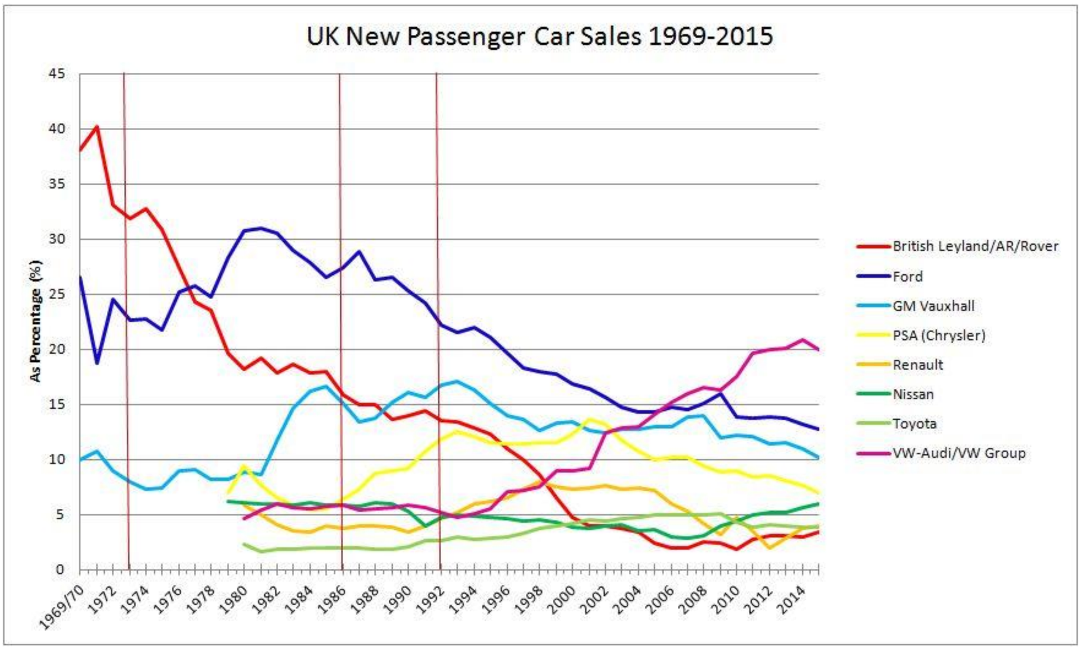

Figure 5.5 – New Passenger Car Sales in the UK by Firm 1969-2015

Before accession to the EEC, the UK's was a highly concentrated, strongly oligopolistic market, similarly to other major European countries. As in Germany, early regionalisation by Ford and GM was rewarded with increasing market shares and strong positions. British Leyland's rapid loss of popularity however opened up the market to rivals and newcomers (see 4.2.1.2), as did the weakening of Ford and GM. Not independently of the Single Market

[272] Author's calculations based on Whisler, *The British Motor Industry*, 122 and 385; Bonin et al, *Ford, 1903-2003*, 131; SMMT; BBC News, *Record Car UK Sales During 2003*, 2004

programme, this has turned the British market into a very competitive one, where even the market leader (the VW Group of several brands) has only around 20 percent share.

The historic data for the UK and Germany already suggest that negative integration set in motion competitive pressures. The asymmetric impact on firms and countries, on the other hand, point to the impact of non-regionalism factors which lead to variations between national markets. For instance, compared to the competitive British and German markets, French and Italian firms had relatively sheltered lives until the 1980s (see Figure 5.6[273]).

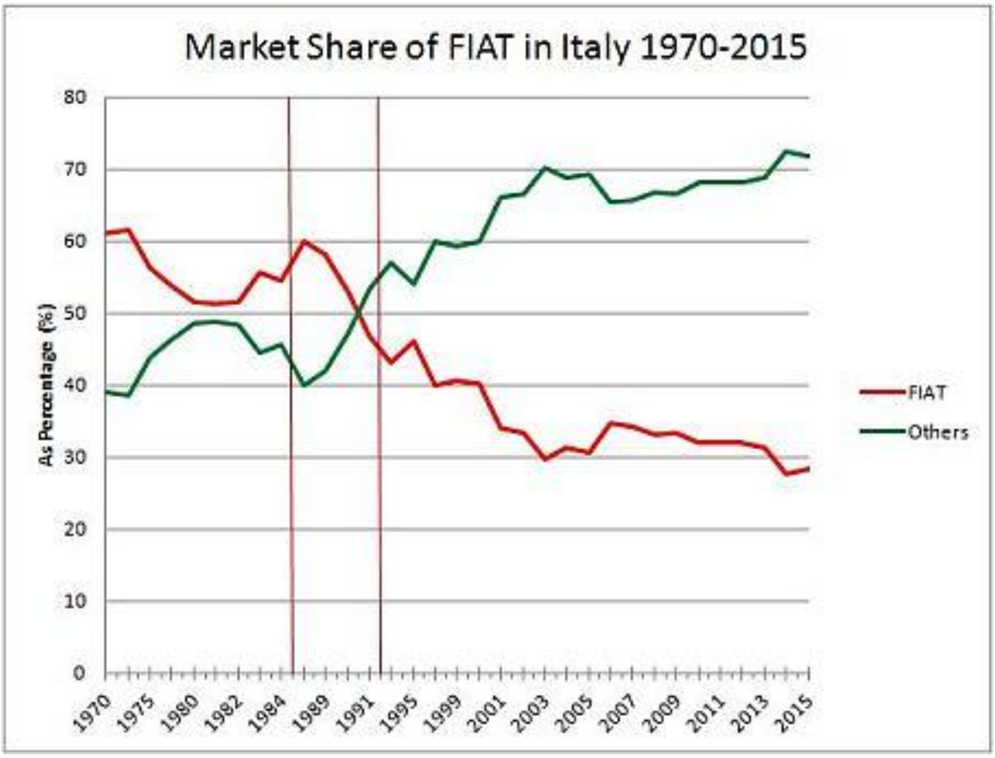

Figure 5.6 – Market Share of FIAT in Italy 1970-2015

Italian firms did not have to face embedded regionalisers (Ford, GM) on their home markets. Fiat's relatively high fluctuation in the 1980s also point to the impact of successful products

[273] Author's calculations; for sources see Appendices

(e.g. Fiat Uno). Its consequent decline shows the impact of (Asian) newcomers, competing with the small cars Italian and French drivers were accustomed to.

The Italian dynamic is very similar to the decline of French-made cars in France. In 1980, French brands gave over 77 per cent of all new passenger car registrations; this dropped to around 60 percent by the early 1990s (see Figure 5.7). The slide continued and after some fluctuation, 55 percent of new car registrations came from French, while 45 percent from foreign brands (other European, US, and Asians) in 2014.[274]

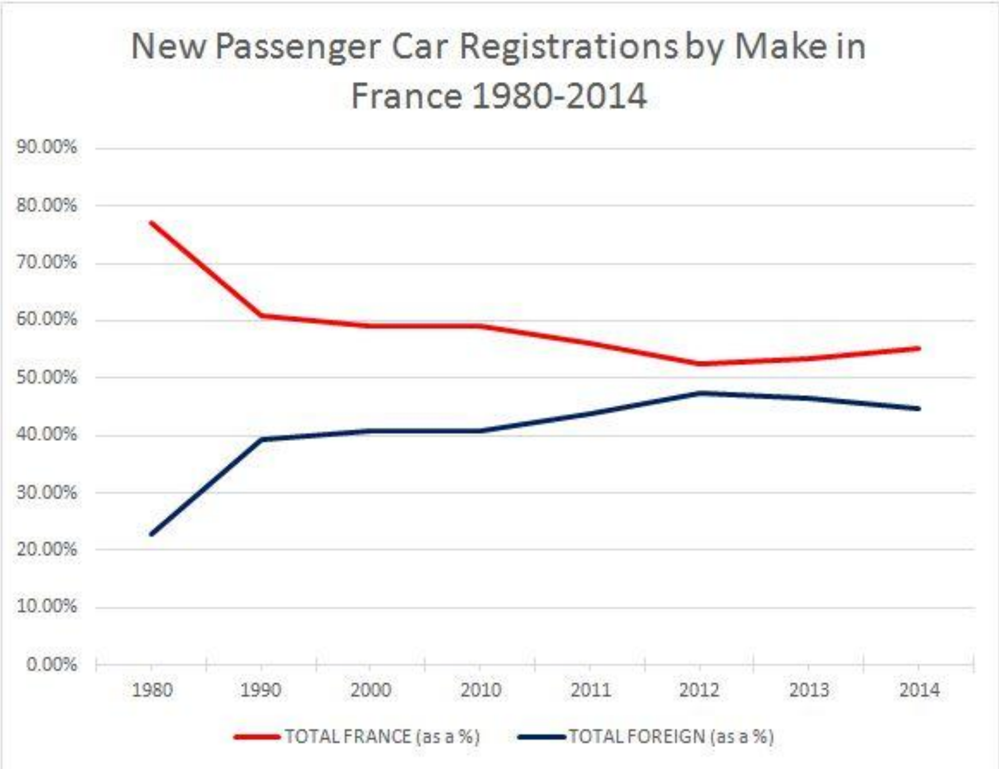

Figure 5.7 – New Passenger Car Registrations by Make in France 1980-2014

[274] By author based on Comité des Constructeurs Français d'Automobiles, "New Passenger Car Registrations by Make 1980-2014", *The French Automotive Industry – Analysis and Statistics 2015*, (Paris: CCFA, 2016), 82

5.2.1.2 Region-Level Impact

There are important observations to be had from the aforementioned data on country-level changes: first, regionalism squeezed previously protected home-region firms on their home markets through increased competition; second, highly concentrated, oligopolistic markets became (highly) competitive, and third, different firms withstood competition in varied ways. Germany, Britain, France, and Italy are the EU's largest car markets, (together gave c.60% of new car sales in EU15+EFTA in 2014). Being squeezed on one's home market had a significant, long-term impact on those firms' positions on the regional market (i.e. firms which did not do well at home, tended not to do well regionally). (See Figure 5.8[275])

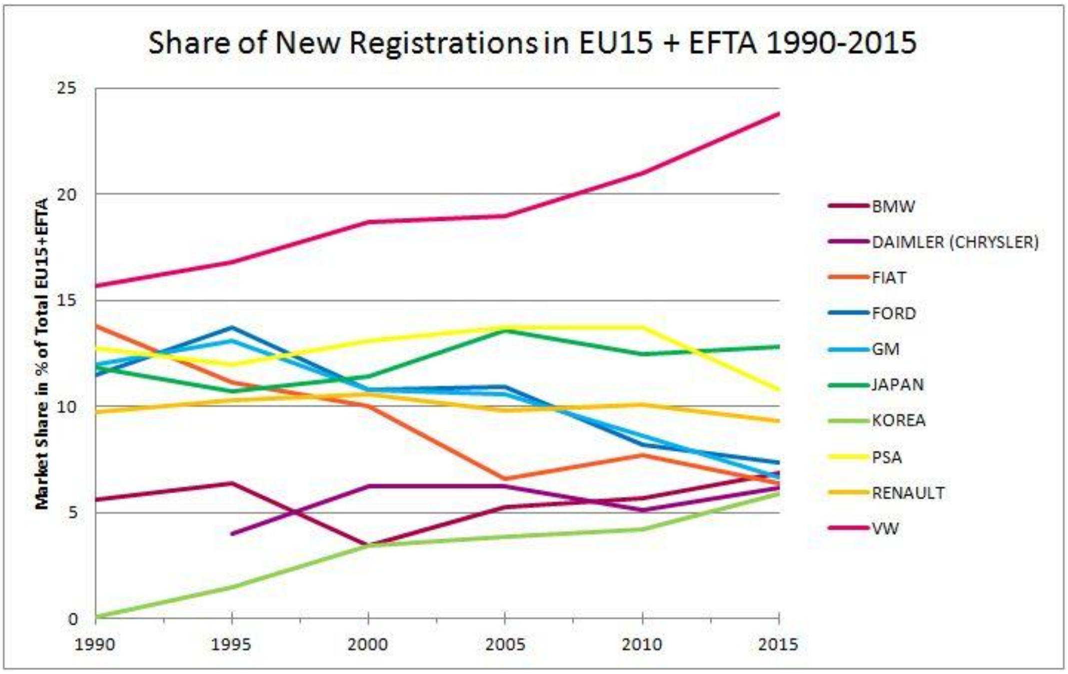

Figure 5.8 – Share of New Registrations in EU15+EFTA by Firm 1990-2015

[275] Author's calculations based on data by the European Automobile Manufacturers Association (ACEA), Year 2015 by Country and by Vehicle Category (Enlarged Europe), http://www.acea.be/uploads/statistic_documents/2015_by_country_and_type_Enlarged_Europe.xlsx; Japanese and Korean firms' shares are added up. Nissan is under 'Japan' not Renault-Nissan Alliance. The EU-11 is not included for lack of comparable historical data. They represented only 7% of sales in the EU (2015) thus their differences would not alter the overall picture.

The chart shows new passenger car sales between 1990 and 2015 in the EU-15 and EFTA countries, as percentage of total sales. German manufacturers have clearly become the winners of an ever integrating regional market, largely thanks to the Volkswagen Group, and the underperformance of Fiat (and Italian brands), Ford and GM. VW's performance though is not just about the decline of the others; it caters for all sorts of customer demand through its multi-brand structure. Its strategy from the 1980s, to enter national markets through acquiring former national champions (Seat and Skoda), provided it with a varied portfolio and the chance to tap into emerging markets early on. Figure 5.9 underlines that in regional competition winners and losers also have nationalities.[276]

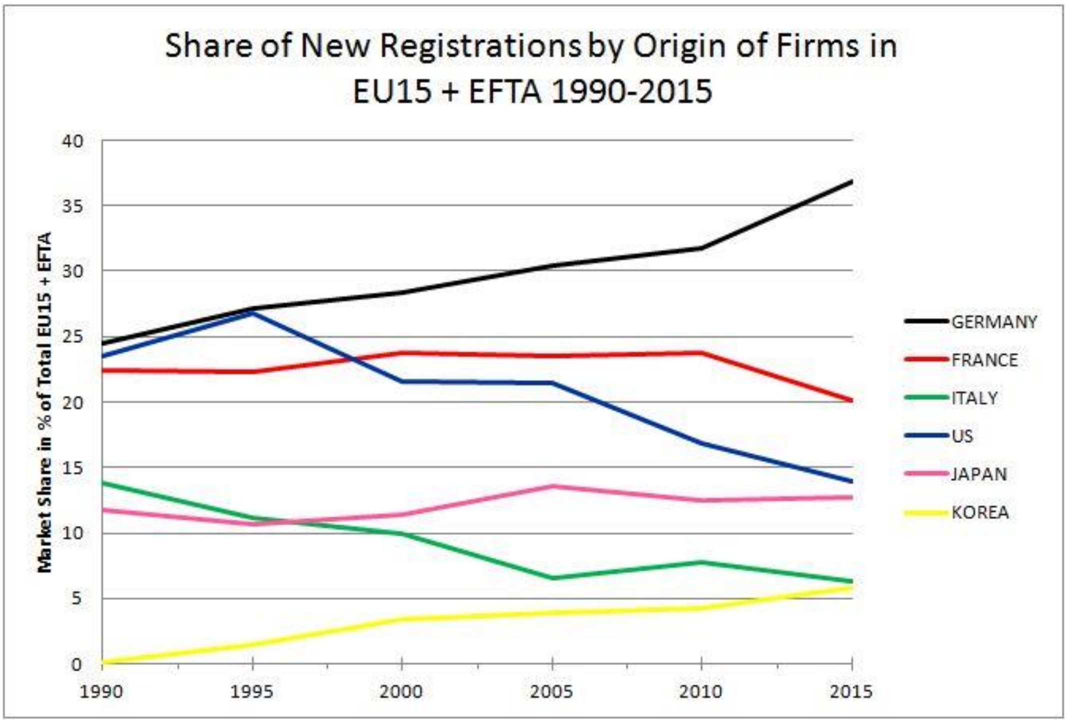

Figure 5.9 – Share of New Registrations by Origin of Firms in EU15+EFTA 1990-2015

Germany's market size in itself provides German manufacturers with a strong hinterland and consequently a relatively larger market share regionally compared to others. Nevertheless, the

[276] Author's calculations based on data by ACEA, Historical Series 1990-2015

decline of Italy's, and the difficulties of France's car industry following the Great Recession show that over-reliance on former national markets (with cars designed to national tastes), is a risky approach on a regional market. Hence, Renault's acquisition of Dacia and the recent successes it has achieved with it to compensate dwindling demand on its traditional markets, or PSA's acquisition of GM Europe in 2017.

The regional/national decline(s) of Ford and GM since the beginning of regionalism is however contrary to expectations. If any company was in pole position to do well on a regional market, it was 'early regionalisers' (see 4.2.1.1) as first-movers, shaping the market and competition to their advantages. Part of their loss of market share is, in fact, due to the selling of non-core brands to home-region firms, and recently, the massive restructuring of GM following the Great Recession. However, the process is older, and it may be that these 'pioneers' of regionalisation were too early with their approach: they started to push regionalised products when customers were still more used to having cars with stronger national imprints, and paid a heavy price for establishing the precedent for latecomers. Their struggle also suggests that there may not be a European market as such where regional products can easily be sold to regional customers (as the low shares of other newcomers also indicate), or at least whatever regional market there is, it cannot be construed without the main national markets. (MANUFACTURER 1)

5.2.2 The Impact of Positive Integration

Increased regional competition increased, initially on markets with struggling domestic industries (e.g. Britain), and or several competitive home-region firms (e.g. Germany), pushed manufacturers towards efficiency savings. Ford and GM had already begun to move to common platforms, regional design for regional customers as were newcomer Asian manufacturers, which simply could not afford to follow a national market-logic. However, home-region firms, strongly dependent on their traditional (mainly home) market(s) had relatively little incentive to design cars for the whole region, also because becoming 'all things to all people', and losing one's national imprint, potentially carried the risk of losing old customers while gaining few new ones as the decline of Ford and GM suggest. On the other hand, the pressure was increasing to reduce unit costs, partly by capturing a bigger slice of the regional market. The Single Market programme set out to achieve that by introducing negative (i.e. dismantling of NTBs and national specifications, etc.) and positive incentives (i.e. common standards, vehicle-type approval, etc.).

5.2.2.1 Regional Platforms

As a result of incentives, firms could either keep on treating national markets as before or try to overcome market segmentation and varied demand; there are examples for both and a mixture of the two strategies, too. By the 1990s, regional strategies have become the norm following competitive pressures by regionalising newcomers; in some instances this came only decades after first-mover Ford and GM experimented with it. Car models became increasingly built from the same or similar components, on the same or similar platforms which allowed savings to be had on the invisible parts of the product, while ensuring that diverse markets could be offered products of diverse appearance. Reducing the number of platforms and simplifying the product portfolio can clearly be attributed to regionalism; to both positive integration measures (i.e. common standards), as ever stricter regulations necessitate more costly innovations in the fields of safety and emissions which increase the need for efficiency savings (see Chapter 6), and negative integration measures (i.e. competitive pressures).

Some of the most popular models of manufacturers are built on the same platforms and further reduction in the number of platform is expected (e.g. Ford plans to reduce its platforms to eight worldwide from 27 in 2007; Volkswagen's 'MQB' platform will serve Golf, Jetta, Beetle, Passat, Skoda, Seat and Audi models).[277] Firms consider the chassis the most expensive part of a vehicle so spreading the cost of the basic foundation of a car on a larger volume reduces unit costs.[278] While Ford was already considering a 'world car' in the early 1960s, European subsidiaries were, at the time, pushing for regional variations.[279] Platforms and invisible parts however are nowadays becoming global rather than regional. (More on platforms in Section 5.3 and Chapter 7)

5.2.2.2 Regional Standards

Regional standards and regulation not only created the 'regional car' in technical terms (see Chapter 6) but they have contributed to a limited extent to convergence in design across brands (i.e. cars 'look alike') and within brands (e.g. Dacia Duster sold as Renault Duster outside Europe, or Renault Alaskan is near identical to Nissan Navara NP300). There are regional rules which have direct effect on what is being marketed: emission standards (and

[277] David Sedgwick, "Carmakers Bet on Big Global Platforms to Cut Costs", *Automotive News*, (4 August 2014), http://www.autonews.com/article/20140804/OEM10/308049988/carmakers-bet-on-big-global-platforms-to-cut-costs Accessed: 3 July 2016;
Mircea Panait, "Ford Plans to Decrease the Number of Global Vehicle Platforms from 27 to Only 8", *autoevolution*, (18 January 2015), http://www.autoevolution.com/news/ford-plans-to-decrease-the-number-of-global-vehicle-platforms-from-27-to-only-8-91237.html Accessed: 3 July 2016

[278] Michelle Krebs, "From One Platform Many Models Grow", *The New York Times*, (New York: 19 May 1999), http://www.nytimes.com/1999/05/19/automobiles/from-one-platform-many-models-grow.html Accessed: 14 August 2017

[279] Tolliday, *The Origins of Ford of Europe*, 178

fuel efficiency requirements in the United States) have, for a long time, put aerodynamics in the centre of body design. Wind tunnel design makes the contours of cars relatively similar as there are not too many ways which provide the best result.[280] Safety standards (including crash tests, etc.) also predetermine to a large extent how a car can be designed. According to EU rules, for instance, in case of collision with a pedestrian, the upper and the lower body should be hit at the same time so the victim will more likely to fall onto the energy-absorbing bonnet and not under the car – this has led to the slicing off of the front of cars and the lately fashionable straight car fronts.[281]

The higher bonnet and nose then have an effect on the rest of the car to keep aerodynamics at an optimum: the driver and passengers have to sit higher to maintain visibility, thus roof height also has to be adjusted, and to maintain proportions wheel sizes are also adjusted.[282] This leaves manufacturers with the tweaking of the edges here and there, playing with the shape of mirrors, headlights, windows, fronts and rears to some extent. However, similarities between different cars at times can be so striking that when a designer compared and contrasted eight different models (Nissan Altima, Toyota Camry, Ford Fusion, Hyundai Genesis, Honda Accord, Chevy Cruze, Audi A4, and Lexus LS) he found that the silhouettes of their bodies were near identical.[283] Thus, these rules create the skeleton which is then have to be dressed for varied customer tastes on varied markets. However, these changes are only partly influenced by positive integration measures (common standards); it is non-

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[280] Associated Press, "Why Do So Many Cars Look the Same?", *Wheels – Automotive News*, (4 September 2012), http://www.wheels.ca/news/why-do-so-many-cars-look-the-same/ Accessed: 3 July 2016
[281] European Commission, "Safety in the Automotive Sector", *DG Growth*, https://ec.europa.eu/growth/sectors/automotive/safety/index_en.htm Accessed: 3 July 2016; European Union, "Regulation (EC) No 78/2009 of the European Parliament and of the Council of 14 January 2009", *Official Journal of the European Union*, (Brussels: L35/1, 4 February 2009), http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32009R0078&from=EN Accessed: 3 July 2016
[282] Jim Hall, "Taking the Hit: How Pedestrian-Protection Regulations Make Cars Fatter", *Car and Driver*, (Ann Arbor, Michigan: September 2012), http://www.caranddriver.com/features/taking-the-hit-how-pedestrian-protection-regs-make-cars-fatter-feature Accessed: 3 July 2016
[283] Paul Sanderson, "Why Do All New Cars Look Alike?", *5th Color*, (14 March 2012), https://5thcolor.wordpress.com/2012/03/14/why-do-all-new-cars-look-alike/ Accessed: 3 July 2016

regionalism related factors (i.e. customer taste and market dynamics) which are argued to exert influence the most. (See 5.2.4.1)

5.2.3 The Impact of Ideational Factors

Ideational factors are argued to have contributed to regionalisation directly and indirectly. As firms honed 'national tastes' on national markets (i.e. what is considered as a desirable car on a market), they have tried the same regionally to reduce costs. By drawing on the idea of 'Europeanness' their product design have become more 'regional'. (See 5.2.3.1) To ease market access, firms could draw on the EU's attempts at creating a regional identity (supranational and/or an *assemblage* of national identities), and Europeanness more broadly. This is clearly visible in regional advertisements and marketing messages (5.2.3.2), which has also led to the regional re-organisation of marketing (5.2.3.3).

5.2.3.1 Regional Taste, Regional Design

While the 'look' and the 'feel' of a car or whatever makes them 'European' or 'American' (French or German) are rather difficult to pin down, this concept does indeed reverberate in the industry, the specialist press, and most importantly amongst consumers. A good example of this is an excerpt from a car-test article about Hyundai's Tucson model in a weekly magazine:

> The attached pictures speak for themselves, and the new Tucson is indeed rather attractive in real life, too, it no longer has any of that *certain Asian unwieldiness*. If we cover the brand symbol on the front, a layman would surely think it was a *masterpiece by a European manufacturer*.[284] [*Italics* by author]

It may have been a casual choice of adjectives but eventually the assumption was that readers would understand the allusion; they would precisely know what an 'Asian' and a 'European' car looked like. If nothing else, a 'European' would be 'not unwieldy', and it would surely be more pleasant to look at for the 'European' eyes, hence the word 'masterpiece', traditionally associated with outstanding artistic output.

The notion that customers would recognise a European (French, etc.) car if they saw one, or that somehow such a car would be "a 'natural' buy somewhere deep in the Breton countryside" as opposed to a foreign car, appears to be relatively widespread and came up in almost all interviews, as well. "The number of Kia Rios that you can sell in a small-town of 10,000 inhabitants in France is peanuts." (INDUSTRY ANALYST 1)

> The first time I sat in a Korean car, I thought it was a joke: you couldn't start it, couldn't stop it, it was making noises, and the seats were too hard. Eventually, Koreans have learnt to make cars, and they make brilliant cars nowadays, and the same will happen with the Chinese but it will take a generation or two before people start accepting them [as cars]. (MANUFACTURER 3)

Koreans, and increasingly the Indian and Chinese manufacturers are becoming what the Japanese used to be in the 1970s and 1980s: competing with cheap cars on an already competitive market, and they were initially dismissed for the quality and look of their products.

[284] Ferenc Laszlo, "Hyundai Tucson Test: New Heart, New Soul", *HVG.hu*, (Budapest: HVG, 29 May 2016), http://hvg.hu/cegauto/20160529_Hyundai_Tucson_teszt [in Hungarian], Accessed: 29 May 2016

This kind of discourse, in part, serves to emphasise the qualities of home-region cars whose manufacturers may feel threatened by the new competitors. It also helps creating or reinforcing 'identity' in the sense that customers are reminded what it is that they traditionally expect from a car. However, no such casual 'othering' would work without the customers whose tastes have been conditioned for generations to be able to easily differentiate a 'European' (German, French, etc.) from an 'American' or 'Asian' car. This means, *ceteris paribus*, barriers to entry are high for newcomers from other countries within a region, or from outside the region. Newcomers often try to adjust to the style and design of dominant home-region firms, even if some newcomers have been around for decades.

> If you see the evolution of the last ten years of Toyota in Europe, then yes we come closer to whom: to the main competition which is Volkswagen, probably. A little bit to the French also, and on the premium Mercedes and BMW. In Europe there is no way around it. Europe is the most competitive car market in the world because of the number of manufacturers compared to the US where you only have 2-3 really, and because of the diversity of the European manufacturers. I mean, people want to buy an Alfa Romeo because it's Italian or because it stands out for speed or whatever. Others want to buy a Golf because it's strongly built and it's reliable. (MANUFACTURER 1)

The leading position of the Volkswagen Group in the EU also puts pressure on other home region firms to try to emulate their success in design elements as well.

> The French look at Volkswagen, as they have been looking at it for decades, it's been a target and a model. [...] But nobody can cross these boundaries without consequences. This much is sure. Volkswagen couldn't enter the French market with a French-style car because then it would not be credible for customers. A Frenchman who is stupid enough to buy a Volkswagen wants to buy a Volkswagen and this is what he expects of it, you can't trick the customer this way. [...] One expects different things from a Jaguar, a Tesla, or from a Volkswagen. These brands have developed their place [on the market], their own image, their product portfolio, and any step they took beyond this would cost them enormous amount of money, and success is not guaranteed. (MANUFACTURER 3)

When asked what differentiates European cars from Americans, or Asians, interviewees said they were relatively smaller, and had a distinctive design, however, there were manufacturers who thought that actually, the look of the average American and European cars have converged in the past decades. Nevertheless, it is evident that there is a 'European' design that the industry and customers can identify, and that it is relational: French, Italian, or German cars are European therefore that is the European-look. They may have developed separately on previously isolated markets but regionalism has made them the design standard for newcomers, with a few exceptions (e.g. American-style SUVs).

5.2.3.2 Regional Messages, National Sentiments

The question of what is being sold, how and to whom appears to be a 'business' decision. However, as regionalism set out to create a regional market the question quickly arose: how to regionalise marketing messages and advertising meaningfully in 12-15-25 or so countries, speaking different languages and having varied customer tastes? One answer to that has been experimenting with 'regional messages', drawing on the idea of Europe, a European community, or togetherness in regional advertising for decades. This rarely, if ever, means a direct reference to the EU itself, though Audi once had a commercial to the tunes of the Ode to Joy, the EU's anthem. Regional commercials often feature unspecified European cities and landscapes, and/or humours mocking of national stereotypes in a rather European, post-nationalist way. Almost all firms were found to have applied these two types; the former alludes to a regional identity properly understood, much in the schematic way as euro banknotes feature non-existent, yet 'recognisably' European architecture, while the latter to the idea of 'unity in diversity', recognising national difference but softening their exclusionary contours by humour (see Renault Clio overleaf). These approaches are typical for all types of firms: home-region or newcomers alike.

Toyota, for instance, ran slightly different versions of its generic advertisement in 2011 for Yaris, a model developed for Europe and manufactured in France: the French version emphasised its CD and MP3 player while the Hungarian one its metallic paint but the plot of the clip, a man and a woman on a date, was the same. In 2014, Yaris Hybrid was advertised in Hungary, the UK, and other countries with young people singing Bruno Mars's popular hit while driving around a 'European looking city' (Prague) and seemingly having a good time.[285] In France, however, Toyota came out with a different slogan and campaign: "La Toyota Made in France".[286] Positioning itself as a French-made car, its TV advertisement featured three Yaris cars painted in the national colours on the assembly line, while the assembling robots acted as an orchestra playing the tunes of the French anthem through their rhythmic noises.

This 'commercial nationalism' responds to very real concerns about job and economic insecurities following the Great Recession, while it also underlines the importance of local embeddedness. A 2014 survey by TNS Sofres found that 74 percent of French preferred cars which were made in France, even if it was by a foreign manufacturer, while French-owned brands made abroad were less favoured.[287] In 2012, Hyundai made similar moves: when it advertised the fact that it had been renamed Hyundai Motor France; it placed a gigantic

[285] Toyota UK, "Toyota Yaris Hybrid" advertisement video: https://www.youtube.com/watch?v=hHu9v3hENRo Accessed: 29 June 2016; Toyota Magyarország, "Az új Yaris" advertisement video: https://www.youtube.com/watch?v=9dwhE5tadR4 Accessed: 29 June 2016 [in Hungarian]
[286] La Toyota Made in France advertisement photo: http://www.lepoint.fr/images/2014/06/02/2672535-yaris-jpg_2308419.jpg Accessed: 29 June 2016
[287] Jacques Chevalier, "74% des Français préfèrent le « made in France »", *Le Point*, (Paris: 2 June 2014), http://www.lepoint.fr/automobile/actualites/74-des-francais-preferent-le-made-in-france-02-06-2014-1830210_683.php Accessed: 29 June 2016 [in French]

(Gallic) rooster next to a Hyundai car on the accompanying photo to bring the message home.[288]

Playing on national sentiments or caricaturing it is not reserved for the French market. In the early 2000s, Renault advertised its Clio model in the UK emphasising its national origins. A Franco-British couple were having a playful fight competing whose country produced greater giants (e.g. Shakespeare vs. Sartre). On the surface, the advertisement captured the centuries-long rivalry between France and Britain in a humorous way, while suggesting that there is much appreciation for each other's culture.[289] By associating Britishness with Shakespeare, it also situated it in European culture.

The post-nationalist humour is quite recent though. Audi's old, German-language advertising slogan, *'Vorsprung durch Technik'*, re-emerged in 1982 in an advertisement for the UK. The initial research, conducted to gauge how British customers would react to that single German line, was very negative: it was thought that it would "raise the whole Germanness [issue]", and people found it annoying.[290] However Audi liked the idea and one of their adverts emphasised the 'Germanness issue' even further, suggesting that one needs to have an Audi 100 to beat the Germans at their 'favourite game': arriving at the beach ahead of everybody else.[291] The slogan stayed and is now used worldwide precisely to emphasise Audi's German origins and its technical prowess.

Another home-region firm, Volkswagen's worldwide *'Das Auto'* campaign, launched in 2007, seemed to be jumping on the bandwagon of Audi, incidentally also a brand of the

[288] Hyundai advertisement photo: Accessed: 29 June 2016 http://www.lepoint.fr/images/2014/06/02/2672547-hyundai-france-jpg_2308421.jpg
[289] Renault Clio advertisement: 'France vs. Britain' https://www.youtube.com/watch?v=AJzSswlcrCo Accessed: 15 August 2017
[290] Mark Rice-Oxley and Ole Alsaker, "Vorsprung durch Technik: How a Catchphrase was Coined – Interview with Sir John Hegarty", *The Guardian*, (18 September 2012), https://www.theguardian.com/world/video/2012/sep/18/vorsprung-durch-technik-video Accessed: 29 June 2016
[291] Ibid.

Volkswagen Group. Volkswagen's advertisements often alluded to German stereotypes, sometimes even in a humorous way, emphasised its history, German engineering, reliability, and some degree of freedom (though in much more conservative way than Renault, for instance), inherited from generation-to-generation. VW however also appealed to national identity: in 2015, it advertised its Passat model in Sweden by a car following members of the Swedish cross-country ski team on the piste under the slogan, "adapted for the Swedish winter".[292]

For newcomers however it is a safer bet to prove their European credentials, rather than navigating European sensitivities. A good illustration is Kia's and Hyundai's sponsorship the 'Euro 2016' football championship, a most watched regional sports event. Kia's advert heavily featured Paris and the French countryside to suggest that it was 'local', while Hyundai's was placed in 'typical' European towns; a Mediterranean-looking, a Northern-looking, something for everyone. Ahead of football matches, Kia cars were painted in the national colours of the playing teams. In other words, it was an opportunity for these brands to overcome the complexities of European identity and European customer markets: they could appeal to all (football-watching) Europeans at the same time by showing they are part of the landscape while paying lip service to national sentiments and rivalry.

Thus, in terms of marketing, there is a push by manufacturers to advertise their products regionally but with local adaptations, or with local content in the case of sensitive/difficult but important national markets. (MANUFACTURER 3) However, the product itself determines to a large extent how it can be sold. International brands also want to maintain coherence of what they are and what they mean to customers, at least regionally but possibly globally. If Volkswagen's reputation is, or was, that it is a reliable German car, this

[292] Volkswagen Sverige advertisement video: https://www.youtube.com/watch?v=-GGueujqSC4 Accessed: 30 June 2016

will set what its marketing messages can be and predefines the means by which this message can be conveyed. In this sense, both home-region and newcomer firms use a mix of the generic regional and national-specific approaches; home-region firms however can play more on their nationality and the stereotypes it carries with it, while newcomers try to abduct Europeanness or national identity to demonstrate that they are not outsiders.

> For a few weeks now, we have an advertisement from Volvo which goes: Volvo. Made in Czech Republic, Made in France, Made in Germany, made in many countries because the suppliers are there. And I'm very disappointed because I wanted for a long time that Toyota makes this advertisement saying that we are also a European manufacturer. We are not different from any other European manufacturer except that we are still being considered Japanese. But what we do is the same thing as what they do. We build here, we have suppliers, and we have the same suppliers. Around 80 per cent of our parts are from suppliers who supply BMW and Volkswagen; there is no difference. (MANUFACTURER 1)

5.2.3.3 Regionally Organised Marketing

Firms also follow relatively similar marketing strategies and use similar marketing tools; they are adjusting to the realities of a not-quite-integrated regional market. While the same product lines are available in all EU countries, there is variation which model is 'pushed' and how on various national markets. For instance, newcomers like Toyota or Kia, which have no or little 'national roots', eventually try to treat the regional market as if it existed as a single unit; they offer a range of models in which small cars are marketed for countries where there is a preference for that for cost or whatever reasons, bigger and/or top of the range cars where they are more in demand and consumers can afford them. At the same time, even Toyota and Kia follow a marketing strategy which could be best described as 'nationally sensitive regional' – it is a mixture of being 'European', insofar as developing and selling products for Europeans in Europe, but at the same time catering to national sensitivities in marketing campaigns, if and when a national market is important enough.

Regionalisation of marketing also has an organisational aspect: it is becoming more centralised than ever before. For instance, Renault's major cost-cutting campaign by "Le Cost Killer" CEO, Carlos Ghosn in the late 1990s and early 2000s meant the company was reorganised into large geographic regions to which national-level commercial/sales companies belong.[293]

> They have been centralised a lot in the last decade; before each country had its own sales company. These country-level companies still exist but they belong to so called clusters: initially it was the Czech Republic, Slovakia, and Hungary and later Poland and the Baltic Three were added. The regional centre initially was in Prague then was moved to Warsaw and the [competencies of the] national-level companies consequently diminished. [...] We are responsible for two brands [Renault and Dacia]. Submitting production orders, organising the initiation of production, dealing with local administrative tasks, marketing – strictly supervised by the regional centre to fit the regional strategy, as well as providing customer service and repairs through a local sales network. (MANUFACTURER 3)

Regionalisation of the company's organisational structure allows for obvious savings on overhead costs in a region with dozens of national market segments. However, regionalisation in the EU's case also means that adapting to local tastes (in marketing) becomes the privilege of big countries; the cultural sensitivities of smaller member states may get overlooked.

> HQ offers a range of commercials, etc. and we can choose what we think fits our markets the best. So marketing loses its flexibility with the regional cluster reorganisation. They made a Dacia advert suggesting that it was a reliable car from the good old days with Che Guevara [featuring Marx, Fidel Castro, Lenin, etc. – Che Guevara says it is time for another revolution: Dacia Logan at €8400]. HQ insisted that this would work here, too. It was a catastrophe, nobody understood it and people just thought: oh it's that lousy Romanian car, again. (MANUFACTURER 3)

National-level companies are increasingly becoming vessels whose main role is to adapt and execute the regional strategy by providing local linguistic input (e.g. choose voice

[293] David Litterick, "'Le Cost Killer' Faces Toughest Test", *The Daily Telegraph*, (4 July 2006), http://www.telegraph.co.uk/finance/2942490/Le-Cost-Killer-faces-toughest-test.html Accessed: 30 June 2016

over artists), and discard advertisements that they think would not work. On the other hand Suzuki has advertised its Swift model as ‘our car’ in Hungary with locally made advertisements since the early 1990s. Ignis adverts were also filmed on location in Budapest. However, a generic European advertisement made for the launch of the third-generation Swift in 2010 was also used locally. Suzuki’s main European manufacturing plants is in Hungary and it is a leading brand in the country, thus, being considered and accepted as ‘local’ is important for political and regulatory support which can occasionally make such investments as localised advertisements worthwhile even on small markets.

Thus, ideational factors, a sort of regional identity or affiliation that regionalism in Europe provides, are conducive to the regionalisation of marketing. It allows firms to transcend the boundaries of national markets to some extent, create regional customers in the process, while save on marketing costs. This is an uphill struggle for firms nevertheless. National identity, language, and nationally-honed customer tastes continue to impede the development of a truly European market for cars which is less nationally segmented. (See 5.2.4.2) The *modus operandi* is thus to treat important, large national markets somewhat separately from the numerous rest but allow trial-and-error experimentation to find the best approaches. This is not simply a question of commercials: customer taste is at the heart of market regionalisation. National segmentation, as it will be argued in the next section, makes for a fragmented regional market in Europe which shows the current limits of regionalism’s ability to create a more coherent regional market.

5.2.4 The Impact of Non-Regionalism Related Factors

Thus far, it has been argued that regionalism had a strong impact on market regionalisation in terms of heterogenisation of sales, the designing of visible (e.g. chassis) and invisible (e.g. common platforms) parts, and marketing strategies and advertisements becoming more regional. The third aspect considered in this chapter, a transformative change in customer tastes (i.e. demand becoming more similar across countries), however has not taken place because of the strong countervailing force of non-regionalism related factors. In the following, it will be argued that the historic development of customer tastes and structural, geographic, etc. factors have maintained diverse, nationally-segmented markets in Europe, which continues to make market entry difficult for firms.

5.2.4.1 The Development of Customer Tastes

It was argued that this chapter is as much about the limits of regionalism as it is about regionalism's mixed effects. The ultimate incentive to enter a new market was and remains customer demand. It can be honed and influenced but it is a formidable force on its own. In cars, customer taste was initially formed by 'accidents of history'. With the advent of mass motorisation, several local manufacturers started developing cars in parallel for the markets they understood the most. A well-known example is the development of Citroen's famous 2CV model which was designed to become attractive for France's large rural population in the mid-1930s (though it went on sale only in 1948). The design brief was to develop a car with "flawless comfort" so farmers could drive to the village market through a ploughed field or on an unpaved road "without breaking a single one in a tray of eggs".[294]

In other words, Citroen identified a niche, understood the local context and developed a car for France's poor roads with such a suspension that led, over time, to the development of the hydro-pneumatic suspension system, a hallmark of Citroen and other French cars ever since. The 2CV had become so successful that it was in production until 1990, and still is one of the symbols of French design internationally. The French customers learnt to like small and simple cars with soft suspension and characteristic designs. Under protective tariffs, these initial choices entrenched national manufacturers in their home markets whose products, by definition, became yardsticks against which all newcomers were measured, for better or worse.

Political choices (e.g. fiscal measures) also played an important part in conditioning customer demand, and this remains to be the case, leading to market differentiation sometimes well into the era of regionalism. The dieselisation programme has, for instance, changed the landscape within 20 years in France: in 1975 only 2 per cent of passenger cars ran on diesel while almost 30 percent did in 1995.[295] By 2012, 60 per cent of news cars in France used diesel. To make diesel cars more popular excise duty on diesel and car registration costs were lowered in France, Belgium, and Spain, creating a specific development path in the French car industry. It created a very high barrier to entry to newcomers who had little or no experience with diesel engines but, at the same time, also reduced the capability of the French car industry to export to non-diesel markets (e.g. US).

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[294] Citroën 2CV, "Voitures d'après 1950 – Les temps modernes", Cité de l'Automobile – Musée Nationale, http://www.citedelautomobile.com/fr/collections/citroen-2-cv [in French], Accessed: 30 May 2016
[295] Jean-Claude Meteyer, *La Diéséliation du Parc Automobile*, (Paris: 1997), http://temis.documentation.developpement-durable.gouv.fr/documents/temis/NS/NS_114_8.pdf Accessed: 31 May 2016

These (initial) choices inevitably led to a strong, and diverging path-dependency for most manufacturers of the national champions-era: customer taste (demand) and choice (supply) developed in tandem for decades on nationally-segmented markets. This became a symbiotic relationship: "different brands came to represent different feels, and these different feels are now expected by the customers." (MANUFACTURER 3) The difficulty for regionalism in this context is that it aims to dismantle this segmentation otherwise a single market remains only a *de jure* possibility. In fact, cars are culturally embedded products, so much so that comparison to food products, in terms of their embeddedness in local culture and taste, were brought up several times by interviewees without prompting.

5.2.4.2 National Tastes, National Markets

Inevitably, the variedness of European markets makes life very difficult for manufacturers because it keeps 'regional' demand weak. The following excerpt from a clean-slate entry regionaliser firm is very telling in this regard:

> So what is a European market? There is no one, common European market. As a Japanese [manufacturer], we have to adapt to many different tastes, to accommodate the markets, in plural; in Italy, in Spain, it's not the same as in Finland, or Denmark or Germany. If you compare what the best selling Toyota's are in different regions, you will probably find the same elements of local brands: Spanish or Italian brands – smaller vehicles are more popular in Italy whereas in Germany they want the big Avensis with the 2.6L engine. Yes, customer taste is important and we have to provide the range which is a little bit silly: do we really have to do that? Yes, because of [varied] customer tastes. (MANUFACTURER 1)

In 2014, 93 percent of new cars in the EU were sold in the EU-15+EFTA countries; more than 60 percent of the sales came from Germany, the UK, and France – when adding

Spain and Italy, 79 percent of them.[296] These also happen to be old car producing countries with relatively entrenched customer tastes, thus these countries eventually have to be treated as national markets when it comes to sales, marketing and in several instance, design. Markets with less than a million cars per year sales do not matter too much for any of the aforementioned activities. Yet, the remaining market 'fragments' represent 23 (pre-Brexit) countries inside the EU (+ 2 EFTA) with different linguistic requirements, and often different customer tastes. For selling one thousand cars a year in a Baltic state, a manufacturer has to have local presence, sales strategy and team, and locally adapted marketing and this is true for each member state.

> There is no single market of new cars in Europe! Not even in the old EU-12, there is no single market because [...] the market shares are not the same, and apart from the Japanese who have had a very long term vision of the European market everybody knows that Europe is a collection of markets where the petrol prices differ, and geography does too. When you are strong in France, you have no guarantee for the same rates in Germany. There were ten years when the main objective of Renault and PSA were just to exist in Germany because the market had been open for 20 years and they had a market share of less than 5 percent. So the idea that there is a single car market just because the common market exists since 1967 completely ignores [reality]. (INDUSTRY ANALYST 1)

Having examined new car passenger registration data in Germany, Britain, France (Figure 5.10), Italy, Spain, the Czech Republic, Slovakia, Hungary, and Sweden (Figure 5.11), there is marked variedness even between what could be expected to be most similar cases (e.g. between the Czech Republic and Slovakia, or Slovakia and Hungary).[297] In fact, it was found that the main predictor of a brand's popularity in a country is whether the firm manufactures or manufactured there. This is also true in countries where locational choices were not driven by exploiting market potential (e.g. Slovakia, Hungary, etc.), thus firms did not invest heavily in developing local demand. Former 'national champions', not surprisingly,

[296] Author's calculations based on CCFA, *New Passenger Car Registrations 2014*, 67
[297] Ibid.

have a stronger position in their home countries than if a firm has presence through relocation (with the exception of luxury brands); this is the case even if the former national champion was sold (e.g. Skoda-Czech Republic, Dacia-Romania though it is true only to a lesser extent for Volvo-Sweden). If a country has several manufacturing plants in a country, the firms share prominence in sales (e.g. UK, Hungary).

By and large, higher end brands/models are more popular in more affluent Germany and Northern Europe, whereas smaller cars are favoured in Southern Europe (though, for instance, as a direct result of French family policy – a typical family often has at least three children – 'Renault Espace-type' people carriers are also popular). This 'North-South divide' has had important consequences following the Great Recession, as it has strengthened German firms to the detriment of French and Italian firms, which are more exposed in less dynamic Southern EU member states. There is also an 'East-West story': cheaper Korean and Japanese brands are relatively more popular in price-sensitive Eastern Europe but this does not override the 'rule' that they are also relatively more popular in those Western countries where they manufacture (e.g. UK, France). (See Figures 5.10 and 5.11 overleaf)

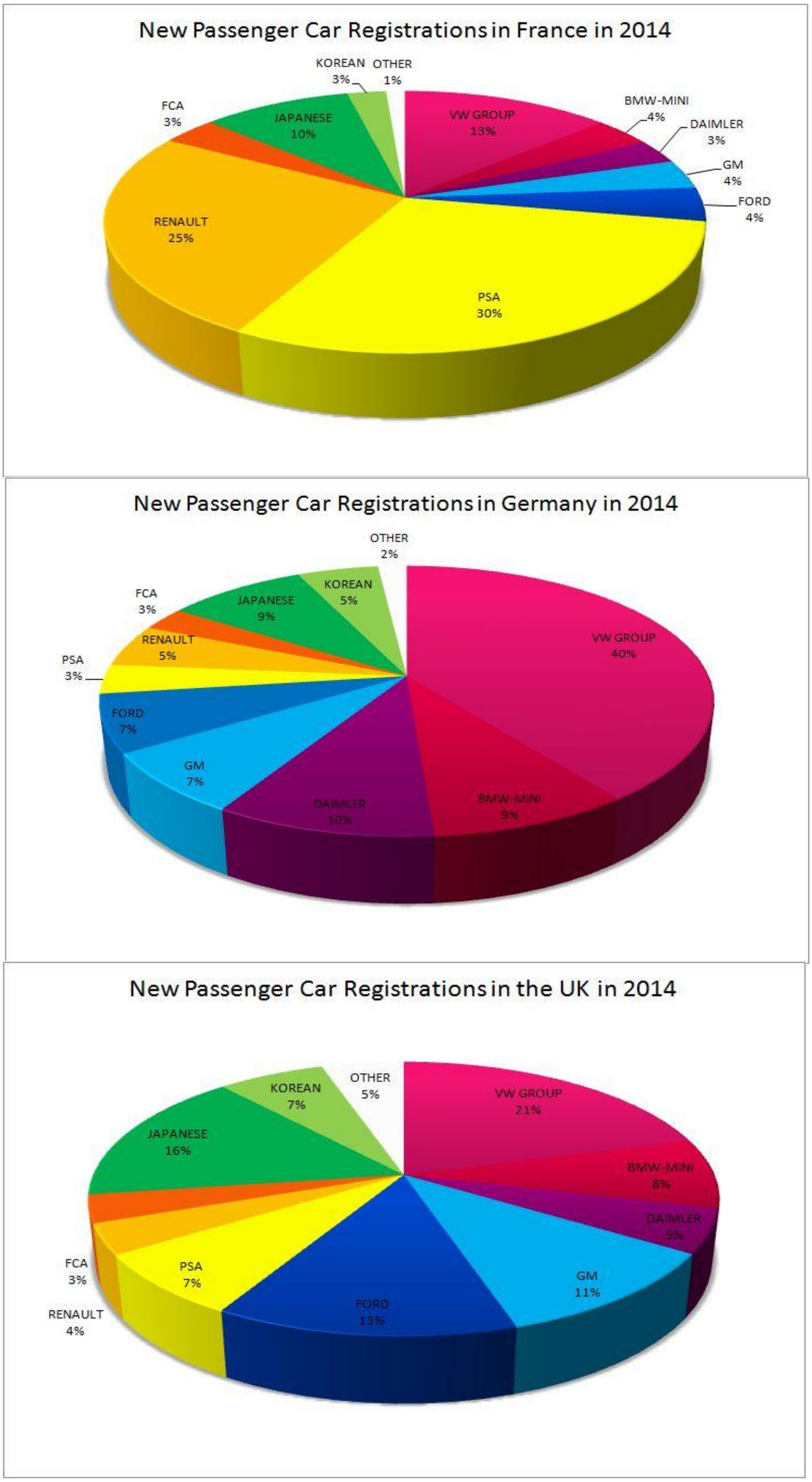

Figure 5.10 – Market Share of Firms in France, UK, Germany 2014

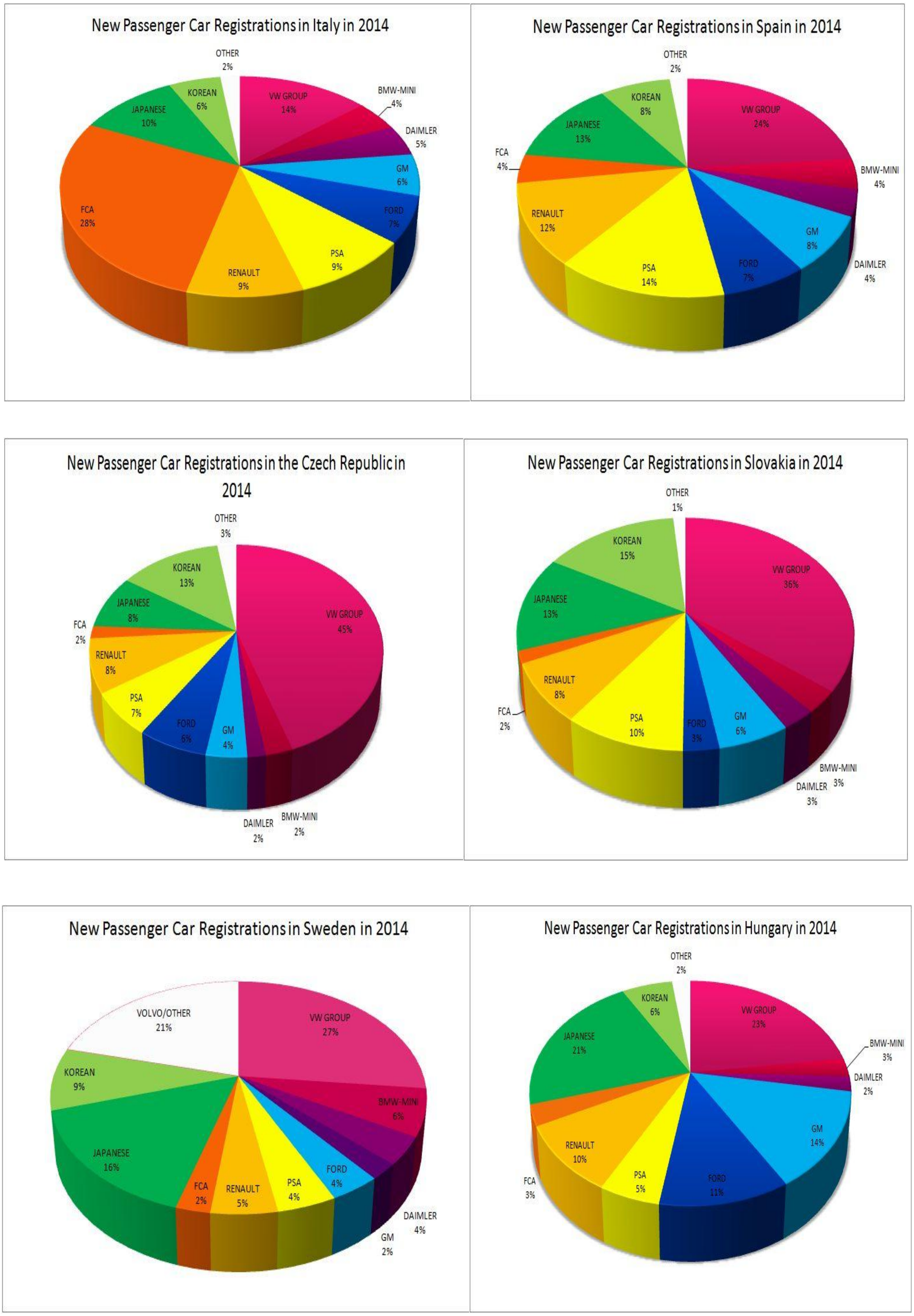

Figure 5.11 – Market Share of Firms in IT, ES, CZ, SK, SE, HU 2014

This section (5.2) explored how regionalism impacted varied aspects of market regionalisation in the EU. Changes in national-, and regional-level demand were mapped out on a historical time series. It was argued that while regionalism has led to increased competition for European customers, who now have access to the same products in all countries, customer demand and markets largely remained nationally segmented, making the Single Market a collection of markets. Regionalism did instigate some important changes nevertheless: negative integration led to increased competition soon after the Treaty of Rome. Despite their national champion status until the late 1980s, home-region firms were squeezed on their domestic markets by new pretenders. How well a home-region firm withstood competition at home, was found to be indicative about its regional position in the long run. This was argued to be evidence that high barriers to entry remained on the regional market, due to non-regionalism factors.

Home-region firms however did respond to increased regional competition, created mainly by negative integration, by regionalising the design and marketing of their products. Reducing the number of platforms and moving different models on the same platforms was one way of reducing costs to finance ever more expensive developments. These were needed to meet stringent regional standards created by positive integration. Some of these standards were found to have led to design changes beyond the technical. The design of different car brands converged towards a sort of 'regional' median also to appeal to new customers on new markets but the regional blend was not every firm's choice for fear of losing traditional consumers. Helped by ideational factors, marketing became regionalised: organisationally, and the marketing messages themselves. The latter drew on the notion of regional identity and its specific European manifestations to reach 'regional' consumers, or try to create them in the process.

The fact that newcomer firms could only fight over one-third of the market regionally shows the limits of regionalism in creating a regional market, and the relative strengths of non-regionalism factors. This is particularly true in comparison with NAFTA. As newcomers, these firms had regionalised products, platforms, design, and marketing already from the start. They were ready to make the most of a truly single market, only to find out that on the most lucrative markets Germans still preferred German-made cars while the French French-made cars. Consequently, the most successful regionalisation strategy of home-region firms, thus far, was buying former national champions in other countries (e.g. Volkswagen and later Renault and PSA). In general, German home-region firms and Korean clean-slate entry regionalisers have been doing better, Italian home-region firms and US embedded regionalisers worse than the rest in the EU. It was also found that varied demand across member states was persistent and this was the most typical feature of the 'European' market, apart from the high number of players relative to other regions. The main predictor of success on a national market was whether a firm was a former national champion, and/or manufactured in the country.

5.3 Regionalisation of Markets in NAFTA

NAFTA is very different from the EU, both from the perspective of regionalism and structurally as a market place. First, regionalism's impact, if any, is limited to negative integration in the absence of positive integration measures and ideational factors. Regionalism's role is limited; at best, negative integration plays an enabling role to non-regionalism related dynamics to unfold. It is also different because it is dominated by a single country, the United States with its dominant market: in 2015, 85 percent of all new car sales in NAFTA took place in the US (17.47 million), while in Canada 9.2 percent (1.89 million) and in Mexico 5.8 percent (1.19 million) – the latter achieved this following a record breaking 20 percent market growth.[298]* This leads to very different dynamics than the fragmented EU market where Germany, the UK, France, Spain and Italy share 79 percent of new car sales between them; each one a different national market with several local firms.[299] Thus, in NAFTA, the regional market is practically equivalent to the US market. For instance, in 2015, VW had 20 percent share of sales in Mexico, adding only around one percent to its overall share in NAFTA, while its six percent share in Canada added 0.3 percent.

Another important difference with the EU is the number of home-region firms and their origins: notwithstanding the existence of some independent brands with negligible market shares in Canada, neither Mexico nor Canada have had 'national champions' or local brands of significance, thus the 'Big Three' of the US (GM, Ford, Chrysler-FCA) are the main remaining home-region firms in NAFTA, though Chrysler now belongs to Fiat. Unlike their European counterparts, they regionalised early on, entering Mexico and Canada decades before formal regionalism began. Consequently, home-region firms were not only dominating the US market but they became major players on the Canadian and the relatively small Mexican markets, too. Thus, their 'multi-domestic' presence already before regionalism shaped customer tastes.

NAFTA also hosts a number of newcomers, mainly Japanese and Korean firms. To some extent, NAFTA's 'story' is their rise to the detriment of home-region firms. European

[298]Author's calculations based on: CBC, "Canada Sets Record for New Vehicle Sales in 2015", *CBC News*, (5 January 2016), http://www.cbc.ca/news/canada/windsor/canada-sets-record-for-new-vehicle-sales-in-2015-1.3390498 Accessed: 9 July 2016; David Phillips, "U.S. Auto Sales Break Record in 2015", *Automotive News*, (5 January 2016), http://www.autonews.com/article/20160105/RETAIL01/160109995/u.s.-auto-sales-break-record-in-2015 Accessed: 9 July 2016; Nacha Cattan, "The Mexico Market Is So Hot Even Volkswagen Posts Sales Gain", *Bloomberg*, (5 January 2016), http://www.bloomberg.com/news/articles/2016-01-05/this-car-market-is-so-hot-that-even-volkswagen-sales-are-jumping Accessed: 9 July 2016
*These figures include pick-up trucks and other light duty vehicles some of which are considered light commercial vehicles in the EU classification and may be excluded from passenger car data.
[299] Author's calculations based on CCFA, *New Passenger Car Registrations 2014*, 67

firms are represented mostly by German manufacturers which have always had very low market shares. In Mexico, a few European firms arrived well before regionalism (e.g. VW, Renault, etc.) as well as the Big Three, but most came after NAFTA's forming. Newcomers arrived for the US market, independently of regionalism. Only Hyundai (2002) and Kia (2009) set up plants after NAFTA's launch while Daimler (1993 in the US, 1994 in Mexico) and BMW (1992 in the US, 1994 in Mexico) around the time of NAFTA's establishment. Consequently, competitive pressures on home-region firms were not caused by regional market opening to rivals.

In the following, the impact of negative integration measures will be argued to have had a strong impact on market heterogenisation (5.3.1.1), in particular after NAFTA's forming. Home-region firms were squeezed by newcomers, and the market has become highly competitive (5.3.1.2). While similar platforms (5.3.2.1) and some convergence to regional equivalence of standards were found (5.3.2.2), this is argued to have taken place despite the lack of positive integration measures, and rather due to competitive pressures by negative integration. Marketing and marketing messages are argued to be less regional than in Europe, but this is only partly due to the lack of ideational factors (5.3.3). Customer demand is found to show strong signs of regionalisation but mainly due to non-regionalism factors (5.3.4).

5.3.1 The Impact of Negative Integration

5.3.1.1 The Slide of US Firms

The dismantling of tariffs started with the 1965 Auto Pact, a sectoral agreement between the US and Canada. This made regional reorganisation and rationalisation possible for US firms and thereby a reduction in costs. However, regionalisation dynamics were not brought by newcomers by challenging entrenched 'national champions', but by the same US firms on both sides of the border. In any case, any challenge to their dominant, oligopolistic position took place on the US market. This is because the main target for most firms has been to make it there; the US car market alone was more than 20 percent bigger than the whole of the EU+EFTA market in 2015.[300] Consequently, addressing scale problems by creating a truly regional consumer market that includes Canada and Mexico were less pressing than in the EU. The challenge to home-region firms (or their growth) was thus not contingent on regionalisation as a means to overcome the structural disadvantages newcomers faced in the EU (i.e. market fragmentation, high entry costs, diverging demand, lots of players, costly and difficult access to new customers, etc.).

In this sense, the decline of home-region firms in the US is not linked directly to regionalism, at least not in the pre-NAFTA period, as Figure 5.12, showing share of sales in the US between 1961 and 2015, demonstrates.

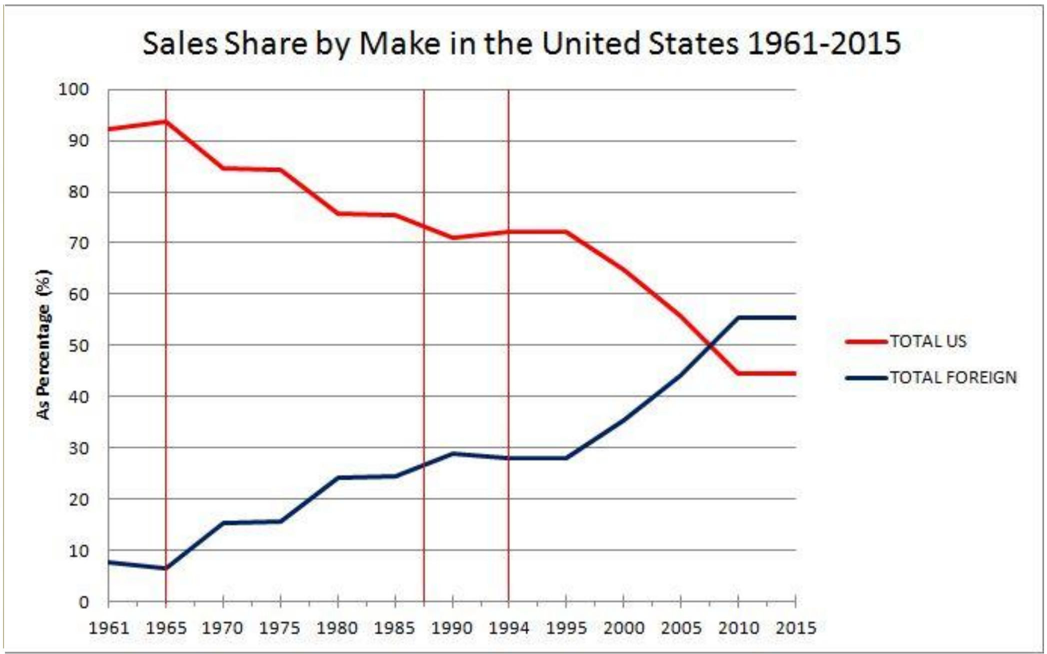

Figure 5.12 – Sales Share by Make in US 1961-2015

300 Author's calculations based on ACEA, Historical Series 1990-2015

Figure 5.12 shows the steady decline of US home-region firms, and a sharp loss of market share following NAFTA's creation, and the rise of the rest.[301] The 'red line' includes GM, Ford, Chrysler, and smaller local brands (some of them are now defunct), while the 'blue line' includes Asian and European brands, regardless of whether they manufactured in or only exported to the US at the time. The height of the popularity of home-region firms was in 1965 in this dataset; their combined share was 93 percent. By NAFTA's establishment in 1994, this decreased to 72 percent. By 2010, their share sharply declined and stood at only over 44 percent, which is still higher than most European firms' on their home-markets. Foreign firms took over the majority of the US market during the Great Recession, around 2007-2008. However, regionalism explains little about why consumers have turned their backs on American cars, and why they got a particular liking to Japanese cars. (See Figure 5.13[302])

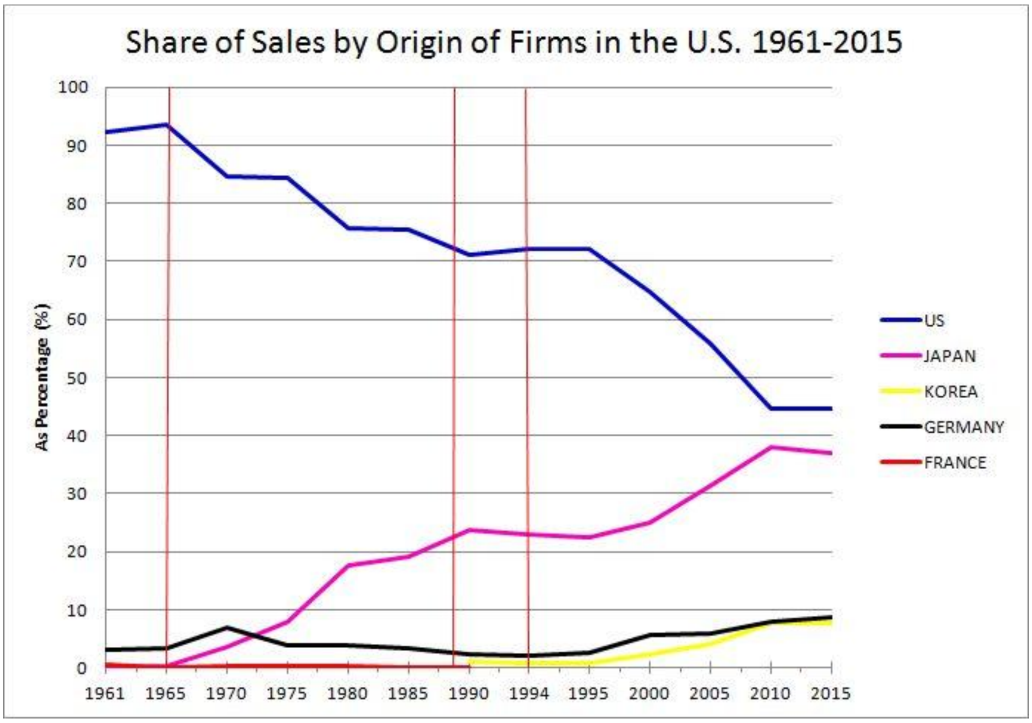

Figure 5.13 – Sales Share by Origin of Firms in US 1961-2015

[301] Authors calculations based on WardsAuto, 1961-2015
[302] Ibid.

The rise of Japanese firms is all the more interesting because it happened against forceful resistance by the 'Big Three', forming an alliance with the federal state to introduce import quotas and other protective measures which put Japanese firms at a disadvantage, similarly to what happened in the EU.[303] Korean Hyundai's and Kia's recent rise appear to be more modest but still more marked than that of German firms. VW has been struggling ever since the Beetle and the Volkswagen Bus craze abated by the mid-1970s. It is one of the oldest foreign car firms in North America (established in 1955, manufacturing from 1978-1988 and since 2011, in Mexico since 1954 and manufacturing since 1965) but by 1992 it had less than 0.7 percent share of sales which it managed to turn around and reach 3 percent by 2015. The recent increase in the share of German manufacturers is also thanks to Daimler and BMW. The red line hovering slightly above zero is the combined performance of Renault and PSA until their eventual withdrawal from the US market.

5.3.1.2 From Concentrated to Competitive Markets

There is a more interesting phenomenon here than the fact that American firms are simply replaced by Japanese.[304] The most striking change, which started in the second half of the 1970s, is that the originally homogenous, oligopolistic, 'highly concentrated' market started to turn into a 'very competitive' market of numerous players and became relatively more heterogeneous. The process sped up following the creation of NAFTA, as some of the newcomers cut larger shares of sales. In this sense, at least, NAFTA has become similar to the very competitive EU market. In 2015, seven firms shared nearly 84 percent of new sales – four had 12-17 percent and three had 7-9 percent share each. In the first half of the 1970s, 84

[303] The Economist, "Detroitosaurus Wrecks: The Decline and Fall of General Motors", *The Economist*, (London: 4 June 2009), http://www.economist.com/node/13783014 Accessed: 9 July 2016
[304] Authors calculations based on WardsAuto, 1961-2015

percent of sales was still divided between only three companies; GM alone taking 40-50 percent. (See Figure 5.14[305])

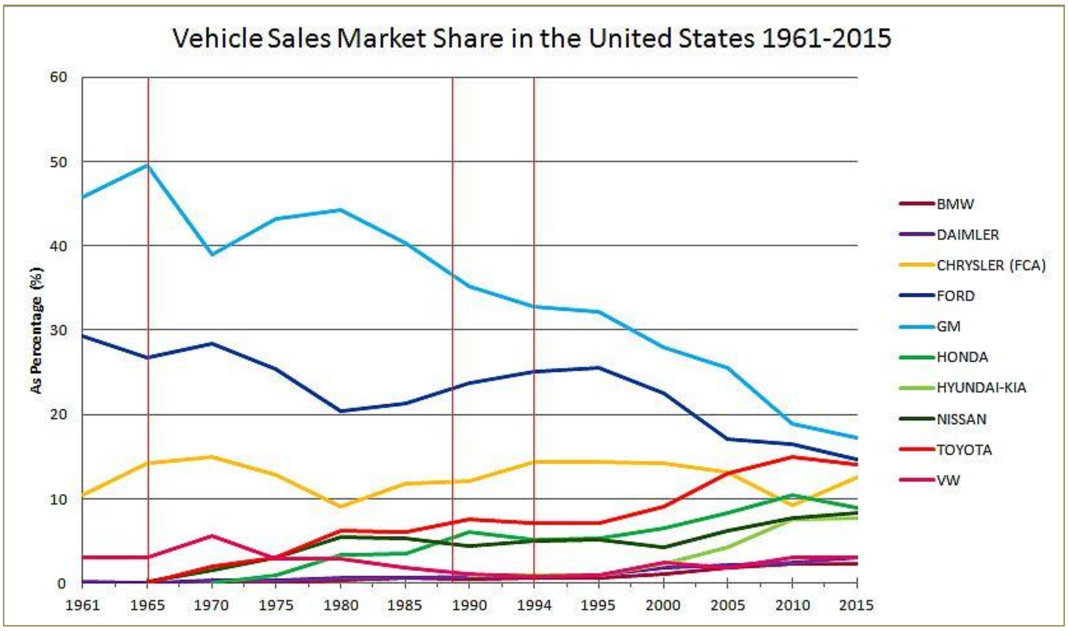

Figure 5.14 – Vehicle Sales Share by Firm in US 1961-2015

The move from a high concentration market with little competition to a highly competitive market is also visible when calculating the Herfindahl-Hirschman Index of market concentration. (Despite its name, Hirschman claimed full ownership of it.[306]) Two data points (1965 and 2015) are compared; market share of firms in the above chart are complemented by an equal distribution of the remaining c.13 percent (in 2015) and c.6 percent (in 1965) – this roughly corresponds to the actual market share of the remaining firms. (See Figure 5.15)[307]

[305] By author based on WardsAuto, 1961-2015
[306] Albert O. Hirschman, "The Paternity of an Index", *The American Economic Review*, (Vol 54. No. 5, September 1964), 761
[307] Authors calculations based on WardsAuto

$$H_y = \sum_{i=1}^{N} s_i^2$$

or

$$H_y = s1^2 + s2^2 + s3^2 ... + sn^2$$

(where sn is the market share by volume here, of the i^{th} firm in y year)

$$(0.1425^2+0.2676^2+0.4959^2+0.0017^2+0.0006^2+0.301^2) + (0.01^2+0.01^2+0.01^2+0.01^2+0.01^2+0.01^2) = H_{1965}$$

$$0.42903707 = H_{1965}$$

$$\mathbf{H_{1965} \approx 42.9\%}$$

$$(0.1258^2+0.1465^2+0.1728^2+0.089^2+0.0778^2+0.0833^2+0.1488^2+0.0309^2) + (0.01^2+0.01^2+0.01^2+0.01^2+0.01^2+0.01^2+0.01^2+0.01^2+0.01^2+0.01^2+0.01^2+0.01^2+0.01^2) = H_{2015}$$

$$0.112456709 = H_{2015}$$

$$\mathbf{H_{2015} \approx 11.25\%}$$

Figure 5.15 – Calculation of Herfindhal-Hirschman Index US 1965 & 2015

HHI around 43 percent shows that the US market was a 'highly concentrated market' in 1965, based on the categorisation of the Federal Trade Commission (FTC). By 2015, the US has become a 'very competitive market' with HHI at around 11 percent. However, this data should be considered with the proviso that the FTC calculates market shares based on actual and projected revenues, while this calculation looks at market share based on volume (something the European Commission also considers during merger control procedures).[308] Thus, US firms weakened as their products did not meet changing expectations in the oil shock years of the 1970s and the market gap was filled by small, cheaper Japanese cars with better fuel economies. Following the 1981 'voluntary' export restraint imposed by the US

[308] US Department of Justice and the Federal Trade Commission, "Paragraphs 5.2 Market Shares and 5.3 Market Concentration", *Horizontal Merger Guidelines (08/19/2010)*, (19 August 2010), https://www.justice.gov/atr/horizontal-merger-guidelines-08192010#5b Accessed: 11 July 2016

government, Japanese manufacturers responded by setting up local manufacturing, resulting in even stronger market positions than they had before.[309] With NAFTA, new manufacturers arrived in the region, increasing market competition even more.

5.3.2 The Lack of Positive Integration

5.3.2.1 Regional Platforms

While in the EU, common standards incentivised firms to move their models to common platforms, in NAFTA this impact was limited (see 5.3.2.2) and came only when competition forced cost reduction in the US, and it had a ripple effect for the rest of the region. Even if not the same exact models are sold in all three countries, chances are that they are nowadays built on the same platform. The trend that the same platforms are used in a modular way and across the globe is only partially explained by increased regional competition. The main driver is the growing cost of product design and development; cars have practically become 'computers on wheels' with vastly higher performance, US and Canadian safety and emission requirements than before, which compels even rival manufacturers to develop platforms together. [310]

In the days when GM, Ford, and Chrysler were largely setting the rules of their own game on markets they dominated, this was hardly of concern. Between 1970 and 1984 GM had more than twice as many models (31-32) than any other rival, produced on 11-13 platforms, and Chrysler and Ford were also among the more prolific manufacturers in terms

[309] Berry et al, *Voluntary Export Restraints on Automobiles*, 400-430
[310] Sturgeon et al, *Globalisation of the Automotive Industry*, 20

of model variety and the number of platforms.[311] For a while, the number of platforms even increased; GM used 26(!) in 2014 when it announced that it wants to cut the number to only four by 2025.[312] One of its main North American rivals, Ford – which started its history with a single, global model – however was already more streamlined; it was set to build most of its models on nine platforms by the end of 2015.[313]

Common platforms were not very popular when some of the US firms began experimenting with them. It was thought that they had led to uniform looks, at a time when firms were still keen on churning out diverse models of various shapes and sizes. In the 1980s, a Fortune magazine had four, indistinguishable burgundy cars by GM side-by-side on its cover: a Buick, a Chevrolet, a Pontiac, and an Oldsmobile, which were then derisively labelled as products of 'badge engineering'.[314] VW and Toyota were already successful with global platforms in the 1990s. However, Ford's Mondeo, for instance, was not selling well as Ford Contour in North America because it was considered too small by consumers.

5.3.2.2 'Regional' Standards

In NAFTA, a voluntary convergence to US standards and rules substituted positive integration measures to some extent (see Chapter 6). These rules had a limited impact on the external design of cars (i.e. what is offered to consumers) via a similar mechanism as in Europe (see 5.2.2.2). US safety rules, for instance, obliged firms to fit cars with huge

[311] Jullien and Pardi, *In the Name of Consumer*, 6-7
[312] Mircea Panait, "General Motors Vehicle Platforms Explained from the Gamma to the All-New GM Omega Platform", *Autoevolution*, (31 March 2015), http://www.autoevolution.com/news/general-motors-vehicle-platforms-explained-from-the-gamma-to-the-all-new-gm-omega-platform-93953.html Accessed: 17 July 2016
[313] Ben Klayman and Paul Lienert, "GM's 2025 Platform Plan; Simplify and Seek to Save Billions", *Reuters*, (Detroit: 2 October 2014), http://www.reuters.com/article/us-generalmotors-future-platforms-analys-idUSKCN0HR2J220141002 Accessed: 17 July 2016
[314] Krebs, *From One Platform Many Models Grow*, 1999

bumpers. Aerodynamics and fuel efficiency rules played their part in creating similar car bodies in North America, too. In fact, so much so, that many Chrysler, Ford, or Chevrolet passenger cars sold nowadays blend in perfectly well on a European street; if one only thinks of American cars until the late 1970s, they were visibly different from Japanese and European models. The success of the Japanese brands was exactly due to the fact that they were different: smaller and more fuel efficient, more suited for cities and the post-oil crisis, climate change era. The popularity of smaller cars then influenced the design of new models by home-region firms, leading to some degree of convergence in the size and shape. Home-region firms were not entirely new to producing small cars: they had developed similar models in Europe and elsewhere, now they only needed to convince North American customers of their merits.

5.3.3 The Impact of Ideational Factors

NAFTA has had no regional narrative similar to the EU's. In fact, even an equivalence of European identity, one that is independent of regionalism, has also been largely absent – 'North Americanism' in any case used to be construed around cooperation between the US and Canada, (and against Britain) and not Mexico.[315] Nevertheless, this was not something marketing strategies could be built on. The 'regional', again, was in fact US: the 'American car' and the 'American dream' did capture the imagination of generations. Mexico's import-substituting industry was built on demand for US cars by Mexico's aspiring national bourgeoisie in the 1950s, which did not want a 'Mexican car' but "the sort of automobile

[315] Norman Hillmer, "O. D. Skelton and the North American Mind", *International Journal*, (Vol. 60, No. 1, Winter 2004/5), 93-110

industry only the transnational firms could provide", delivering modern, US-style products.[316] Canada's penchant for 'American' cars was rather directly shaped by the Auto Pact: the 'Big Three' committed to keeping Canadian car production of US brands.[317] (See also 4.3.1.1) The pact also shaped consumer demand. A few years after it came into force, quick regionalisation of sales took place: the number of models were reduced and replaced with ones designed for 'North America'.[318] The role of a common language, and the influencing force of the fact that most Canadians live in proximity of the US border should also not be underestimated.

5.3.3.1 US Taste, 'Regional' Design

The 'American-way of life' set the tone for region-specific designs. As European firms designed cars for European cities, countryside, people's needs, etc. American firms did the same, shaping customer demand in the process:

> In North America, you have less of the cultural differences [between countries than in Europe] but still, the countryside and the cities are not the same. It's a huge territory so people need pick-up trucks to transport things. And they are driving straight. There is also culture: what do you do with your car? In Europe, a car is used to go to work, on weekends to do activities, and once or twice a year to go on holiday to maximum 6-800 kilometres away. In the US, it's different. They drive much longer distances to go to work. They would probably use the vehicle more for holiday, for longer distances. They would probably use the vehicle for fewer years; in Europe the average is about 8 years for the first owner. In the US, it's much less, they rotate vehicles much more. These are differences related to lifestyle. In the US, if you go outside of big cities, and even in big cities, there is no sidewalk. Nobody walks, everybody drives. They drive 45 minutes to a restaurant, in Europe you would walk or you drive a few kilometres. So we are not talking about the same use of vehicles. (MANUFACTURER 1)

Different customer habits do lead to regional variations in design. American cars are said to

[316] Douglas C. Bennett and Kenneth E. Sharpe, "Agenda Setting and Bargaining Power: The Mexican State versus Transnational Automobile Corporations", In Arthur Kohli (ed.), *The State and Development in the Third World*, (Princeton: Princeton University Press 1991), 228, 209-241
[317] CBC Archives, *Canada's Car Industry*
[318] Anastakis, *Auto Pact*, 128

be bigger than Europeans, "huge, gasoline guzzling", less round, "edgier", or simply "hideous".[319] (REGULATOR 1; MANUFACTURER 2)

Apart from the conspicuous differences, separate product and consumer development have also led to several small, regional variations with important consequences. A somewhat strange but typical example that several interviewees mentioned is cup holders. According to an internal research by GM, 83 percent of North American customers drink beverages in their cars daily while driving.[320] This makes the size and position of the cup holder central in the designing process, as an engineer at GM explained:

> "We're trying to figure out where the occupant should be and the fundamentals of the vehicle – we're already specifying where the cup holders need to be, and how the design teams need to work around that area so that in the end [the cup holders] are in a good location."[321]

While this sounds like a trivial issue compared to any other parts of a vehicle, a Ford car interior designer said that badly placed cup holders is one of the biggest complaints they get from customers who return newly purchased cars under the money-back guarantee. Toyota and FCA also pay a lot of attention to find the right-sized holder, which is able to accommodate thinner soda cans as well as big thermo flasks.[322]

The cup holder is just one example of how adapting to an influential local market keeps customer tastes regionally segmented. Similarly, automated gear shifts have become popular in North America. Its poor fuel efficiency was not a concern for a long time because

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[319] Karl Brauer, "Volkswagen Group: Struggling in the U.S., Succeeding Everywhere Else", *Forbes*, (6 April 2015), http://www.forbes.com/sites/kbrauer/2015/04/06/volkswagen-group-struggling-in-us-succeeding-everywhere-else/#2d99f9e3333b Accessed: 12 July 2016
[320] Jared Lindzon, "Why Manufacturers Spend So Much Time Designing Cup Holders", *The Globe and Mail*, (Toronto: 4 December 2014), http://www.theglobeandmail.com/globe-drive/culture/technology/why-manufacturers-spend-so-much-time-designing-cup-holders/article21909192/ Accessed: 19 July 2016
[321] Ibid.
[322] Ibid.

fuel prices have always been significantly lower in the US. Its advantages (perhaps having a free hand to place cups in the cup holder while driving) tilted the balance in its favour. Cruise control to drive on long and straight roads is another regional specification to which newcomers have had to adapt to. The development of these peculiarities is the same as in European countries; the difference is that the dominance of US firms regionally, and relative cultural similarities (at least between the US and Canada) made these specification regional.

5.3.3.2 National Commercials, National Sentiments

Advertisements in NAFTA countries typically vary from country to country. Even Canada and Mexico are sizable markets on their own, certainly in European terms, to make national marketing feasible. Often there is little room for regional inclusiveness in the America-picture some of these commercials project. This is despite the fact that "a regionalised product policy and marketing in NAFTA would sail rather well" because of the obvious cultural similarities between the US and Canada, and because Mexico and Hispanic culture are ever more present in the former. (INDUSTRY ANALYST 1) In a very simplified way, US commercials are typically more serious, emphasising reliability, security, power, technical features, extras and why it is a good choice for a family, or on a ranch, etc.

Home-region brands are happy to be patriotic and be serious about it. Cars are often marketed as the modern tools of (individual) freedom, much like a lone cowboy with his horse in the days of the 'Wild West'. Dodge Challenger's advert took the symbolism of freedom a step further and immersed it in patriotism of the serious, unapologetic, non-European, and anti-British kind. It premiered during a US v. England football match in the 2010 World Cup. Its story is set around 1776; the English have to flee when George

Washington is driving an army of Dodges, sporting the Stars and Stripes, towards the Redcoats on the battlefield. The narrator says: "here are a couple of things America got right: cars and freedom".[323] Even though Dodge is manufactured in Canada, owned by the Italian FCA, and formerly owned by the German Daimler, in the US it is presented as the quintessential American car.

Chrysler's 2011 Grand Cherokee advert, the first after Fiat bought itself in the company, was also displaying sombre patriotism: it reminisced how America was great when it still built, engineered, and made things (e.g. railways, Jeeps, denim trousers, etc.) and how this defined national identity – a greatness that obviously Grand Cherokee brings back.[324] If and when US customers become more sensitive to the loss of manufacturing jobs, advertisements will emphasise 'Made in USA' as did Volkswagen or GM.[325] Commercial nationalism is also a reaction to two decades of 'globalisation', and some of its tangible, negative consequences for customers (e.g. the loss of manufacturing jobs). These exclusionary messages obviously make their regional use impossible, especially since as of late, NAFTA is made the main culprit for the very economic *malaise* that inspired some of them.

Newcomer brands often use humour, or something that sets them apart because for many of them, the main target is not the masses, in general, but different segments of consumers. (The 2016 commercial for Honda's Ridgeline of singing sheep is probably an exception: it clearly went for buyers in the American countryside in a relatively funny

[323] Andrew Clark, "Does the Dodge Challenger Ad Appeal to Anti-British Sentiment?", *The Guardian*, (London: 16 August 2010), https://www.theguardian.com/business/andrew-clark-on-america/2010/aug/16/dodge-challenger-advertising-anti-british-sentiment Accessed: 18 July 2016; Dodge Challenger advertisement, https://www.youtube.com/watch?v=BqpJvey-7-s Accessed: 18 July 2016
[324] Steven J. Ewing, "Video: First 2011 Jeep Grand Cherokee Commercial Released", *Autoblog*, (10 June 2010), http://www.autoblog.com/2010/06/10/video-first-2011-jeep-grand-cherokee-commercial-released/ Accessed: 18 July 2016
[325] Volkswagen Group of America, "Press Conference on the Midsize SUV", (14 July 2014), http://media.vw.com/release/797/ Accessed: 19 July 2016

way.[326]) Fiat 500's return to the US in 2013 was advertised with cars jumping in the sea in Italy and swimming ashore in New York as the "new wave of Italians who have come to America to party"; another two featured female models, topless and lascivious which in America, thought Fiat, is as European as it gets.[327] Volkswagen's 'Das Summer Sales' commercials were also very European in this sense, a 'parody' of German humour and American prudishness: a buttoned-up, strict-looking woman with a German accent told the story of the Smiths who had prepared for every eventuality during their holiday, except for ending up on a nudist beach.[328]

Canada's adverts are somewhat more light-hearted and ironic.[329] Mexico's are sometimes similar to French, Italian or Spanish commercials, occasionally featuring flirting, jealous couples, etc., if and when it is not a Spanish language version of a generic commercial. The mix of local humour and more generic commercials are reminiscent of European advertising. Volkswagen produces different commercials for each country. VW Beetle Dune's commercial featured Canadian musicians as they are driving to the Canadian 'Juno Awards' ceremony, another one had people surfing in the Canadian winter, while Mexico's was some fast driving in the desert and by the beach.[330] In the US, Passat and Tiguan were pushed instead of the small Beetle.[331] Thus, until 'North Americanism' captures the popular imagination, and as long as the US market needs strong local content, markets the

[326] Honda USA, "Honda Ridgeline commercial 2016", https://www.youtube.com/watch?v=kTaCT8ZmdJA Accessed: 19 July 2016
[327] Fiat 500 Abarth commercial, https://www.youtube.com/watch?v=xwp8EBHtLvk Accessed: 18 July 2016; Fiat 500 Abarth commercial with Catrinel Menghia, https://www.youtube.com/watch?v=HrdKr-p3fWc Accessed: 18 July 2016; Fiat 500 Abarth Cabrio commercial, https://www.youtube.com/watch?v=0A74cIbQdJk Accessed: 18 July 2016
[328] VW Passat 'Das Summer Sale' commercial, https://www.youtube.com/watch?v=JtNZ0tedovw Accessed: 18 July 2016; VW Tiguan 'Das Summer Sale' commercial, https://www.youtube.com/watch?v=H6U5kuxzt-I Accessed: 18 July 2016
[329] Honda Canada, "The Honda Civic Celebrates Being Canada's Best-Selling Vehicle for 16 Years", https://www.youtube.com/watch?v=DQwrS2iFkgQ Accessed: 18 July 2016
[330] Volkswagen Canada YouTube Channel, https://www.youtube.com/user/VolkswagenCanada Accessed: 19 July 2016; Vokswagen de Mexico YouTube Channel, https://www.youtube.com/user/VolkswagenMx Accessed: 19 July 2016
[331] Volkswagen USA YouTube Channel, https://www.youtube.com/user/Volkswagen Accessed: 19 July 2016

size of Canada and Mexico can count on getting their own advertisements, even if they come from regional headquarters.

5.3.3.3 Regional Marketing

Unlike in the EU, the same models are not always available regionally. Instead, they rather follow demand, i.e. the US and Canadian markets typically get the same models but in the case of Mexico, it varies from firm to firm. Mexican customers typically have a wider choice of compact and subcompact models to meet local demand, and in some instances models which are no longer marketed in the US or Canada are still on sale. Ford, for instance, does offer exactly the same line of models in the US and Canada, whereas in Mexico the choice is still slightly different: there are more compact/subcompact models, which are popular on the Mexican market, and more variety of SUVs/crossovers and trucks and vans.[332] FCA has a split approach: Fiat, since its return to North America as a separate brand, is following the same strategy as Ford; Chrysler, on the other hand, offers the same three models in all three countries.[333]

Eventually, the 'national sales approach' increasingly means the local execution of a regional strategy. Most firms have a 'North America' region which includes all NAFTA members but, as in Europe, all of them have local subsidiaries of varying status and local websites. Canada is often a subsidiary of a larger corporation overseeing North America (i.e. the United States and Canada, or sometimes the US only) which is typically based in the US.

[332] Ford Mexico, http://www.ford.mx/ Accessed: 17 July 2016; Ford USA, http://www.ford.com/ Accessed: 17 July 2016; Ford Canada, http://www.ford.ca/ Accessed: 17 July 2016

[333] Fiat Mexico, http://www.fiat.com.mx/ Accessed: 17 July 2016; Fiat USA, http://www.fiatusa.com/en/ Accessed: 17 July 2016; Fiat Canada, https://www.fiatcanada.com/en/ Accessed: 17 July 2016; Chrysler Mexico, http://www.chrysler.com.mx/ Accessed: 17 July 2016; Chrysler USA, http://www.chrysler.com/en/lineup/ Accessed: 17 July 2016; Chrysler Canada, https://www.chrysler.ca/en/ Accessed: 17 July 2016

Volkswagen Group of America however oversees all activities in NAFTA countries.[334] VW established its 'North American Region' only in 2016 for "aligning all regional activities of the brand including sales and marketing, product development, procurement and production".[335]

5.3.4 The Impact of Non-Regionalism Related Factors

5.3.4.1 National Markets, Similar Tastes

New passenger car (and light-duty vehicle) registration data for the US, Canada, and Mexico clearly demonstrate that regional tastes are much more converged, despite the weak impact of regionalism, than in the EU; in the case of the US and Canada demand is near identical. By 2015, the US market has become very competitive with multiple players: the share of the 'Big Three' equalled the share of all Japanese and Korean firms combined (46 percent respectively), the remaining eight percent of the market was divided between European and other manufacturers (see Figure 5.16).[336]

[334] Volkswagen Group of America, "Volkswagen US Media Newsroom", http://media.vw.com/page/14/ Accessed: 19 July 2016
[335] Volkswagen Group of America, "Volkswagen Reveals Foundation of North American Region", (Herndon, Virgina: 15 April 2016), http://media.vw.com/release/1175/ Accessed: 19 July 2016
[336] Authors calculations based on The Wall Street Journal Market Data Center, "Auto Sales: Sales and Share of Total Market by Manufacturer", *The Wall Street Journal*, (1 July 2016), http://online.wsj.com/mdc/public/page/2_3022-autosales.html Accessed: 7 July 2016;

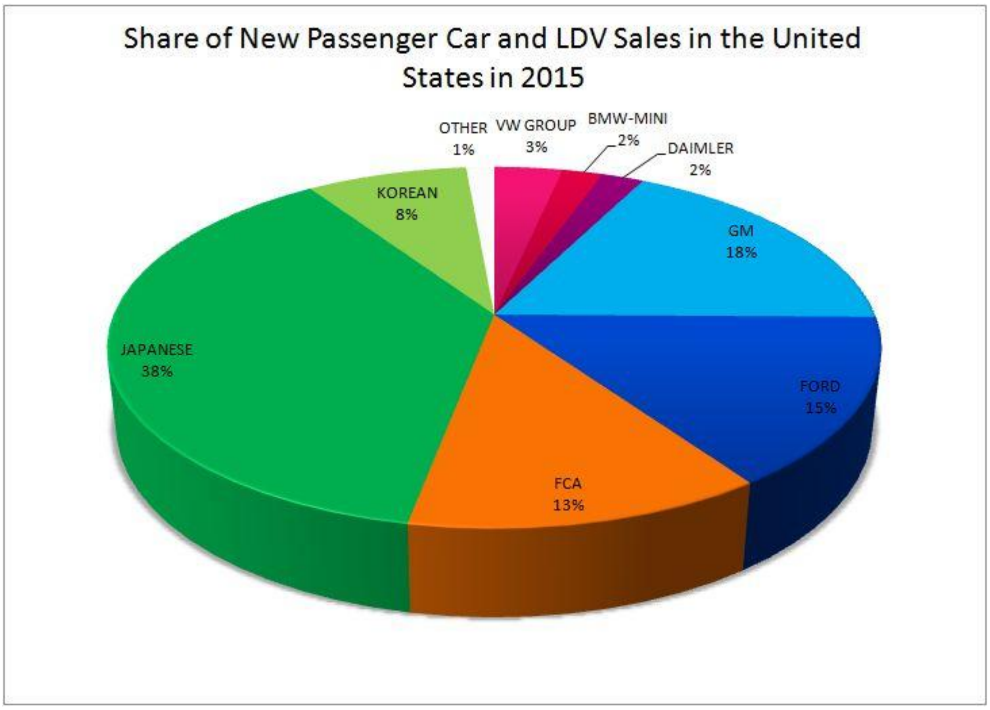

Figure 5.16 – Share of New Passenger Car and LDV Sales in US by Firm 2015

GM, though lost its dominance, was still the most popular manufacturer with nearly 18 percent of sales. Ford came at second, even if its F-150 pick-up truck was the US's best-selling vehicle. The category 'Japanese' (which suited these firms' relatively low share in the EU better) was divided between third-placed Toyota (14 percent), Nissan and Honda (9 percent each), Subaru, Mazda, and Mitsubishi (3, 2, and 1 percent respectively). Hyundai and Kia had 4 percent each in the 'Korean' category.

In the EU, a brand was popular if it was former 'national champion' and/or was manufactured in the country. In the US, home-region firms are still the most prominent players. However, as all of the above firms manufacture in the country, the impact of other factors on brand popularity (e.g. length of market presence, products, management decisions, etc.) become more highlighted. For instance, the volume share of Daimler and BMW are traditionally low on most markets as they sell expensive, high-end models (but have a higher profitability rate). Volkswagen's very low market share makes it a bit of an outlier compared to the length of its presence on the US market. However, VW did not manufacture in the country between 1988 and 2011 (while it kept its regional plant in Mexico).

Volkswagen's continued low popularity on the mass market is nevertheless an interesting example of how success in NAFTA hinges on the US. European firms have long blamed Americans' dislike of small and energy efficient cars or the difficulty of newcomers; Renault left at the end of 1986, PSA in 1991, and Fiat in 1993. However, none of them manufactured in the US and the success of Asian firms contradicts these arguments. VW did not develop products for the US market, and imported its cars for 23 years while all other firms were scaling up their manufacturing in the country. Supplying NAFTA from its plant in Mexico was a theoretically logical regionalisation response to the incentives of regionalism but it may have underestimated the importance of local presence.

There may also have been a demand-supply mismatch: VW offered only two, not especially big SUVs (Tiguan and Touareg) in a country whose non-city dwellers and baby-boomer generation grew up with huge cars and still have a penchant for them. Even those two SUVs were found not have had "bold" and "aggressive" enough "styling language" for US customers.[337] It was only before the diesel scandal that VW decided to commit fully to the American mass market: in 2014, VW planned to design and produce in its new Tennessee plant "a true American car, big, attractive, with lots of high-tech" for the "American customer".[338] Volkswagen was also argued to be too expensive for its mass market ambitions: a Passat, which was anyway deemed too small for American tastes, came at a basic price of

[337] Brauer, *Volkswagen Group: Struggling in the U.S.*, 2015
[338] Matthew Campbell, Alex Webb, and David Welch, "How VW's Plan to Win America Backfired", *Bloomberg*, (25 September 2015), http://www.bloomberg.com/news/articles/2015-09-25/how-vw-s-american-ambitions-planted-the-seeds-of-its-downfall Accessed: 12 July 2016

$28,000. This was $8000 more than the similar Toyota Camry; consequently 11 thousand Passat was sold as opposed to 350 thousand Camrys in 2009.[339]

Having 'true American cars' on offer however was clearly not the problem for GM, price, design and being unattractive for new generations was. Before its 2009 bankruptcy, GM was considered to be a "risk-averse and conservative" company which sometimes made the wrong decisions at critical junctures.[340] At the height of the oil crises in the 1970s, petrol prices became an issue even in the United States and "better, smaller, lighter" Japanese cars started to quickly gain popularity.

> I think, in the end, the consumer wants a vehicle which is reliable and not too expensive and that's what Toyota and the other Japanese manufacturers brought and it was entirely novel [...]. People were used to having cars that broke down and rusted away and were relatively expensive. And all of a sudden these guys came along with vehicles which were neither of those things. They may have not been the most beautiful vehicles on the planet but at least they got you from A to B when you wanted them to do so. (MANUFACTURER 2)

The response of home-region firms to the Japanese competition however was intense political lobbying, instead of product development.[341] In 1978, when fuel economy regulations were introduced on passenger cars, pick-ups and light trucks – then the almost exclusive terrain of home-region firms – were initially exempt. The decision gave them a temporary respite but it had an important market distorting effect: the regulations set GM and others on course to further investing in SUVs and eventually become dependent on this segment. Customers may

[339] David Welch and Christoph Rauwald, "VW Toys With Giving Up the U.S. Mass Market, and Dealers Fume", *Bloomberg*, (11 March 2016), http://www.bloomberg.com/news/articles/2016-03-11/vw-toys-with-giving-up-the-u-s-mass-market-and-dealers-fume Accessed: 12 July 2016

[340] Robert Wright, "US Autos: Adding New Routes", *The Financial Times*, (London: 11 July 2016), http://www.ft.com/cms/s/0/a04bcc50-238c-11e6-aa98-db1e01fabc0c.html#axzz4EBgGoHBO Accessed: 12 July 2016

[341] The Economist, *Detroitosaurus Wrecks*, 2009

have wanted 'better, smaller, lighter' cars but to keep the competition at bay, import restrictions were posed on Japanese cars in 1981.[342]

GM cars were also more expensive than those made by newcomers: until an agreement with the trade unions in 2007, each car carried a $1400 extra pension and healthcare cost which made them uncompetitive even if by then, quality and fuel efficiency caught up with those of the Japanese cars.[343] However, by the time of the Great Recession, younger generations' brand loyalty was no longer to the 'Big Three' as their parents' but to their cheaper Toyotas and other newcomer brands. Thus, customer taste changed as it was shaped by the entry of newcomers. Even though SUVs and trucks remain more popular than elsewhere, some argue that the average car has become much more 'European', even if it is not supplied by Europeans:

> [O]f course the pick-up trucks, etc. [...] continue to be extremely popular in the US. But in the US what is really striking is the average car and that is very much like the average European car. What is true is that the compact and especially the sub-compact segment that we have in Europe and in Japan, probably the number of such vehicles in the US is extremely low. But for the rest, I have the tendency to believe that on average they are coming closer together. (INDUSTRY ORGANISATION 1)

This is especially true for the US and Canada, whose customer tastes are most similar following more than 50 years of integration of the two countries' car industries.[344]

[342] The Economist, *Detroitosaurus Wrecks*, 2009; Larry Webster, "GM in Crisis – 5 Reasons Why America's Largest Car Company Teeters on the Edge", *Popular Mechanics*, (17 November 2008), http://www.popularmechanics.com/cars/a3748/4292379/ Accessed: 9 July 2016

[343] The Economist, *Detroitosaurus Wrecks*, 2009

[344] Based on Timothy Cain, "Canada Auto Sales Brand Rankings – 2015 Year End", *Good Car Bad Car*, (15 January 2016), http://www.goodcarbadcar.net/2016/01/canada-auto-sales-brand-sales-results-2015-calendar-year.html Accessed: 7 July 2016

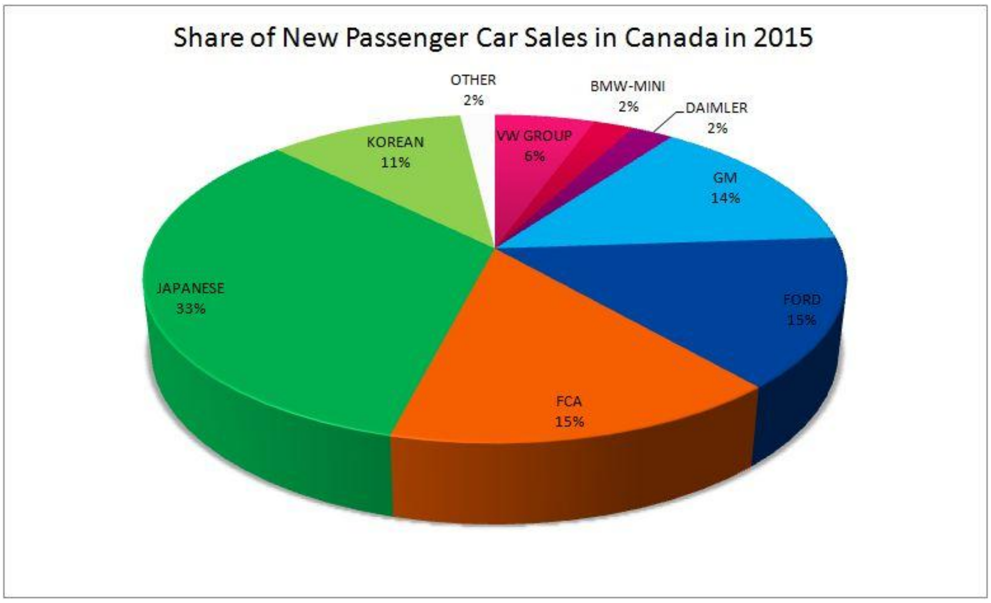

Figure 5.17 – Share of New Passenger Car Sales in Canada by Firm 2015

A few percentage point differences notwithstanding, the proportion and composition of what Canadian customers were after in 2015 is almost identical to the US data. The two countries' car industries have been intricately linked for decades; GM, Ford, Chrysler (FCA), Toyota, and Honda assemble in Canada, hence their prominence.

Another evidence of 'regional alignment' of customer tastes between the US and Canada is the popularity of same car models. In 2015, the most popular car in Canada, for a seventh consecutive year, was the Ford F-Series just like in the United States for 34 years.[345] Among the top 10 best-selling cars in the US and Canada six were the same models whereas neither shared a single model with Mexico's most popular cars in 2015.[346] (See Figure 5.18)

[345] Timothy Cain, "Canada's 30 Best-Selling Vehicles in 2015, *Autofocus*, (18 January 2016), http://www.autofocus.ca/news-events/news/canadas-30-best-selling-vehicles-in-2015 Accessed: 6 July 2016; Kelsey Mays, "What Was the Best-Selling Car in 2015?", *Cars.com*, (5 January 2016), https://www.cars.com/articles/what-was-the-best-selling-car-in-2015-1420683052307/ Accessed: 6 July 2016
[346] Focus 2 Move, "Mexico Best-Selling Cars Ranking: The Top 100 of 2015", *Focus2move.com*, (30 January 2016), http://focus2move.com/mexico-best-selling-cars/ Accessed: 6 July 2016

Canada	United States	Mexico
Ford F-Series	Ford F-Series	Chevrolet Aveo
Ram Pickup	Chevrolet Silverado	Nissan Versa
Honda Civic	Ram Pickup	Nissan Pickup
GMC Sierra	Toyota Camry	Volkswagen Vento
Ford Escape	Toyota Corolla	Volkswagen Jetta
Hyundai Elantra	Honda Accord	Nissan March
Toyota Corolla	Honda CR-V	Nissan Tsuru
Dodge Grand Caravan	Honda Civic	Chevrolet Spark
Chevrolet Silverado	Nissan Altima	Nissan Sentra
Toyota RAV4	Toyota RAV4	Chevrolet Sonic

Figure 5.18 – Best-Selling Car Models in US, Canada, Mexico 2015

Despite opinions that the average car in North America is becoming more 'European' in size, it is clear that US and Canadian customers share a liking of 'light duty vehicles' (SUVs, Pick-ups, CUVs, etc.), and customer taste cleavages are more marked between urban and rural customers. Mexicans, on the other hand, clearly favour sedans and small cars, as 9 out the top-10 car models were such. However, as is the case with Eastern Europe, Mexican customers are constrained in their choices by price (if not availability) which means that they may dream of buying Ford F-Series just as much as other Americans but few can afford it. Nevertheless, for long decades, Mexico hosted manufacturers of small cars, including VW Beetle; Renault 5 and others were equally popular, shaping customer taste (see Figure 5.19)[347]

[347] Based on Timothy Cain, "Chart of the Day: Auto Brand Market Share in Mexico in 2014", *The Truth About Cars*, (24 January 2015), http://www.thetruthaboutcars.com/2015/01/chart-day-auto-brand-market-share-mexico-2014/ Accessed: 7 July 2016

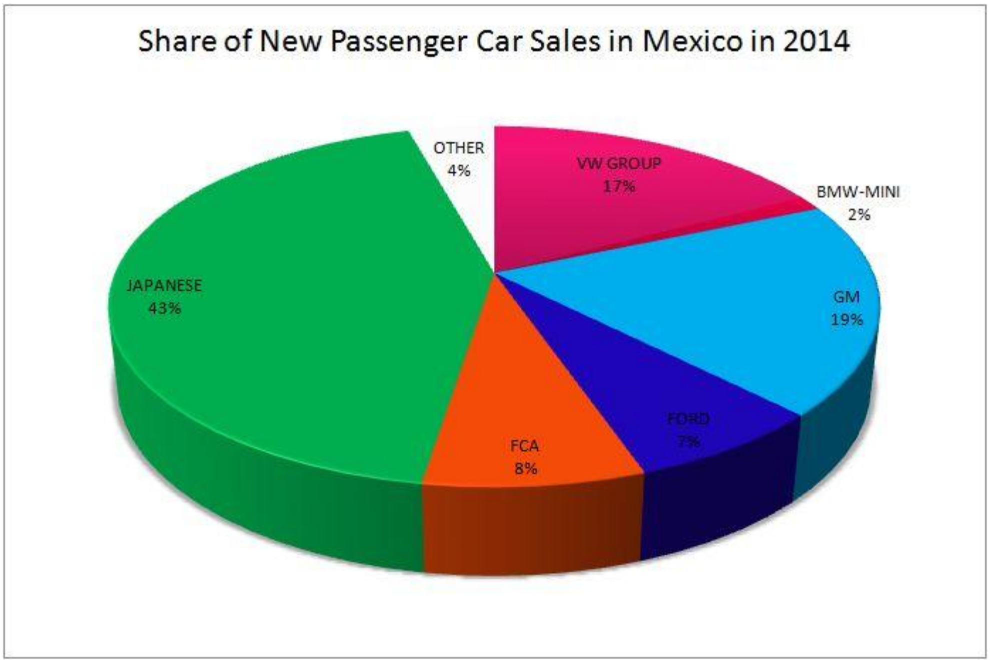

Figure 5.19 – Share of New Passenger Car Sales in Mexico by Firm 2015

In 2014, the most popular manufacturer in Mexico was Nissan (28%), GM second (19%), and the Volkswagen Group third (17%). The remaining 15 percent of the 'Japanese' category was divided between Toyota (6.1%), Honda (5.5%), and Mazda (3.6%).

In NAFTA, the Mexican market is a relative 'outlier'. US home-region firms did manufacture there since well before NAFTA to satisfy the needs of the Americanised customer taste of its middle-classes, and shaped customer taste in the process. Volkswagen has manufactured in the country for decades; Toyota, Nissan, Honda, Mazda, BMW, and Mercedes also assemble there. Kia and Audi started manufacturing in 2016.[348] Financial constraints have also pushed Mexican customers towards smaller and cheaper cars, which contributed to divergence from the US taste. Moreover, Mexicans have been able to choose from a much wider variety of European and Asian brands and models than US or Canadian

[348] Dudley Althaus, "Mexican Auto Industry Ends 2015 With Record Output", *The Wall Street Journal*, (11 January 2016), http://www.wsj.com/articles/mexican-auto-industry-ends-2015-with-record-output-1452553261 Accessed: 14 July 2016; Automotive Meetings, "Automotive Industry in Mexico", *Automotivemeetings.com*, http://www.automotivemeetings.com/mexico/index.php/en/automotive-industry-in-mexico Accessed: 14 July 2016

customers for three reasons: first, the EU and Mexico have an FTA, incentivising presence on the Mexican market; second, EU norms and standards are accepted in Mexico which makes it easier for European or Asian firms to sell their products there; and third, these firms typically have more compact and sub-compact models to match demand.

In this section (5.3), it was argued that regionalism had a relatively *strong* impact on market regionalisation; mainly due to negative integration and particularly after NAFTA's founding. The highly concentrated, oligopolistic car market in the US dramatically changed and has become a highly competitive market of multiple players. Unlike in the EU, the change meant the decline of home-region firms and the rise of Asian newcomers. This process, which was to a large extent caused by inadequate responses by home-region firms, became markedly faster following the creation of NAFTA. Moving models to common platforms, and the external design of cars were argued to have come closer to newcomers but this was more an effect of competition than the need to become more attractive on the regional market. Marketing messages were made for all three countries, even if organisationally, marketing activities were becoming more regionalised.

Moreover, early regionalisation by US home-region firms, and their dominance in the three countries (in the absence of rival Canadian and Mexican brands), created relatively similar customer tastes across the region. This promised the possibility of a *de facto* 'regional' market. Thus, regionalism's impact was primarily through increasing competitive pressures. Consequently, the type/intensity of regionalism is argued to have been of *secondary* importance. Three important drivers of regionalisation were missing: one, positive integration measures, second, ideational factors, and three, pressure to build scale by regionalising. Canada and Mexico, even if small compared to the US market, are viable national markets on their own, bar the designing and manufacturing of specific products.

The findings support the notion that in the absence of market fragmentation and scale problems, and due to the dominance of the US, there is less pressure to regionalise; the lack of positive integration or ideational factors become less important, and the process of regionalisation is relatively autonomous and market-logic driven. In fact, growth on the North American market depends on success in the US and not on regionalism and its effects. In other words, the 'Sinatra Inference' holds: if a firm 'makes it in the US, it has already made it in NAFTA'. Volkswagen's popularity in Mexico and its struggle in the US demonstrate however that this is not the case the other way around. Asian firms, on the other hand, could succeed more easily than in the EU, even if regionalism was assisting them less.

5.4 Conclusions

In this chapter, the role of regionalism in market regionalisation was examined, and whether different type of regionalism has led to varied regionalisation outcomes. Transformative changes from national to regional were considered in sales heterogenisation, design, platforms, marketing of products, advertisement, and convergence of customer tastes. Changes, measured in sales volumes by firm type, brand, and origin of firm at regional- and state-level over several decades, leading up to 2015, were compared and contrasted across the two regions as well. It was argued that regionalism's impact was relatively *strong* in both the EU and NAFTA, the type and intensity was of *primary* importance in the EU and *secondary* in NAFTA. Thus, regionalisation outcomes are *different* in the two regions.

Two distinct types of regionalisation were found in terms of demand convergence: an 'EU-type', and a 'NAFTA-type'. (See Figure 5.20) In the EU-type strong regionalism (negative, positive, ideational) is accompanied by strong regionalisation of sales heterogenisation, design (visible and invisible), and marketing messages and organisation but weak customer taste convergence; in the NAFTA-type strong regionalism (negative) is accompanied by strong regionalisation of sales heterogenisation, design (visible and invisible), marketing organisation, and customer taste convergence but weak in terms of marketing messages. In both regions, non-regionalism factors have played a defining role though opposite in direction; in NAFTA, they acted in tandem with regionalism, in the EU, as a countervailing force.

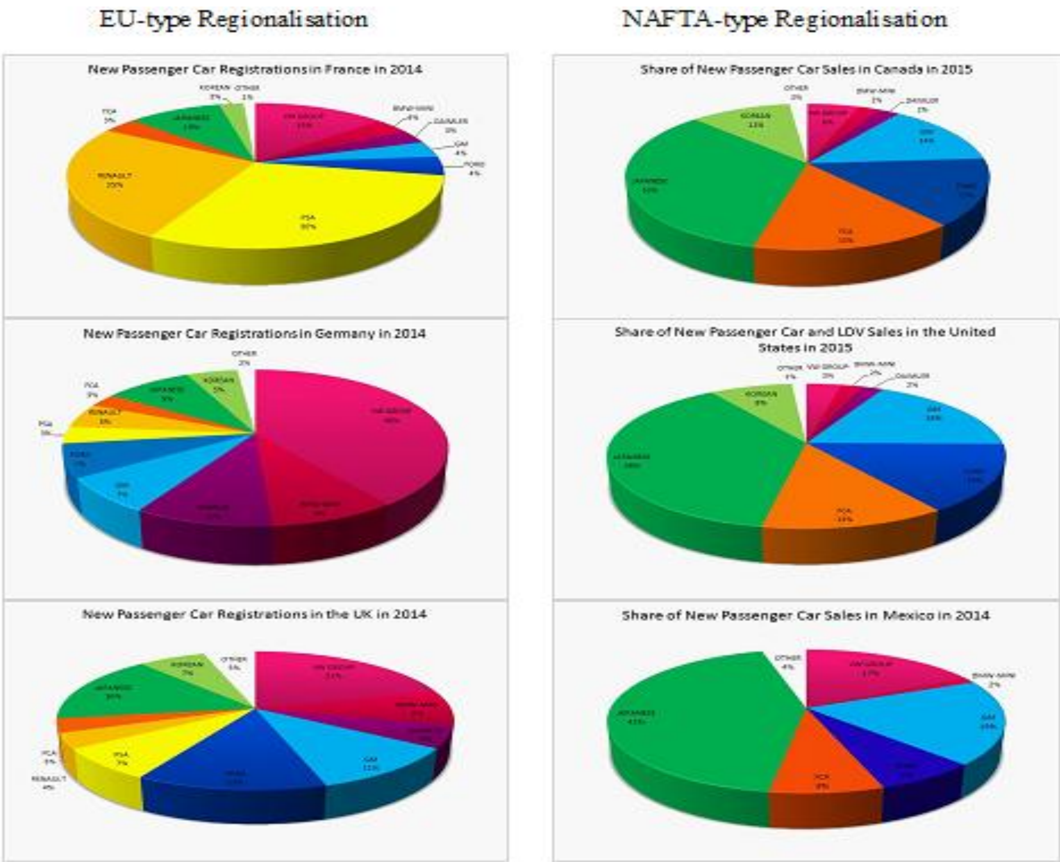

Figure 5.20 – 'EU-Type' and 'NAFTA-Type' Regionalisation of Demand

In the EU-type, regionalism-related factors (negative and positive integration measures, ideational factors) have all influenced various aspects of regionalisation (changes in demand, regionalisation of platforms, design, marketing and its organisation). However, customer tastes, while did change, have remained persistently varied and nationally segmented because of the strong impact of non-regionalism factors. In this environment, newcomers faced high barriers of entry while former national champions found it difficult to reduce reliance on their home markets. (Building a multiple brand portfolio appears to have worked the best.) In this context, success is contingent on shaping demand to make it less heterogeneous; product and marketing regionalisation are partially attempts at shaping customer tastes in the process. However, in a circular way, further regionalisation of the product and marketing is limited by the nationally segmented demand-structure.

In the NAFTA-type, regionalism-related factors have also had a relatively strong impact on various aspects of regionalisation (i.e. sales heterogenisation, design, platforms, and organisation of marketing). Nevertheless, regionalism's role in this process appeared less prominent simply because non-regionalism related factors (e.g. market logic, the historical development of the industry) were also conducive to regionalisation unlike in the EU. In NAFTA, US firms could dominate all national markets as they faced no strongly-entrenched local rivals. The consequently developing, relatively homogeneous customer tastes in all three countries made regional entry easier for newcomers. New entrants created huge competitive pressures for home-region firms, and eventually transformed the regional market to a highly competitive, heterogeneous one. Nevertheless, due to structural reasons, firms can theoretically ignore the two smaller markets, if they succeed in the US. Thus, regionalisation has not been contingent on regionalism's scale-building offer; the process of regionalisation happened relatively autonomously.

CHAPTER 6 – REGIONAL STANDARDS AND REGULATIONS

6.1 Introduction

While previous chapters explored how regionalism impacted where the product is being made and how it is sold, this chapter is concerned with the product itself. First, it asks whether cars have become regionalised in technical terms or not (i.e. whether regionalism has had a relatively *strong* or *weak* impact). Second, it enquires whether the type/intensity of regionalism plays a *primary* or *secondary* role in this process, and finally if there is a *difference* between outcomes in the EU and NAFTA. However, this chapter will assume two important things from the outset which sets it slightly apart from Chapters 4, 5, and 7. One, while it is regional rules/standards that are considered here as 'independent variables', their existence by their very nature, is assumed to mean that the product (i.e. the dependent variable) is also changed. For instance, regional CO_2 emission limits also mean that cars regionally comply and are thus 'regionalised' (VW's 'diesel-gate' and possible asymmetric regulatory implementation notwithstanding). Differently put, the impact of regionalism on regionalisation here is direct, and immediate; thus, the process is in the focus of the chapter, not the establishment of a link between the two.

Second, because common standards are positive integration by definition, it is assumed that regionalism exerts its influence through positive integration measures first and foremost. As it has been argued, positive integration is understood here as a common set of rules and/or policies with the aim to ensure the economic objectives of market integration by going beyond the simple removal of barriers to regional transactions.[349] Intrusive regional rules and institutions can replace national ones in the EU; in the absence of these, non-regionalism related factors, in particular the dominance of the US can be conducive to voluntary convergence of technical regulations, safety standards, and vehicle-type approvals in NAFTA. Thus, this chapter is relatively straightforward in the sense that positive integration measures and their impact are examined to account for regionalism's impact as opposed to the disentangling of congruent factors (positive, negative integration, ideational, and non-regionalism related) as is the case when considering other, more fluid aspects of regionalism.

This chapter will eventually argue that the impact of regionalism on the (technical) regionalisation of the product was relatively *strong* in the EU, and relatively *weak* in NAFTA, in accordance with theoretical expectations. The type and intensity of integration was found to be of *primary* importance in both regions, consequently the outcomes are *different* between the two regions. However, it will also be argued that in the absence of relevant regional governance, some degree of regionalisation has nevertheless taken place in NAFTA, too, caused by non-regionalism related factors as standards in Canada and Mexico have converged voluntarily towards the US ones. The dominance of the US and the consequent rule-maker/rule-taker relationship between it and NAFTA's other two countries will be argued to raise questions about the role of structural factors in the development of regionalisms.

The chapter considers 'technical' regionalisation of the product, decoupled from previously discussed aspects (e.g. design, etc.). The reason for this is twofold: first, on the regionalism-side, to be able to examine regionalism's impact in a domain where positive integration is salient, keeping the technical aspects of product regionalisation conceptually

[349] Pinder, *Positive Integration and Negative Integration*, 90; Majone, *Regulation in Comparative Perspective*, 310-1

separate was considered advantageous. Second, on the regionalisation-side, standards are more linked to the engineering and manufacturing aspects of production than design, which was found to be inseparable from sales and marketing. In reality, designing cars and engineering them to meet standards are not entirely separate processes, especially as standards sometimes codify specific aspects of customer tastes. However, the conceptual separation allows the in-depth discussion of deeply technical fields where regionalism's impact and regional variations are most marked: safety and emission standards, and the process of type approval. Of the technical aspects of production, these are the specific fields of standardisation and regulatory work where the region has strong competences, if any, and were also identified as the most salient issues by firms, the EU and the US in TTIP negotiations, and at international standardisation *fora* as well.[350]

This chapter will be organised the following way: I will first briefly discuss regionalism-related factors, or the importance of regional standard setting and harmonisation, which are at the heart of how national products become regional products from the technical point of view. This includes vehicle type approval and emission standards. Then a short review of regionalisation indicators will be followed by a brief discussion of chapter-specific data and research design. Then a thick description of the process of standard setting, as well as vehicle-type approval and emission standards in the EU and then in NAFTA will discuss my empirical findings, comparing and contrasting their similarities and differences.

[350] Bill Canis and Richard K. Lattanzio, "U.S. and EU Motor Vehicle Standards: Issues for Transatlantic Trade Negotiations", *CRS Report*, (Washington: Congressional Research Service, 2014), 1-28;
Galina Kolev and Jürgen Matthes, *The Transatlantic Trade and Investment Partnership (TTIP): Challenges and Opportunities for the Internal Market and Consumer Protection in the Area of Motor Vehicles*, (Brussels: European Union Directorate General for Internal Policies – Policy Department A: Economic and Scientific Policy, July 2015), 1-45

6.1.1 The Impact of Regionalism

Product standards are technical specifications of design and performance characteristics of manufactured goods.[351] However, they are also institutionalisations of practices, often reflecting customer tastes. Regional standards, once set, entrench technical and functional differences between even the same car models produced in different regions, as they often regulate problems particular to a market. Thus, standardisation can be revealing about the impact of regionalism: from the perspective of regionalisation, standardisation and harmonisation of existing standards at the regional level are signs of positive integration.

It is the most 'intrusive' and direct aspect of regionalism: varied regional regulations replace or complement national rules, or else an equivalence system of national regulations exist, leading to the production of regionally varied vehicles, even without considering the potential differences in the size and shape of the chassis. Regional-level regulations are hallmarks of more advanced, deeper regional integrations, representing a higher degree of 'regionness', whereas granting national treatment and equivalence functionally may serve the same purpose and achieve similar results but keeps regionalism at a lower intensity on the regulatory side.

6.1.2 Indicators of Regionalisation

By creating regional standards, regionalism creates *de facto* regionalisation at the same time. This is true, even if hurdles to and discrepancies of national implementation of

[351] Mattli and Büthe, *Setting International Standards*, 3

regional rules in general exist, widely discussed in the Europeanisation and 'NAFTA-isation' literatures.[352] Full-compliance with regional rules is sometimes not achieved; for instance, Britain adopted the metric system in 1973 when it joined the EEC but in practice, imperial measures remain widely in use to date. However, product standards are different in the sense that cars, in most instances, could not and would not function without applying them. In any case, harsh punishments, and rivals also act as incentives to ensure compliance.

Firms are also often at the forefront of demanding regional rules. In Europe, multinationals and other export-oriented firms as car manufacturers tend to prefer regional to national regulations not only to avoid the costs of meeting different, and often inconsistent, national rules but also to avoid the risk of progressively more stringent regulation in some of the member states.[353] A similar development has been observed in the United States, where, for example, the car industry decided to support federal regulation of air-pollution because of the threat posed by different and inconsistent air-pollution standards, and also because it feared the possibility that one state legislature after another, in a kind of political domino effect, would set more and more stringent emission standards.[354] At the same time, however, there is a tangible tension between demanding more regional rules to avoid regulatory fragmentation at the national level, and pushing for more global regulations to reduce regional segmentation.

Regionalisation will be considered fully achieved in cases where regional standards replaced national ones, or equivalent national measures are mutually accepted, whereas in other instances, regionalisation is considered weak, or non-existent. As emphasised above, regionalisation will be primarily examined through the regulatory environment; however,

[352] Helen Wallace, "Europeanisation and Globalisation: Complementary or Contradictory Trends?", *New Political Economy*, (Vol. 5, No. 3, 2000), 369-382; Aspinwall, *NAFTA-ization*, 1-24;
[353] Giandomenico Majone, "The European Commission as Regulator", In: Majone (ed.), *Regulating Europe*, (London and New York: Routledge, 2003), 66
[354] Ibid.

examples of changes to cars that had to be made when adjusting to regional rules, their cost, and their differences across the two regions will also be considered to corroborate changes in the regulatory process. The discussion will overall be limited to the EU and NAFTA; their rivalry and cooperation at the international level may be referred to *en passant* but will be discussed at length in Chapter 7 as part of global governance.

6.1.3 Chapter-specific Data and Research Design

In this chapter, data is derived from semi-structured interviews with firm representatives, regional regulators, and from the analysis of relevant legislation and documents. I proceeded the following way: first, the regulatory scene had to be mapped out – this was done through exploratory interviews with regional regulators, industry organisations, and by reviewing the relevant legislation (safety and emission standards, and the process of vehicle type approval). Cases of regional/global standardisation were examined. In NAFTA, equivalent national processes of its three member states were mapped out, identifying overlaps. This was then completed with semi-structured interviews with firm representatives. The main questions focused on finding out how the regional regulatory regime, or the lack of it impacted their products, how it led to regional segmentation of certain parts of their vehicles, and whether the advantages/disadvantages of regionalism made them interested in supporting further regionalism, or global regulations.

6.2 Regionalisation of Standards in the EU

Regional standardisation is pivotal for manufacturers to reduce regulatory fragmentation and to create a truly regional market where they can build economies of scale. This was more important in the initially more fragmented EU, where national markets were relatively small with a lot of competing manufacturers, than in the US-dominated NAFTA where scale was never the primary issue for either home-region firms or new entrants. In this sense the EU, opting for a highly regionalised approach to standardisation, had consciously attempted to end the cosy relationship between national regulators and 'national champions' during the Single Market programme.

Until the 1950s vehicle safety regulations developed separately in each country; a most well-known example of that, immortalised by the French film industry, was the requirement between 1936 and 1993 that cars sold in France had to be fitted with selective yellow headlights while the rest of Europe had white headlights.[355] It was the harmonisation drive of the Single European Act of 1986, aimed at establishing the Single Market by 31 December 1992, which eventually put an end to *l'exception française*, and remaining standardisation differences in other member states. Left-hand driving in the four, island EU countries (UK, Ireland, Malta, and Cyprus) however has been left untouched. The compensation for these national champions for increased competition costs on the liberalised market came from the opportunity to increase scale at lower costs, and from the reduction of adaptation costs that they had to previously incur on fragmented national markets.

[355] Eclairage des automobiles, *Journal Officiel de la Republique Francaise*, (Paris: 5 Novembre 1936, No. 11495), Bibliotheque Nationale de France, [In French] http://gallica.bnf.fr/ark:/12148/bpt6k65489960/f7.item.langEN.zoom Accessed: 26 March 2016

The federalisation of safety standards is rooted in the Single European Act which, after years of apparent stagnation, intended to give a new impetus to the Common Market by eliminating non-tariff barriers and creating a Single Market by the end of 1992. Sandholtz and Zysman argue that the Single Market was not necessarily a logical next step but exogenous factors (the need to compete with the US and Japanese manufacturers) triggered the European Commission to act as policy entrepreneur and, in alliance with the transnational industry coalition, managed to build and mobilise a coalition of governmental elites which passed the necessary legislation.[356]

Positive integration in the field of standardisation was a logical choice to dismantle NTBs in a highly fragmented region of multiple jurisdictions and players, and with no uncontested dominant power, however, it was not inevitable. Rather, it was the result of a fierce debate between the Commission and some member states during the EC-1992 programme because national governments initially found it easier to agree on removing obstacles (negative integration) than on formulating common policies (positive integration). Two approaches were envisaged for market integration, including standards and regulations: one based on the famous, 1978 "Cassis de Dijon" ruling by the Court of Justice of the European Union, that member states should mutually recognise each other's standards and regulations.[357] The other principle was home-country control: the right of a firm to operate throughout the EEC, if it is licensed in one member state.[358]

The idea was that instead of harmonisation, or the adoption of European standards, a kind of free market with competing national standards would exist.[359] This approach, much reminiscent of the European Free Trade Area (EFTA) was emphatically supported by the UK

[356] Sandholtz and Zysman, *1992: Recasting the European Bargain*, 96
[357] "Cassis de Dijon" Ruling on 20 February 1979: Rewe Zentral AG vs. Bundemonopolverwaltung für Branntwein, Case 120/78, Court of Justice of the European Union, http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:61978CJ0120&from=EN Accessed: 27 March 2016
[358] Stanley Hoffmann, "The European Community and 1992", *Foreign Affairs*, (Vol. 68, No. 4, Fall 1989), 34-35
[359] Ibid.

Prime Minister, Margaret Thatcher. The Commission, however, headed by Jacques Delors, saw standard harmonisation as a way to temper “savage capitalism”. Thatcher’s ousting from power in 1990, following the resignation of his deputy Sir Geoffrey Howe over her perceived reluctance to join the EMU, helped settle the debate, though Delors’s approach had more support in any case.[360] Early regionalisers, (e.g. GM, Ford, Toyota) typically ‘newcomers’, had an interest in supporting harmonisation and reducing the protectionist inclinations of entrenched home-region firms. The more ambitious home-region firms also saw new opportunities in regional liberalisation but adjustment for some was painful as the excerpt from a speech in 1991 to the European Parliament by Raymond Levy, Chairman of Renault, testifies:

> “We are told that we must make adjustments [...] but my enterprise [Renault] has already laid off 40,000 employees over the last five years. Europeans [...] are subject to social exigencies. We have a debt to our workers [...] especially older workers; the social environment matters. For this reason the agreement is indispensable. The European auto industry needs eight years to adjust.”[361]

Eventually, a gradual federalisation of car safety standards took place to avoid a race to the bottom, to reduce transaction costs, and to gain political support by emphasising the quality benefits of the approach for consumers. The Single European Act signalled the advent of a new era in European car making: one of increasingly regionalised production. The EC-1992 programme, together with consecutive enlargements to low-wage/low-cost countries, and the regionalisation of standards and the regulatory framework, including processes like the vehicle-type approval, have created incentives for manufacturers to increasingly consider national markets as one and exploit the opportunities provided by the regional space.

[360] Margaret Thatcher, “Letter to Sir Geoffrey Howe MP”, *Margaret Thatcher Foundation*, (1 November 1990), http://www.margaretthatcher.org/document/108236 Accessed: 27 March 2016
[361] Roland Stephen, *Vehicle of Influence: Building a European Car Market*, (Ann Arbor: The University of Michigan Press, 2000), 1

6.2.1 Standardising Safety

The European system of standardisation is characterised not only by a national layer of standards organisations but also by a regional layer created in the course of economic integration. Two major regional standards organisations exist, the European Committee for Standardisation (CEN), and the European Committee for Standardisation (CENELEC), both partially funded by the European Commission.[362] In addition to the regional (EU) and national layers, car manufacturers in the EU have to comply with international (UN) regulations, though these are sometimes directly transposed to the regional level, or the other way around. The "exotic way in which things are done in Europe" (MANUFACTURER 2) in terms of standardisation is also rooted in the history of post-WW2 European regionalism of multiple players and polycentric decision making.

Member states and the European Union create standards, and both levels participate (the EU since 1998) in the UN Working Party on the Construction of Vehicles, or 'WP.29', which administers three important international standardisation agreements: the 1958 United Nations Economic Commission for Europe (UNECE) Agreement (mutual recognition of approvals of vehicle components), the UN Global Technical Regulations (globally harmonised, performance-related requirements and test), and the UN Rules (periodical technical inspection of vehicles in use).[363] The 1958 Agreement is now superseded by the 1998 UNECE Agreement, with more signatories from outside of Europe. Manufacturers, trade associations, NGOs participate in the work of both the European Commission and WP.29 as non-voting members. The process may seem arcane to outsiders but participants consider the EU's standard setting "very structured". (REGULATOR 1)

[362] Mattli and Büthe, *Setting International Standards*, 26
[363] WP.29 Introduction, *UNECE*, http://www.unece.org/trans/main/wp29/introduction.html Accessed: 26 March 2016

In the European Commission, expert groups composed of manufacturers and member states assist the work. As the car industry's value chains weave through almost all member states following decades of dispersion of manufacturing from the core towards the periphery (as demonstrated in Chapter 4), member states usually have a great interest in these proceedings, especially if they have stakes in, or close relations with former 'national champions' (home-region firms), or the industry weighs heavily in their overall economic output, or they have a specialist cluster.

> We have the usual suspects but for instance, in case you have a particular problem in a country, they will be more interested. What we do is we discuss all the technical details in these working groups which we can also transfer then to the UN level, all the details. Practically, all the discussions happen at either the EU level in these working groups or at UN level in similar working groups but then you have all international players there. Then you either transpose the UN regulation to a European one or *vice versa*. (REGULATOR 1)

Despite the difficulty of adjustment, and the often painstaking process, car manufacturers described the importance of regional, and increasingly UN-level, standardisation as "crucial", "critical", "so important", and "not symbolic". (MANUFACTURER 2; MANUFACTURER 1) This supports industry-wide data compiled from the EU Transparency Register: regional standards, emission limits, and vehicle-type approval processes were found to be the most lobbied regulatory areas for car manufacturers in the EU.[364] This was true of all three types of firms (home-region, embedded regionalisers, clean-slate entry regionalisers), demonstrating that subsidiaries of foreign manufacturers (US and Asians in the EU, and EU and Asians in NAFTA) also 'play' the standardisation game, as hypothesised by Mattli and Büthe.[365] They argue that presence in the EU provides advantages for US [or Asian] firms as subsidiaries are treated like European firms in the national and regional standardisation processes:

[364] EU Transparency Register, *Lobby Facts*, http://lobbyfacts.eu/ Accessed: 24 February 2016
[365] Mattli and Büthe, *Setting International Standards*, 27

> For instance, a US multinational with a subsidiary in Germany could send its standards experts via its subsidiary on DIN (German Institute for Standardisation) technical committees and therefore also on CEN committees.[366]

However, despite these potential advantages, both regulators and manufacturers emphasise that the 'cost logic' is paramount. Manufacturers are eventually interested in regional and international standardisation (including vehicle-type approval and emission standards) because of its cost saving potential, though estimates widely vary about its magnitude. A report made for the European Commission estimated that non-tariff barriers (NTBs) in the automotive industry are equivalent to a rather high tariff of approximately 26 per cent.[367] In comparison, actual import tariffs on passenger cars are 10 per cent to the EU and 2.5 per cent to the US.[368] An example of the extent to which cost concerns matter in standardisation differences is that the US has a stricter standard about evaporative emissions which requires the fitting of a carbon canister in the vehicle to absorb these emissions. Vehicles exported from the EU to US comply with this regulation but in the EU market a 'dumbed-down' version is sold: "even if they keep the canister, it is filled with half as much carbon than those sold in the US" for cost reasons. (REGULATOR 1)

> A typical example is the emission standards, now it's Euro-6. In Russia, they only keep to Euro-4, so things are cheaper to manufacture. "Let them die!" – that's the motto. In the case of engines, yes, [it's profitable to dumb down if not required] because Euro-standards are very strict. The Euro-6 Diesel standards are very difficult to meet. It's not by accident that Volkswagen failed already at Euro-5. Russia and even Romania get different engines. The difference between Euro-4 and Euro-5 was huge. The running gear is a different case. When ABS wasn't so widespread, one had to order it as an extra; one couldn't take it out so you had to pay for it as an extra because it was much easier to manufacture all brakes with ABS. (MANUFACTURER 3)

[366] Mattli and Büthe, *Setting International Standards*, 27
[367] Kolev and Matthes, *The Transatlantic Trade and Investment Partnership*, 23
[368] Ibid., 21

The three most influential regulators in the world are: the US, the EU, and Japan. In the process of internationalising standards, the EU is considered to be the most active in seeking gains by actively shaping the international regulatory environment. The EU's hierarchical and well-developed standardisation structure is argued to provide a "much better" informational advantage and more effective interest representation to firms active in the EU, to be earlier and more effectively involved.[369]

> The companies always have an interest. For instance, we get a lot of questions when another country wants to implement a new rule: we get advance notice of this and under the rules of international trade we can pose objections or put comments, and usually we contact the automotive industry to get their opinion on it. Of course, in the end we have to follow our rules and whatever we think is appropriate. (REGULATOR 1)

This creates additional incentives for US and Asian manufacturers to be present in the EU market, and play an active role in the European industrial and lobby organisations.

> We [European Commission] are very good at the international level, at the UN, they tend to follow our rules. For instance, China usually follows EU regulations. [...] We create our regulations based on what our specific situations are, trying to take into account all the rest, but say China has much higher temperatures in general than Europe does, so they have to adapt some things like that and vice versa. We recently made a Global Technical Regulation where there is a certain range of temperatures and we applied corrections to bring it down to the European temperatures when we transpose it to European regulations. This means we don't have identical regulations but it's pretty easy for a manufacturer to apply a "regional correction" as we call them. (REGULATOR 1)

There is an important difference between equivalence of "regional corrections" and a mandatory switch to internationalised standards from the perspective of manufacturers. In the former case, manufacturers could opt for the cheaper option, as a form of regional arbitrage, whereas a "race to the top" in regulatory terms could make production more expensive initially. The EU's eagerness to internationalise its standards goes beyond technical

[369] Mattli and Büthe, *Setting International Standards*, 27

specifications (e.g. EURO-5 regulations) and it increasingly includes processes. Sometimes the debate in the UNECE, the institution where this takes place, is about a single word on how to approve, for instance, a particular engine type's documentation package.[370] This can create institutional complementarities that fit European manufacturers best.

> One of the reasons why the process of global technical regulations in UNECE is so gratingly slow is that everything is fought over and over by respective manufacturers and the governments they lobby work for them. So yes, I think it is used and can be used as a way of getting competitive advantage, though actually it's an advantage which is not competitive but contrived. (MANUFACTURER 2)

Regional regulations have played an important role in reducing regulatory fragmentation, and consequently adaptation costs at an earlier stage of integration. By now however they have become, to some extent, barriers that segment regional markets which block the development of a more globalised production, as the following example of Toyota in the EU and the US demonstrate:

> There are very silly things: the slight difference in the colour of the lights in the back. It's either red or a little bit orange, things like that. Or the rear view mirrors – does that make a big difference that you have to change and adapt and test them? So there are very small issues that can be considered as sufficiently equivalent that it's not going to be unsafe or that unsafe compared to the other regulations. [...] My ideal situation would be that the regulators from both sides recognise the equivalence of certain regulations and say "we are fine with that", at others we would have to stick to our rules and have adaptations with the possibility that later at other levels, say the WTO, we would have a unified standard; the same thing with Japan, the same thing with other regions. (MANUFACTURER 1)

The difficulty of putting a price tag on adjustment costs due to inter-regional differences is well illustrated by the case of the Yaris model of Toyota. Designed for and produced in the European Union, Toyota Motor Europe's factory in France took over the

[370] European Commission, "Proposal for a New Supplement to the 06 Series of Amendments to Regulation No. 49", United Nations Economic and Social Economic Council – Economic Commission for Europe, World Forum for Harmonization of Vehicle Regulations, Geneva: ECE/TRANS/WP.29/GRPE/2016/8

production of its US-adjusted version from Japan and exports it to the US, as well as to 17 other non-EU countries from, Nord – Pas-de-Calais. Around 500 parts out of approximately 30,000 have to be modified compared to the EU version for exporting to the US, from small screws to the bumper. This is seemingly a tiny proportion of the whole but adjustment comes at a cost of up to €500 per vehicle not counting the work of engineers, vehicle approval, crash testing, and overhead costs, etc. Moreover, once Toyota sells the car in the US, it also has to ensure that there is continuous supply of spare parts which creates additional logistical costs and problems for selling a "very small volume" of around 20,000 Yaris per year there. Consequently, few manufacturers sell models from other regions overseas: "of course, if there are Americans who want to drive a Porsche, it will be adapted to the regulations, safety, etc of the US but we are not talking high volumes". (MANUFACTURER 1)

6.2.2 Vehicle-type Approval

Vehicle-type approval is a process under which production samples of new models must be approved by national government authorities whether they comply with safety regulations prior to the vehicle entering the market.[371] The EU approves whole vehicles not just parts, and this approval can take place in any EU country which is signatory to the 1958 UNECE Agreement. (The initial signatories were Italy, Netherlands, Germany, France, Hungary, Sweden and Belgium only. Today all EU members are.) Member states can choose which UNECE standard they incorporate into their national legislation but as all EU states must enforce all EU standards (often transposed UNECE standards), regional harmonisation is thus assured for manufacturers. They may choose the member state for conducting the

[371] Canis and Lattanzio, *U.S. and EU Motor Vehicle Standards*, 10

procedure where a government agency or a pre-approved privately-owned test house will do the testing for them. However, Hungary for instance, insists on registering approval documents issued in other European countries for a fee at its National Transport Authority (NKH):

> One such document contains 4-8 thousand data items and NKH checks if the same data appears in the original and what we submitted. Tires are coded differently in Hungary than in France so it has to be changed. For example, the electromagnetic wave resistance of electrical equipments have changed a lot in recent years and when such standards expire, new ones have to replace them in the system. If Renault or Volkswagen forgets to change a single number among the four thousand on 60 pages then NKH rejects it, even if it doesn't change a thing in the car. Luckily, we no longer have to re-test the brakes and so on like before but apart from the European Homologation Certificate one has to be in possession of a Hungarian license, too, costing around 600 euros. The problem is that sometimes even HQ forgets to change the specification numbers in the approval documents but the Hungarian authority knows that there were changes, so they notice it [that we have the old numbers], and so when we bring in the new model, they don't let us put it into circulation because 'X' should now be 'Y' in the homologation document. (MANUFACTURER 3)

The whole vehicle-type approval process exists in the EU since the 1970s. In 2007, an important revision was passed, the European Parliament and the Council passed a Framework Directive: the compulsory approval system was extended to all motor vehicles, systems, components and separate technical units, and replaced national approval procedures.[372] Eventually, despite its shortcomings, manufacturers attribute great importance to regional regulations, including vehicle-type approval, as a means to save on production costs by reducing regulatory fragmentation, eliminating intra-regional NTBs, levelling the playing field for newcomers, and allowing economies of scale. (MANUFACTURER 3) A well-structured regulatory process also provides them with informational advantages and a voice in regional, as well as international regulations setting.

[372] (Framework) Directive 2007/46/EC of the European Parliament and of the Council of 5 September 2007, "Establishing a Framework for the Approval of Motor Vehicles and Their Trailers, and of Systems, Components and Separate Technical Units Intended for Such Vehicles", *Official Journal of the European Union*, (Brussels: 9 October 2007, L263/1), http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32007L0046&from=EN Accessed: 27 March 2016

6.2.3 Emission Standards

While European countries like to think of themselves as being at the forefront of fighting climate change, the EU only introduced mandatory emissions standards in 1987 as part of the harmonisation process ahead of EC-1992, and its standards were less strict than those of the US.[373] There were emission level caps in force from 1970 but member states could allow vehicles with worse emission levels into circulation at their own discretion.[374] While the low-level rules suited manufacturers, once standards were regionalised it was only a matter of time before emission levels were made more stringent.[375] This set the scene for the following two decades, characterised by the regulator continuously setting stricter levels while manufacturers pointed to costs, technical difficulties and international competition as they tried to negotiate new deadlines.

Emission standards are known as the 'Euro' standards: started as 'Euro-1', the current set of levels are referred to as 'Euro-6' standards and cover CO, NO_x, PM, and HC emissions. Greenhouse gas emissions (GHGs) were first set in 1998/1999 through a voluntary agreement between the Commission and the industry, in which manufacturers agreed to reduce CO_2 emission to a fleet-average of 140g/km by 2008/2009. In the initial years, significant reductions were achieved but by 2008 none of the manufacturers managed to achieve the target: DaimlerChrysler (188g), BMW (184g), and Nissan (168g) were the worst offenders while Toyota (153g), Renault (148g), and Fiat (144g) were the best performers in that year.[376]

[373] Directive 88/76/EEC on the Approximation of Laws of the Member States Relating to Measures to be Taken Against Air Pollutin by Gases from the Engines of Motor Vehicles, 3 December 1987, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31988L0076:EN:HTML Accessed: 28 March 2016
[374] Directive 70/220/EEC on the Approximation of the Laws of the Member States Relating to Measures to be Taken Against Air Pollution by Gases from Positive-ignition Engines of Motor Vehicles, 20 March 1970, http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:31970L0220 Accessed: 28 March 2016
[375] Stephen, *Vehicle of Influence*, 85
[376] Daniel Izsak, "Nagyobb a füstje", *Figyelő*, (Budapest: Vol. 52, No. 7, 14-20 February 2008), 56-57 [In Hungarian]

The main concern for manufacturers, again, was cost (including the looming penalties for failing to meet the target) and to a lesser extent the constraints of their production cycle, as was voiced by Spokesman for the European Automobile Manufacturers' Association (ACEA), Sigrid de Vries at the time:

> It's not a shoe factory we are talking about, to change models in weeks! Manufacturers work in long cycles, seven years on average to make returns. They are in favour of reducing CO_2 emissions but within a reasonable timeframe. Political choices have an economic cost and [in this case] it could be too much.[377]

While the regional, voluntary standard was uniform for all manufacturers, and calculated for the whole fleet to allow for the obvious differences between smaller and bigger vehicles, French and Italian manufacturers (Peugeot, Renault, Citroen and Fiat) typically competing with smaller cars (partly stemming from the customer tastes on their national home markets), were less concerned. German OEMs whose main customer market, Germany, still favoured more powerful and faster vehicles were lobbying against a 'straightjacket' approach. German home-region firms, taking advantage of their historic embeddedness in their original, national market, lobbied to Chancellor Angela Merkel and another influential German, the then European Commissioner for Enterprise and Industry, Günther Verheugen for an extension of the deadline.

> These measures [fast changes and penalties for missing the targets] would increase costs so much that production would possibly have to be moved outside of Europe. In this process, plants in East Central Europe would perhaps not be the first victims but the threat is obvious.[378]

[377] Daniel Izsak, "Interview with Sigrid de Vries (ACEA)", *Figyelő,* Unpublished excerpt. (Sigrid de Vries, Personal Communication, February 2008)
[378] Verheugen in: Izsak, *Nagyobb a füstje*, 56

The unveiled threat of relocation, in the midst of the unfolding credit crunch, was directed at the European Commission and the German government but both were aware that moving manufacturing plants is a long, complicated, and even more costly process. Nevertheless, ACEA lobbied successfully in the European Parliament which passed a resolution calling on the member states and the Commission to support the industry in these "extraordinary circumstances".[379] The Commission was split between those who wanted stricter limits and those who were more understanding with the industry, including Verheugen. In the end, a mandatory CO_2 emission reduction programme was adopted in 2009: 130g/km by 2015 and a long-term target of 95g/km by 2020 which also forced the industry to spend more on the research and development of cleaner technologies.[380]

Thus, as the introduction of mandatory emission standards demonstrate, uniform legislation may create asymmetric adjustment pressures on different types of firms. In this particular case, the conflict was tacitly linked to the nationality of manufacturers which, to some extent, shows the limits of regionalism: differences in car sizes corresponded to inherited customer tastes on the primary national markets of German firms, on the one hand, and French and Italian firms, on the other. However, for political reasons a 'one-size-fits-all' approach had to be applied regionally lest the rules would be perceived as favouring firms of one country over the others. There was also a difference between firms based on regionalisation types: affected home-region firms instinctively asked for political support from the influential government of their home country and a commissioner, whose nationality coincided with the home country of the manufacturers (even though commissioners must not represent their country of origin in theory). In a similar situation, a clean-slate entry

[379] ACEA Press Release, "European Parliament Boosts Support for the Automobile Industry in Europe", *EurActive*, 26 March 2009, http://pr.euractiv.com/pr/european-parliament-boosts-support-automobile-industry-europe-88802 Accessed: 28 March 2016

[380] Regulation (EC) 443/2009 of the European Parliament and of the Council, "Setting Emission Performance Standards for New Passenger Cars as Part of the Community's Integrated Approach to Reduce CO_2 Emissions from Light-duty Vehicles", *Official Journal of the European Union*, (L140/1, 23 April 2009), http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32009R0443&from=EN Accessed: 28 March 2016

regionaliser like Kia, for instance, could only rely on either ACEA, or its host country representative, the Slovak government for political support.

In this section, it was argued that, over the years, the EU has become a quasi-federal regulator in the field of car manufacturing standards; regionalism had a relatively *strong* impact on regionalisation in the EU. The important shift to positive integration came in the 1980s with the Single Market's crucial legislative harmonisation programme. It was argued that positive integration was a logical but not an inevitable choice to dismantle NTBs, which had blocked scale-building and the development of a regional market. Harmonisation challenged home-region firms more as it reduced their chances to lobby for direct political favouritism at their national regulators. However, uniform regulations made their transformation into truly regional companies possible at a lower cost, while it ensured for both manufacturers and consumers that there was no race to the bottom in terms of quality. For foreign firms, which regionalised their operations in the EU much before home-region firms, the switching costs were lower; partly it was their competitiveness *vis-à-vis* home-region firms which acted as a catalyst to the Single Market programme.

It is a testimony to the impact of advanced regionalism in the EU that interviewees almost instinctively compared the EU to the US, even when the questions were specifically about NAFTA as a whole. This is also very telling about power relations inside NAFTA which is dominated by the US with its market size, customer taste, as well as a rule maker. However, manufacturers always emphasised the importance of customer demand and customer tastes when being asked about standards. They thought that these differences would remain regardless of how advanced regional or global regulatory harmonisation takes place. In other words, the EU successfully reduced regulatory fragmentation, eliminated non-tariff barriers, and created a regional space but remaining national rules, (e.g. left-hand driving), or customer taste differences make adjustment variations complicated.

6.3 Regionalisation of Standards in NAFTA

NAFTA is an entirely different landscape from the EU in terms of standardisation. The dominant United States, the other major regulator internationally, did not commit itself to regional constraints; its reluctance to join global harmonisation efforts by UNECE was motivated by similar reasons as in the case of NAFTA: it would have to apply standards which were not set in the US. Section 1 of Article 904 of the NAFTA agreement basically enshrines the supremacy of national standards and approval:

> Each Party may, in accordance with this Agreement, adopt, maintain or apply any standards-related measure, including any such measure relating to safety, the protection of human, animal or plant life or health, the environment or consumers, and any measure to ensure its enforcement or implementation. Such measures include those to prohibit the importation of a good of another Party or the provision of a service by a service provider of another Party that fails to comply with the applicable requirements of those measures or to complete the Party's approval procedures.[381]

Moreover, each country can "establish the levels of protection that it considers appropriate".[382] At the same time, however, in "standard-related measures" countries accord each other "national treatment" in market access and cross-border trade in services as well as "treatment no less favourable than it accords" to any other country.[383] This is a classic approach for free trade agreements, very similar to what Margaret Thatcher alluded to in her debate with Jacques Delors over regulatory harmonisation in the Single Market (see Section 6.2). Article 906 of the NAFTA agreement however posits that "the Parties shall, to the greatest extent practicable, make compatible their respective standards-related measures, so as

[381] North American Free Trade Agreement, Article 904: Basic Rights and Obligations, https://www.nafta-sec-alena.org/Home/Legal-Texts/North-American-Free-Trade-Agreement?mvid=1&secid=26e51195-68cc-4fd3-9b34-23fa182ca87b, Accessed: 28 March 2016
[382] Ibid.
[383] Ibid.

to facilitate trade in a good or service between the Parties".[384] When there were changes, it always meant an adjustment to the highest existing industrial standard which was always US or Canadian.[385]

In NAFTA, Mexico, and to a lesser extent Canada are thus rule-takers of US standards. Aspinwall recalls that while the US House of Representatives declared US federal law superior to the NAFTA agreement (NAFTA is superior to state and local law though), the auto sector was one of the main exceptions in the sense that all three member states adopted uniform legislation regarding the interpretation, application and administration of the rules of origin.[386] This consequently had a significant impact on manufacturing: low-wage, low-cost Mexico had to phase out its 'auto decrees' which restricted imports, foreign ownership and set local content requirements, which in turn had an impact on the other two countries. However, standards and approval process harmonisation have not taken place.

6.3.1 Standardising Safety

In NAFTA, there are no regional-level safety standards or approval processes; national-level legislations exist with mutual acceptance of each other's certificates in some instances. Reflecting the asymmetric power relations of the three countries, it is usually US standards which are adopted by the other two.

[384] NAFTA, Article 906: Compatibility and Equivalence, https://www.nafta-sec-alena.org/Home/Legal-Texts/North-American-Free-Trade-Agreement?mvid=1&secid=26e51195-68cc-4fd3-9b34-23fa182ca87b, Accessed: 28 March 2016
[385] Inc. Magazine, "North American Free Trade Agreement", *Inc.com*, http://www.inc.com/encyclopedia/north-american-free-trade-agreement-nafta.html Accessed: 28 March 2016
[386] Aspinwall, *NAFTA-ization*, 8

> The US and Canada are closely aligned and have been very closely aligned for safety standards. There are minor differences; the Canadians have requirements for daytime running lights [for instance], or speedometers to be in kilometre per hours. These two major ones come to mind but when it comes to basic safety features, differences are minor. And there are discussions between our two regulators to further harmonise. Some of these differences are simply down to differences in driving conditions (weather, distance of driving, etc.). [Mexico's] requirements are old versions of US and EU regulatory requirements, so pretty much any new vehicle that was made in the EU, Canada, or the US can be sold on the Mexican market. It's a pretty flexible approach. (REGULATOR 3)

This asymmetry also stems from proximity reasons: in fact, there is significantly less economic interaction between Mexico and Canada than between either of them and the United States, which also happens to be the most prized market of the three. For instance, to import passenger cars to the US, the cars in most cases have to be designated US versions to be allowed in the country; Canada gives easier access to US cars; Mexico has to accept pretty much anything from the other two.

Safety standards in the US are set by the National Highway Traffic Safety Administration (NHTSA) since 1970 but unlike European national or regional authorities, the US takes a libertarian approach: NHTSA does not approve vehicles or parts, nor does it collect information about compliance by manufacturers. Certification has to be done by the manufacturers or distributors themselves and permanently fix a tag to the vehicle, attesting this.[387] NHTSA only does random control tests on vehicles they buy directly from car dealers and, thus, *ex-post* liability for non-compliance or in case of recalls rests with the manufacturer.

NHTSA also maintains a wide-ranging database on accidents to which every car manufacturer has to report to, and this provides the basis for new standards, if need be. This very detailed database, which goes back decades, is then one of the main sources of how problems are identified and how standards are being drafted:

[387] Canis and Lattanzio, *U.S. and EU Motor Vehicle Standards*, 8

> It can come from the public. For instance, we had a Congressman drafting legislation that required NHTSA to come up with a solution to back-overs [being run over by a car unseen], which don't happen that much in Europe but in the US this happens hundreds of times a year. But NHTSA can also identify problems from its datasets, unlike the EU NHTSA is very data driven, so they can see increases like rollovers. The cost of these accidents increases to a point when it needs to be addressed. Alternatively, car manufacturers can have new technologies that they can petition to have that included as a new regulatory approach. (REGULATOR 3)

Some of these safety standards reflect regional peculiarities that are unlikely to change even if the US commits itself to more internationalisation or regionalisation of standard setting:

> There are of course other things: the bumper, for instance. There are some crash tests data that are really interesting: in the US you have crossings with traffic lights and if people drive through them because they don't work or something, it's mostly high speed in the countryside. They drive straight and they have cruise control on or whatever, so when they have accidents they have rollovers, many. It's something that very seldom happens in Europe. This means that in the US, the roof has to be made safer in case there is a rollover. So this is, for example, a change we have to do because of accident specifications. (MANUFACTURER 1)

A US-Canada bilateral initiative, launched in 2011, seeks to harmonise certain safety standards through the US-Canada Regulatory Cooperation Council, which aims at "deepening regulatory cooperation to enhance economic competitiveness, while maintaining high standards".[388] In March 2015, the Motor Vehicle Safety group of Transport Canada and the NHTSA agreed on a timetable for greater harmonisation of standards and to initiate new legislation in both countries in varied topics, including controls and displays, side impact protection, brakes, etc.[389]

[388] US Department of Commerce, US-Canada Regulatory Cooperation Council, http://www.trade.gov/rcc/ Accessed: 29 March 2016
[389] US Department of Commerce, RCC Motor Vehicles Working Group: Existing and New Motor Vehicle Safety Standards Work Plan, http://www.trade.gov/rcc/documents/f2-tc-dot-wp-motor-vehicle-std.pdf, Accessed: 29 March 2016

Mexico, however, is a case apart. It has lower levels of safety standards than the other two countries. In 2011, for instance, a Deputy of the Mexican Congress urged a regulatory reform to require motor vehicles to be equipped with safety elements before they leave the manufacturing plants.[390] Mexico's case illustrates that the lack of regional standards may, at times, be less costly for manufacturers. Mexican plants often produce more versions of the same models: those destined for the US or the EU markets have to be fitted with expensive safety features while those destined for Mexico can be sold without, for instance, antilock braking systems (ABS), electronic stability control (ESC), or airbags, while their price remains nearly the same.

> They do make vehicles which are sold in the US, Canada, and the EU. Basically, they manufacture vehicles to the newest requirements. While you don't legally have to meet those requirements to sell on the Mexican market because what's on the books is fairly old, they are sort of benefiting from the fact that the EU, the US, and Canada are advancing their regulatory requirements. (REGULATOR 3)

In fact, manufacturers are increasingly setting up factories in Mexico not only to supply NAFTA but to sell worldwide, as Mexico has significantly more free trade agreements with third countries than the US. Audi's first North American plant in San Jose Chiapa, Mexico, for instance, started production of their Q5 SUV model in 2016.[391] Had the plant been set up in the US, exports to the EU would face a 10 per cent import tariff, while Mexico has an FTA with the EU. Exporting back to its home market, Audi will have to produce an EU-version of Q5, as well as a US-version, which means that in the absence of more

[390] The New Car Assessment Programme for Latin America and the Caribbean, "Mexico Proposes a Reform on Safety Regulations for Vehicles", *LatinNCAP.com*, (11 September 2011), http://www.latinncap.com/en/news/84eba7bdb0526b/mexico-proposes-a-reform-on-safety-regulations-for-vehicles Accessed: 29 March 2016

[391] Audi, "Audi Plant in Mexico Closes in on 2016 Start of Production", *AudiUSA.com*, https://www.audiusa.com/newsroom/news/company-articles/2015/06/audi-plant-in-mexico-closes-in-on-2016-start-of-production Accessed: 29 March 2016

internationalised regulations, standards 'travel'. Adjustment costs notwithstanding, production can still be profitable this way, especially in the case of more expensive car models.

6.3.2 Vehicle-type Approval

Both Canada and the US require self-certification (i.e. no official process of pre-approval as in the EU). Cars in the US must meet „safety standards under the Motor Vehicle Safety Act of 1966, revised under the Imported Vehicle Safety Compliance Act of 1988; to bumper standards under the Motor Vehicle Information and Cost Savings Act of 1972, which became effective in 1978; and to air pollution control standards under the Clean Air Act of 1968, as amended in 1977, and 1990".[392] Vehicles which do not conform to US safety standards must be converted, or exported, or even destroyed. Self-certification, at first sight, seems less onerous a requirement than the EU's bureaucratic approval process. However, failing is relatively easy, and penalties are high as Volkswagen's 'Diesel-gate' demonstrated. The company claimed that it had met requirements but *ex-post* checks unveiled that its diesel engines activate emission controls during laboratory testing which is different from how it pollutes during normal driving.

Firms do not have to be caught in wrongdoing to consider the risks attached to self-certification, and the attached threat of penalties in countries of highly litigious culture (e.g. US, and Canada to some extent). Consequently, quality and 'getting things right' becomes paramount, if a firm wants to avoid costly lawsuits whether by the authorities or disgruntled

[392] US Customs and Border Protection, "Importing a Motor Vehicle", http://www.cbp.gov/trade/basic-import-export/importing-car Accessed: 28 March 2016

consumers. This pushes up costs inadvertently; Toyota, for instance, employs hundreds of Japanese engineers in its regional headquarters for quality control to avoid "causing trouble":

> Toyota is the worst customer with respect to quality, meaning that engineers are constantly at the suppliers' facilities to check every single detail of the part and they will check it twice, three times, ten times. It's not a question of trust but making sure that everything is [OK] because they are afraid and I think, it's probably a legitimate issue. They are afraid that because they are Japanese they could be hurt more if something goes wrong, especially in the US. In the US, you have class actions, you have huge risks from legal damages – so they are very cautious because of that. (MANUFACTURER 1)

One of the reasons why Renault decided not to return to the US and Canadian markets (other than with Nissan) is precisely the legal costs and the dangers of being sued for damages. (MANUFACTURER 3) Adjustment to local standards for mass-producers already creates high barriers of entry because they cannot pass on the costs to the customers as easily as a high-end/luxury car maker; not being cleared *ex-ante* by a regional authority means that *ex-post* penalties and lawsuits hang over their head as the sword of Damocles. In this sense, the EU's vehicle-type approval does not only reduce market fragmentation and eliminate NTBs but lowers barriers to entry for newcomers.

6.3.3 Emission Standards

A regionalised, NAFTA legislation is also absent in the domain of emission standards; the US sets the scene. In the US, unlike safety standards which are self-certified by manufacturers, emission standards are controlled and approved by a government agency, EPA, in a similar way as in the EU.[393] The regulatory pattern in the US is quite peculiar: in 1959, the State of California became the first US state to introduce emission controls for cars and the federal government followed it a year later in order to avoid regulatory fragmentation for the industry. Ever since, California continues to be particularly influential in shaping national legislation and regulation. Despite the absence of regional standards harmonisation, US and Canadian emission standards for new light-duty vehicles are aligned for both smog-forming emissions (this would roughly correspond to the 'Euro' emission standards) and greenhouse gas emissions. Harmonisation takes place in the bilateral and intergovernmental Air Quality Committee under the US-Canada Air Quality Agreement. The US Environmental Protection Agency (EPA) and Environment Canada regularly (at least annually) meet stakeholders who include importers and manufacturers in both countries.[394]

> In the US, we have an extremely open regulatory process; all proposals are open for comments, so the EPA, for instance, puts out a federal registry notice, creates an online docket and requests public comments. So they get comments from the industry, or the private and public sectors more broadly. They review those comments, and any changes they make because of the comments, or even if they don't make changes, they have got to explain. So they will have an explanation in their response to all comments they receive. And if the proposal changes considerably, they have to restart the consultation. This process, in fact, has been one of the biggest stumbling blocks to international harmonisation because when we have discussions under the 1998 UNECE Agreement the federal government has to come back and then publish that for public consultation again, and then adjust following the comments, and then return to UNECE and get it approved. (REGULATOR 3)

As emission standards are aligned in the US and Canada, Canadian 'US version vehicles' special import treatment in the US, in terms of emission approval: „if the Canadian vehicle is identical in all material respects to a U.S. version vehicle as identified in the OEM's EPA certification application, it may be imported by anyone. No Customs bond or approval is

[393] US Environmental Protection Agency, Procedures for Importing Vehicles and Engines into the United States, https://www.epa.gov/importing-vehicles-and-engines
[394] US Department of Commerce, RCC Environment Working Group: Light-Duty Vehicle Emission Work Plan, http://www.trade.gov/rcc/documents/Light-Duty-Vehicle-Emissions.pdf, Accessed: 29 March 2016

required by EPA in these cases" but a bureaucratic process nevertheless remains.[395] Canada also requires inspection and certification but has a pre-approved list of passenger car brands that can, at all, be imported from the United States.[396]

Mexico is clearly a rule-taker in emission standards: it requires compliance with either US or EU emission standards which are adopted as Mexican standards, or *Norma Oficial Mexicana* (NOM). In 2013, Mexico adopted EPA's CO_2 emission and fuel economy regulations for light duty vehicles (including passenger cars), for model year 2012-2016.[397] Mexico is also required by the NAFTA agreement to allow the import of any second-hand vehicles from the US and Canada from 1 January 2019.[398] NAFTA cars brought in at the US-Mexico border, and produced in NAFTA, are also eligible for a Permanent Import Permit, and import tariffs decrease with the age of the vehicle.[399]

However, manufacturers which are present in NAFTA, already navigating between US, Canadian and Mexican norms, are often also the same firms which are part of the standardisation process in the EU and Asia through local subsidiaries. This raises the question: who standardisation differences actually serve in the end, apart from being used as "a last line of defence, as it were, against competitive pressures" in international competition. (MANUFACTURER 2) (More on international regulatory competition in Chapter 7) For example, Ford produces ECOnetic, a high-efficiency diesel engine, in the UK which it cannot

[395] US Environmental Protection Agency, Procedures for Importing Vehicles and Engines into the United States, Office of Transportation and Air Quality, EPA-420-B-10-027, 2.1.2.1 Canadian Vehicles Identical to U.S. Version Vehicles, 16
[396] Government of Canada, "Importing Vehicles Purchased in the United States", Transport Canada http://www.tc.gc.ca/eng/motorvehiclesafety/safevehicles-importation-usa-index-445.htm and http://www.tc.gc.ca/motorvehiclesafety/safevehicles/importation/usa/vafus/list2/Section3_0.htm Accessed: 24 March 2016
[397] Emission Standards Mexico, *DieselNet*, https://www.dieselnet.com/standards/mx/, Accessed: 29 March 2016
[398] NAFTA, Annex 300-A Trade and Investment in the Automotive Sector, Appendix 300-A.2: Mexico, Auto Decree and Auto Decree Implementing Regulations, Article 24 (a)-(f), *NAFTA Secretariat*, https://www.nafta-sec-alena.org/Home/Legal-Texts/North-American-Free-Trade-Agreement?mvid=1&secid=26e51195-68cc-4fd3-9b34-23fa182ca87b Accessed: 24 March 2016
[399] Resolucion que Establece el Mecanismo para Garantizar el Pago de Contribuciones en Mercancías Sujetas a Precios Estimados por la SHCP, http://www.aduanas-mexico.com.mx/claa/ctar/leyes/mec_precios_estimados.html#ane2 Accessed : 24 March 2016, [In Spanish]

sell in NAFTA because of US and Canadian emission standards, even if it would allow Ford to compete with Toyota and Honda on its home market. The company considered expanding its Mexican engine plant to produce a "regionally corrected" version of the engine for NAFTA but expected consumer demand was deemed insufficient to offset the $350 million investment which would have been required.[400] Regulations and consumer taste make diesel, even its clean variety, unpopular in North America where hybrid technology is favoured, confirming the argument that particular historical institutional legacies of national standardisation systems play a critical though largely accidental role in placing domestic firms in a first- or second-mover position.[401]

In this section, it was argued that NAFTA lacks regionalised regulations or harmonisation of safety and emission standards and approval processes. Thus, regionalism's impact is *weak* on regionalisation. That regionalism's impact is weak is in line with expectations: first, NAFTA is a free trade area which rarely comes with intrusive regional regulations; second, the dominance of the US in terms of its economic and absolute power, market size, and the influence of its customer taste never made it necessary for it to commit to further integration, lock-in institutions, or to become a regional paymaster. The NAFTA agreement even confirms that each country can set the levels of standards as it sees fit. When there has been harmonisation or adjustment of standards, it was mostly to the highest existing ones but these were done either bilaterally (e.g. US-Canada) or voluntarily, confirming that in NAFTA the US is (or was) the rule-maker while the other two countries are rule-takers.

However, it is precisely the market dominance of the US which substituted positive integration measures and allowed the emergence of a rudimentary regional regulatory space.

[400] David Kiley, "The 65 mpg Ford the U.S. Can't Have", *Bloomberg Businessweek*, (4 September 2008), http://www.bloomberg.com/news/articles/2008-09-03/the-65-mpg-ford-the-u-dot-s-dot-cant-have Accessed: 26 March 2016

[401] Mattli and Büthe, *Setting International Standards*, 4

The process could be compared to negative integration, although the process was not linked to regional integration in a formal sense. Manufacturers still have to adjust to several regulatory frameworks but this seems to be less of a problem in intra-regional terms than between the US and the EU. After all, for manufacturers, the US in itself is comparable in market importance to the whole of the EU, thus adjustments are built-in costs. Mexico's lower standard requirements make production less costly; Canada's standards are similar to those of the US and anyway, the country's market size is marginal compared to that of the US.

Nevertheless, US, and US-adjusted Canadian standards were found to have a squeeze out effect for new market entrants: strict rules which are barely internationalised and are different from European, or Japanese standards significantly increase the cost of market entry, and consequently reduce the choice for customers. Renault, Peugeot, and other European brands are not available in the US and Canada because adjustment costs are too high compared to the potential gains. These European brands however are sold in Mexico, which demands less in terms of standards, or its adjusted requirements befit European manufacturers better. In this sense, regionalism or the lack thereof in the field of safety and emission standards have contributed to some degree of market divergence inside NAFTA.

6.4 Conclusions

In this chapter, the impact of regional standard setting and harmonisation, including the examples of safety standards, vehicle type approval, and emission standards, on car manufacturers was explored in the EU and NAFTA. It was argued that the impact of regionalism on the (technical) regionalisation of the product was relatively *strong* in the EU, and relatively *weak* in NAFTA, in accordance with theoretical expectations. The type and intensity of integration was found to be of *primary* importance in both regions, consequently, the outcomes were *different*. However, it was also argued that some degree of regionalisation has also taken place in NAFTA, caused by non-regionalism related factors as standards in Canada and Mexico have converged voluntarily towards the US ones. The chapter considered 'technical' regionalisation of the product conceptually separate to be able to examine regionalism's impact in a domain where positive integration is salient; standards were also argued to be more linked to the engineering and manufacturing aspects of production, while design, etc. to sales and marketing.

In the EU, the Single European Act of 1986 introduced positive integration measures and gradually created a regional regulatory framework which has, by now, largely replaced competing national ones. The move to positive integration was logical but not inevitable, after all regional rules, standards represent some of the most intrusive aspect of regionalism. Political entrepreneurship by the Commission, supported by newcomer firms and a drive to limit 'savage capitalism', fought off an equally colourful coalition of protected national champions and free-market advocating governments, opposed to 'increased bureaucracy'. Regionalised standards eventually challenged the entrenched position of home-region firms in their national markets as newcomers had lower adaptation costs. Nevertheless, the chance to build scale at lower costs increased their regional and global competitiveness on a previously fragmented and still very competitive market.

In NAFTA, the US has not ceded its prerogatives to regional standards harmonisation because it did not have to: its market size and power assures its dominance not just within NAFTA; it is one of the three major standard setters in the industry. However, it is precisely the dominance of the US that has led to the emergence of a rudimentary 'regional system' in which the other two NAFTA countries adjust to US regulations to some extent. Canada is aligning its safety and emission standards, and approval processes to those of the US but the two countries, despite formal bilateral harmonisation processes, remain two, relatively distinct markets in regulatory terms. Manufacturers in Mexico, an important production base in NAFTA, often produce US- and Mexico-versions of the same models. Mexico's less stringent regulations make market entry less costly for importers, who otherwise would not be present on the North American markets.

The adjustment to US regulations in the absence of a formal regional process raises questions about the role of structure in the development and advancement of regionalisms. Even if NAFTA introduced regional standards, the best regionalism could offer to firms would be if US standards became the norm in all three states, simply because of the importance and dominance of the US market. In the EU, positive integration and complex institutions were needed to address a fragmented market of multiple, competing regulatory regimes. This suggests that there might be an optimal regionalism response to the needs of integrating markets as a means of redressing structural disadvantages, even if states choose different paths in the end. NAFTA's case also raises the theoretical question: why firms, winners of regionalism which (could) benefit from regional regulations the most, do not advocate a regional but a global approach. Could this be a consequence of 'porous regionalisation'? The very firms which could and 'supposed to' demand more regional integration have an increasing stake in keeping their operations globally flexible, and thus keeping regional borders porous in regulatory terms.

CHAPTER 7 – BEYOND REGIONALISATION: A 'STEPPING STONE' OR A 'STUMBLING BLOCK' TO GLOBALISATION?

7.1 Introduction

Based on previous chapters, it may appear that the car industry functions in a regionally compartmentalised way, at best. After all, technical regulations and standards are predominantly regional in the EU, or exported by the US to the rest in NAFTA *in lieu* of regional ones (Chapter 6). Demand is strongly connected to national-level developments of the industry in the EU, which is still treated as a "collection of markets" by manufacturers; in NAFTA, demand can be considered regionalised to a large extent because in the absence of domestic rivals, car industry regionalisation initially took place mainly as the expansion of the US economic space (Chapter 5). Finally, the dispersion of production plants from their original home countries has followed a regional logic (Chapter 4). Thus, regionalism has influenced these aspects of regionalisation to a varying degree by creating pressures and incentives through its institutions and rules (positive integration), or the removal thereof (negative integration), and through ideational factors. Different aspects of firm activities are impacted by regionalism differently, different firms react to regionalism differently, and the varied intensity of regionalism is not necessarily accompanied by similar intensity of regionalisation.

The varied response to regionalism and the apparent disconnect between the type of regionalism and the intensity of regionalisation raise the question however whether the subject of our study, regionalisation, is indeed a regionally endogenous phenomenon. Alternatively, the role of the region could be reified and what we are witnessing is actually increasingly globalisation in a regional disguise. Therefore the question this chapter is focusing on is whether regionalisation(s) in the car industry is becoming more global or at least inter-regional in character, and what incentivising and limiting roles global governance (negative and positive integration measures) and non-governance factors (industry-specific, structural factors) play, if at all, in the process.

Two meanings of globalisation will be considered to examine this question in a complex way: first, globalisation as the transnationalisation of markets (i.e. 'more transactions'), and second, globalisation as organisational level of production (i.e. a transformative change). In the first instance, it will be examined whether we can observe more extra-regional transactions and whether firms are truly becoming global and less region-dependent in being able to generate revenues from sales. Beyond transactions, it will also be considered whether the organisation of manufacturing is becoming more global or more 'inter-regional' as seen in other industries. Locational decisions, the designing of global platforms, and 'global cars', suggesting more globalisation will also be considered. Factors which act against globalisation will also be discussed.

It will be argued that regionalisation is indeed a separate phenomenon however it increasingly has global characteristics. As a consequence, some aspects of car manufacturers' activities become more global, some are regional, and some may stay firmly embedded in a national context. This is nevertheless a dynamic categorisation: regionalism and non-regionalism related factors of varying force shift certain aspects of car manufacturing from one category to another. For instance, technical regulations in the car industry involve the diverging interests of firms as well as national, regional, and global institutions, which are influenced by ideational factors (what should be regulated and how; what a car is and what it should do, and what it should look like), and all of this is constrained by crude structural factors (geography, climate, etc. of the place where the car is used and manufactured) (see

Chapter 6). Different firms may also choose different strategies in light of their national, regional or global exposure, even if there is no car manufacturer these days which would not consider itself a 'global company', regardless of whether this is indeed the case or they may only be paying "lip service to global managerial credos". (INDUSTRY ANALYST 1; INDUSTRY ORGANISATION 1)

Thus, it will be argued that negative (e.g. tariff reduction) and positive integration (e.g. standardisation) measures at the global-level impact the process, leading to both 'more transaction' and 'transformative' globalisation, these effects are clearly feeble in comparison with regional ones. It will also be contended that while regionalisation may well be a stepping stone to globalisation, institutional and structural constraints suggest that, at present, it is at best 'concurrent regionalisations' in the car industry: one in which firms need regionally disparate successes to achieve global success. This is similar to the 'multi-domestic' approach of firms at the dawn of regionalisation, discussed in previous chapters. This chapter is organised in the following way: first, I will first briefly consider the mechanisms through which global governance could exert its influence, the impact this may have on globalisation outcomes, and chapter-specific data and research design. Then a thick description of globalisation outcomes will follow.

7.1.1 The Impact of Global Governance-Related Measures

Similarly to regionalism, global governance-related measures or 'globalism' can exert its influence through negative and positive integration measures. Regarding **negative integration** measures, there have been important tariff reductions under GATT and later the WTO but there is no unified, global tariff regime for cars and car parts (or other goods) let alone the entire removal of them as of yet. There are WTO regulations for NTBs, including import licensing, rules for valuation of goods at customs, pre-shipment inspections, and rules of origin, etc. However, these are far from being conducive to the 'care-free' global organisation of value chains between countries only covered by WTO rules. Nevertheless, 'inter-regional' FTAs (e.g. between the EU and Mexico, and CETA) increasingly function as replacements for an effectively functioning global regime. Car manufacturers, which are both reliant on and beneficiaries of such agreements, advocate such FTAs as vital tools for their global operations (e.g. EU-Japan FTA).

Positive integration measures are varied; these include basic road safety UN conventions, and international standards whose main goal is to increase safety, and conscious attempts at reducing non-tariff barriers to trade, such as UNECE's Global Technical Regulations. These include various technical aspects of vehicles, car parts, and evaporative emissions. Theoretically, positive integration measures could be neglected in a NAFTA-type global integration process where these regulations are largely substituted by adherence to the rules of a dominant regulator (the US); a relatively 'shallow integration' can function well from the point of you of firms. Integration in this context, of course, only refers to the linking of some aspects of cross-border economic activity; otherwise the process is similar to regional-level market integration. Based on the experience of an EU-type, fragmented region of competing regulators, one could safely assume that a global regime with similar ambitions (i.e. globalisation to replace or supplement regionalisations in the productive processes) would need relatively strong positive integration measures to succeed in the car industry.

7.1.2 Indicators of Globalisation

Globalisation as ‘more transactions’ is a likely outcome of FTAs between countries and regions of the triad of car manufacturing regions, and a gradual reduction in tariffs under WTO. Previous chapters already suggested that some firms have always exported from their home countries and home regions, or did so until relatively recently. With more new markets in Asia, and new Asian market entrants in the West, this would likely increase inter-regional trade. Shipping parts through a global production chain would also have similar effects. However, the dispersal of manufacturing locations to create local/regional presence could have the opposite effect; as firms segment their offer and increase their local/regional embeddedness, value chains may be ‘reduced’ to regional ones, diminishing trade levels. Measurable changes to the weight of various regions in a firm’s sales would also signal increased/decreased globalisation.

Globalisation as ‘organisation of production’ is detectable when value chains and productive processes cross-cut national borders but would not be confined to a single region. Increased regulatory complementarity could lead to more parts used intermittently in global value chains, through global sourcing. Vehicles could converge in technical aspects, and to some extent, in design; manufacturing could lose its regional confines. Hypothetically, firms could globalise their production without any regulatory incentives but historical data in previous chapters show that significant regionalisations happened when at least basic, negative integration measures were introduced. The argument that trade liberalisation (i.e. negative integration) in itself is not leading to sustainable transnational markets was also observed by Bruszt and McDermott.[402] Currently, there exist both negative and positive integration measures and processes at the global level.

7.1.3 Chapter-specific Data and Research Design

The chapter starts off by a rerun of Rugman's 2001 empirical research with the latest sales data for 2015, a proxy for region-dependence or globalisation of car manufacturers, to track changes following the Great Recession and various regulatory incentives.[403] The 2015 data are derived from firm documents and annual reports. Rugman's original dataset is completed with data for Kia, Hyundai, and BMW to allow comparison with 2015. Irregular data are marked where applicable; nonetheless, divergence from the main categories does not change the end results. The chapter also contains further descriptive statistics, including changes in the share of manufacturing for exports in each region, traced between 1980 and 2014, and the share of home regions in a firm's total production as another proxy for changing regional dependence.

These datasets will demonstrate that previously region-focused manufacturing is becoming increasingly outward looking, or 'inter-regional', but it will be argued that 'more transactions' do not necessarily mean the global transformation of the productive processes. Statistical data are completed with semi-structured interviews with firm representatives, regional regulators, industry specialists, and industry organisations. Analysis of firm documents, and secondary sources and data are also used, to trace whether a shift towards

[402] Laszlo Bruszt and Gerald A. McDermott, "Transnational Regulatory Integration and Development: A New Framework for Institutional Change", *Revista de Administracao de Empresas*, (Vol. 56, No. 4, July/August 2016), 448 447-455
[403] Rugman, *The Regional Multinationals*, 2

‘globalisation as organisational level of production’ have taken place as a result of global governance measures, and non-governance factors.

7.2 The Impact of Negative Integration

7.2.1 ‘Regional Multinationals’

If globalisation is understood as the process of transnationalisation of markets or ‘more transactions’, where firms can sell their products increasingly unhindered then we can indeed observe that firms have become less dependent on their traditional home markets and home region, and have a globally more balanced structure. Even 15 years ago, Rugman could cogently argue that it was a “regional world, not a global one” in the car industry (as well as in most other industries).[404] He argued that a firm’s global success or regional dependence can be measured on the percentage a region represents in the company’s overall annual sales revenues. The relative importance of geographic regions within a firm largely determines strategic company decisions from product development to sales and marketing. In 2001, Rugman found no truly ‘global’ car manufacturers, i.e. none had a globally balanced revenue structure: they were all predominantly relying on their home regions for their income, except for two, and two others relied on a region other than their home regions. For Rugman, a globally balanced revenue structure is when all three regions of the triad of Europe, North America, and Asia-Pacific (the most important car manufacturing regions and markets) represent at least 20 percent of a firm’s revenues each and no region more than 50 percent alone.

[404] Rugman and Collinson, *The Regional Nature of the World’s Automotive Sector*, 471-482

In 2001, he found two ‘bi-regional’ firms, Toyota and Nissan, which had made more than 20 percent of their revenues in two regions each (Asia-Pacific and North America), including their own, but less than 50 percent in the region they were headquartered (or in any region). The 50 percent was argued to be a threshold over which a firm would depend on a single region for its income so much that this would have important ramifications for how the company operated. If a firm made most of its money in a single geographic area, it would also mean inevitably that its management had to focus on that region; the company structure, its products (design, engineering, etc.), and its operations (manufacturing, etc.) would need to reflect where demand came from.

If a firm had more than 50 percent revenue from its home region, it would be a ‘home-region oriented’ firm, if more than 50 percent came from a region other than the firm’s home region (e.g. Honda and DaimlerChrysler), it would be considered a ‘host-region oriented’ firm. In the 2001 dataset, all car manufacturers showed overreliance on a single region with the exception of two. Rugman thus argued that even though car manufacturers might increasingly operate ‘globally’ and had increasingly interlinked value chains, “globalisation will remain a mirage in that regionalism will continue to dominate international business strategy”.[405] Car manufacturers were also found to be less transnational than the average of the top 100 non-financial transnational corporations based on the Transnationality Index (TNI) of UNCTAD’s World Investment Report (2003). Consequently, Rugman argued that “it is a regional world, not a global one”.[406]

The overreliance of Italian and French manufacturers on Europe (and even more on their national markets) at the time was not surprising. However, General Motors was just as exposed to its home market in North America despite almost a century of strong presence in

[405] Rugman, *The Regional Multinationals*, 2
[406] Rugman and Collinson, *The Regional Nature of the World’s Automotive Sector*, 471-482

Europe. Notwithstanding its similarly strong European presence and all the efforts invested in producing a 'global car', Ford was also far from becoming a 'global' or even a 'bi-regional' firm, even though it was argued at the time that "the world is flat" and firms could relay goods and services from place to place easily.[407]

2001	Type	Asia-Pacific	Europe	North America
TOYOTA	Bi-Regional	49.2	7.7	36.6
NISSAN	Bi-Regional	49.7	11	34.6
VOLKSWAGEN	Home-region Oriented	5.3	68.2	20.1
DAIMLER-CHRYSLER	Host-region Oriented	Na	29.9	60.1
BMW GROUP	Home-region Oriented	7.8	57.2	30.3
FIAT	Home-region Oriented	Na	73.3	13
RENAULT	Home-region Oriented	Na	89.1	Na
PSA		Na	Na	Na
GM	Home-region Oriented	Na	14.6	81.1
FORD	Home-region Oriented	Na	21.9	66.7
HONDA	Host-region Oriented	26.9^	8.1	53.9
KIA*	Home-region Oriented	51.4	Na	Na
HYUNDAI*	Home-region Oriented	56.3	10.5	24.2
BMW GROUP*	Home-region Oriented	7.8	57.2	30.3

^Japan only *Author's addition

Figure 7.1 – Global vs. Regional Dependence of Firms 2001 (Rugman)

7.2.2 Global Opening

Applying the same typology and methodology, I compiled a dataset of the biggest car manufacturers, calculated from published 2015 financial reports of each company, to see whether regional-embeddedness was only a 'stepping stone' to globalisation, or a hurdle to it; in other words whether firms, especially in the knowledge of their overexposure in their home

[407] Friedman, *The World is Flat,* 2005; Frieden, *Global Capitalism*, 416

regions during the Great Recession, have become more 'global', or at least 'bi-regional'. (FCA was added for comparison although it was 503rd on Forbes Top 500 list in 2015, thus, strictly speaking, was not a top 500 company.[408]) The results show that by 2015, Kia Motors, the BMW Group, and Daimler became 'global' car manufacturers as per Rugman.

2015	Type	Asia-Pacific	Europe	North America
DAIMLER	Global	22.6	33.2W	31.9
KIA	Global	38.3D	22	38.2
BMW GROUP	Global	25.4C	45.6	23.3°
NISSAN	Bi-Regional	41.8	12.9	37.6
TOYOTA	Home-region Oriented	55.4	7.5	31
VOLKSWAGEN GROUP	Home-region Oriented	16.5	62.1	16.6
FIAT-CHRYSLER	Host-region Oriented	4.4	18.4*	63.3
RENAULT**	Home-region Oriented	4.2	57.6	12.7S
PSA	Home-region Oriented	8.5	70.8	8.6
GM	Home-region Oriented	na	12.3	69.9
FORD	Home-region Oriented	7.2	18.9	61.4
HONDA	Host-region Oriented	34.6	4.8	54.1
HYUNDAI	Home-region Oriented	51.9	14.2	31.7

*Europe-Africa-Middle East **Sales based on volume

S Renault is available in South America + Mexico D 'Domestic' W 'Western Europe'

°'Americas' C Author's calculation (China 17.2%)

Figure 7.2 – Global vs. Regional Dependence of Firms 2015

In 2015, Kia, Daimler, and BMW met all conditions to be considered 'global' based on their revenue structure: all three regions were above 20 percent but none of them over 50. Kia's home region, Asia-Pacific was nearly equal to North America, and Europe also represented more than 20 percent of sales revenues. In many ways, relatively newcomer Kia's 'global' status is staggering as it started selling in North America and Europe only in the mid-1990s, and even in 2001, it was a 'home-region oriented' firm with its 'domestic' market

[408] Forbes, *The World's Biggest Public Companies*, http://www.forbes.com/global2000/list/ Accessed: 20 September 2016

representing over 50 percent of its revenues. Kia's part owner, Hyundai, only came close to becoming a bi-regional firm. Daimler also met the criteria even though it was a 'host-region oriented' firm in Rugman's original dataset, reflecting the weight of Chrysler in their short-lived alliance. The data given by Daimler for Europe is 'Western Europe' only but it would still meet the criteria even if all remaining revenues from other regions were added. In 2001, the BMW Group was still a 'home-region oriented' firm but was already emphasising the importance of having a 'global' revenue structure in its Annual Report in 2014 when Europe accounted for 43, Asia 31 and the Americas 23 percent of sales.[409]

On the one hand, the changes demonstrate that Rugman's "regional world" may not be so solid and self-contained; even with the negative impact of the Great Recession on world trade and global economic activity, becoming 'global' is possible. On the other hand, all three 'global firms' are relatively small in terms of volume and/or product range: Daimler and BMW are selling in product segments which, in many ways, they define. Future buyers of high-end, luxury cars, will at least consider Mercedes or BMW, regardless of whether they live in the US, China or Europe. Kia's success in this regard may be linked to a relatively small home market which can be balanced by the still small volumes it sells elsewhere. Big, mass market producers, historically embedded in their large home markets, however have not managed to overcome their strong reliance on their home regions so far.

Nevertheless, almost all firms reduced their dependence on their home regions since Rugman's dataset; Honda's host region orientation increased slightly, and FCA (Fiat) replaced DaimlerChrysler as the other 'host-region oriented' firm following the acquisition of Chrysler. Nissan remained the only 'bi-regional' car manufacturer and its revenues became more equally distributed between Asia-Pacific and North America, and the share of Europe also grew. In Toyota's revenues the ratio of North America decreased while Asia-Pacific

[409] BMW Group, *Annual Report 2014*, (Munich: BMW Group, 2015), 16

grew thus Toyota slipped back to the ‘home-region oriented’ firm category. The Japanese manufacturer was already in this category by 2007, the year before the Great Recession began to cause a drastic decline in car sales in both Europe and North America.

Rugman argued that “there appear to be no additional scale, scope or differentiation advantages to be gained by going global”:

> If firms have exhausted their growth in their home region of the triad and still go into other regions, they then face a liability of foreignness and other additional risks by this global expansion. In other words the advantages of standardisation can be achieved within the home region of the triad, especially if the home-region government pursues policies of an internal market such as social, cultural, and political harmonisation (as in the EU) or economic integration (as in NAFTA and Asia).[410]

One could believe based on the changes that took place between 2001 and 2015 that regionalisation is increasingly out, globalisation is gradually in. This may be so but it is safer to argue in this case that there is some volatility to these categories: fortunes in one region can change quickly as the analysis of the EU and NAFTA markets in previous chapters have shown. Success in one region may not guarantee success in another despite decades of strong presence there (e.g. Toyota has a strong presence in Europe – design, manufacturing, sales, etc. – but the region only represents around 7-8 percent in Toyota’s annual revenues).

Rugman’s dataset based on the top 500 transnational corporations (of which car manufacturers were selected for the previous tables) could be critiqued for taking a single snapshot relatively early on in a fledgling process. However, sales revenues do shed light on the importance of any particular region that data for market shares hide: for instance, in 2001, the Volkswagen Group had less than 2.5 percent market share in the US (the overwhelmingly dominant market in North America), yet this represented over 20 percent of VW’s revenues.

[410] Rugman, *The Regional Multinationals*, 1-2

This comes from VW's success in selling in the higher end and luxury segments which brings in more revenues (and profit) even at smaller volumes. The relative importance of a region also shows the lock-in effect home regions have on car manufacturers, similarly to their original national markets. This appears to be persistent in most cases, despite attempts at creating global value chains, manufacturing, and design.

However, this may change in the future: mass motorisation in the Asia-Pacific region's most populous markets (e.g. China and India) is only just unfolding and this will likely boost that region's relative importance for manufacturers, the difficulty to overcome one's reliance on a single national or regional market notwithstanding. On the other hand, it is not at all inevitable that American and European firms will be able to tap into this market potential more than they did in the past, at the detriment of emerging Chinese and Indian or established Japanese and Korean manufacturers which may understand their home region better. Thus, the revenue firms can earn on their products demonstrates that market globalisation in the car industry is still very much regionally confined; if anything, it is a 'regionally weighted globalisation'. Globalisation in the car industry therefore may be better construed as 'concurrent regionalisations'.

7.2.3 Increased Inter-Regional Transactions

Car production is concentrated in each of the triad region of North America, Europe and Asia-Pacific. However, the regional borders of car manufacturing in many ways are becoming more porous: regional plants in the EU and NAFTA increasingly produce cars for markets outside their host regions, similarly to how Japanese car manufacturing operated from relatively early on (see Figure 7.3[411]).

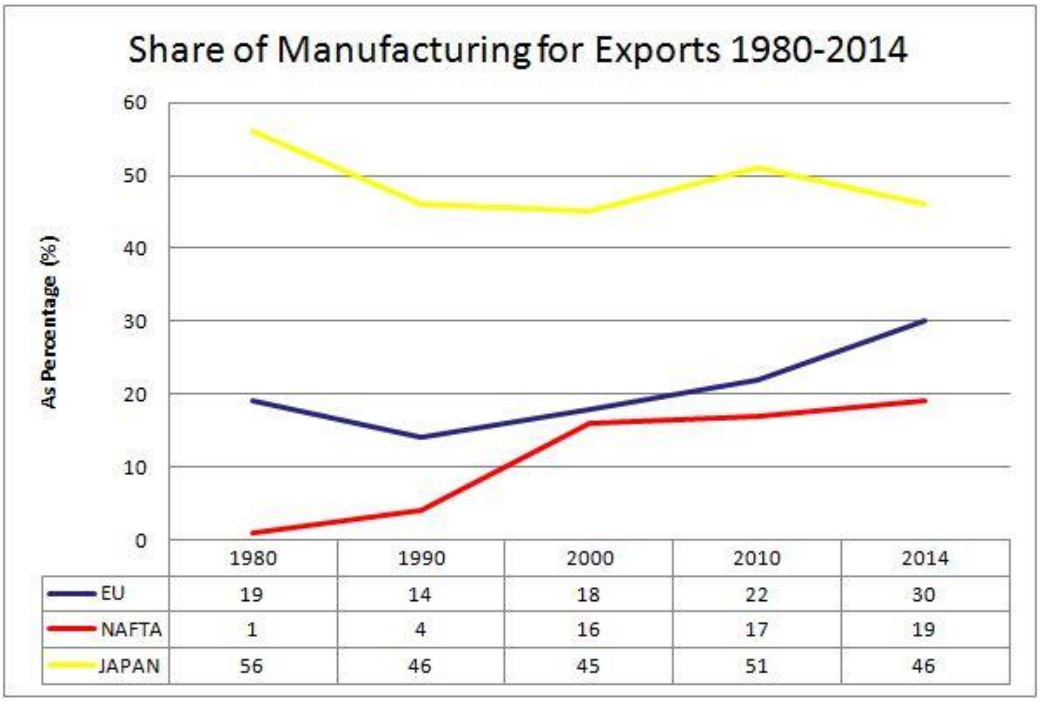

Figure 7.3 – Share of Manufacturing for Exports by Region 1980-2014

The steady growth of exports since the 1980s is evident for the EU and NAFTA; Japan's relative decline and stagnation from a very high level is simply the effect of moving production to Europe and North America (and elsewhere in the Asia-Pacific), partly for tariff jumping reasons (which is, in fact, a regionalisation and not globalisation process – more on this later). In 2014, one in three cars in the EU, and one in five cars in NAFTA were manufactured for exports – in the EU's case, this is despite several waves of enlargements which naturally decreased the ratio of exports to formerly extra-regional countries. For instance, Toyota's plants in the UK and France all export to outside the EU: the Auris model was exported to 21 EU and 13 non-EU countries, and the Avensis to 20 EU and 16 non-EU

[411] Comité des Constructeurs Français d'Automobiles, *The French Autmotive Industry – Analysis and Statistics 2015*, (Paris: CCFA, 2015), 9

countries from Burnaston (UK) in 2014. The Yaris, which had been designed primarily for Europe, was exported to 20 EU and 18 non-EU countries from France. Engines and parts were similarly distributed from Poland and other EU countries.[412] Sometimes, a model is produced at a single location for all destinations: Audi is producing Audi Q5 Crossover for Europe and the rest of the world in Mexico, while Mercedes CLA-Class for the US and North America, as well as for Europe, is produced in Hungary.

The rise (or recurrence) of manufacturing for extra-regional trade is a relatively recent phenomenon: when national champions dominated the main car markets, production was predominantly local and only a few firms ventured to other regions. The more successful ones outside their home markets were those which manufactured locally (e.g. Ford and GM in Europe). Europeans were mainly exporting from the EU, and had relatively modest successes on important markets where they had local rivals (e.g. European manufacturers in the US). The initial business model of Japanese firms was producing at low costs to demand and exporting from home. Import limits, external tariffs, and the squeeze out effect of advancing regionalism in the EU and North America however made this model increasingly costly and gradually led to the regional reorganisation of production.

Understanding the regional market was also an important factor. The trade liberalisation drive until the early 2000s, the increasing saturation and maturing of new car markets in the EU and North America, and the increasing demand from the BRIC countries however all acted as catalysts towards new markets. New demand was initially satisfied from existing manufacturing locations. New manufacturing plants were dynamically added to existing ones in countries inside the EU and NAFTA or in nearby states which had access to those regional markets, as well as in potentially important markets, or where local content requirements made this necessary.

[412] Toyota, *Toyota Made in Europe*, 2014

New manufacturing plants were either 'pure relocations' for cost-cutting purposes to low cost areas – these were typically but not exclusively in East Central Europe, Mexico, or in ASEAN countries (with access to the Japanese, South Korean and Chinese markets), or 'new market entries' in countries with potentially large domestic markets (e.g. Volkswagen in China, Renault in India, etc.). In either case, as manufacturers branched out to other regions, the weight of their home regions in their overall production began to decrease, in some instances significantly since the early 2000s (see Figure 7.4 by CCFA below[413]).

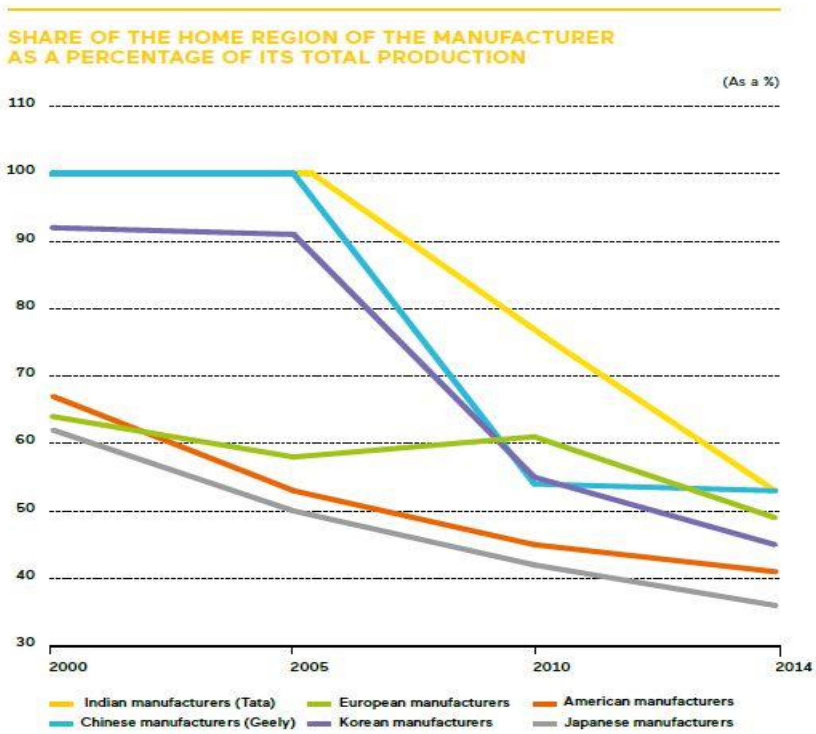

Figure 7.4 – Share of Home Region of OEM in Total Production 2000-2015

Korean and emerging Chinese and Indian manufacturers had seen dynamic expansion since the early 2000s, in all sense. The setting up of manufacturing outside their home countries and/or acquisitions, and steadily increasing sales and market shares have led to rapid shifts, even at relatively low volumes. For instance, Kia realised 61 percent of its sales (in units)

413 Chart by CCFA, *The French Autmotive Industry*, 8

outside of Korea and China in 2015. It produced 44 percent of its cars in China, the US and Slovakia, the rest (1.7 million cars) were made in Korea.[414] American manufacturers' production has also become less dependent on their home region, whereas European manufacturers' share of their home region in their total production have decreased more modestly and as a consequence they have actually become one of the more home-region oriented firms relative to others.

The above statistics clearly show increasing linkages globally or at least inter-regionally. If globalisation is understood as 'more transactions' then the numbers certainly indicate that non-home regions have become relatively more important for manufacturers both as export destinations and manufacturing locations. However, if globalisation is understood as a global version of regionalisations in which productive processes crosscut regions and continents with ease then the picture is more mixed. Sturgeon et al argue that despite investment liberalisation and the WTO, the car industry is distinct because first, it has an extremely concentrated firm structure; second, final assembly and parts production have been kept close to end markets because of political sensitivities; third, integration patterns are strongly regional-scale as opposed to global; and fourth, because of few generic parts and the absence of industry-wide standards value-chain modularity is limited.[415] The industry, as producer-driven chains do (see 2.1.1.4), has a strong regional predisposition which makes achieving global success very costly because it requires strong, concurrent regional-scale presence(s).

[414] Kia Motors, *Annual Report 2015*, (Seoul: Kia Motors, 2016), 7-8, http://pr.kia.com/file/downloadBlb.do?fil_sn=F200006047 Accessed: 15 September 2016
[415] Sturgeon et al, *Globalisation of the Automotive Industry*, 9

7.2.4 Towards Global Flexibility

Car manufacturers' response to the current global order of varied tariff regimes is to produce where it is the least complicated, and/or where it is essential for them to have a presence because of market potential and/or local requirements. For instance, until 2016, car import tariffs to the EU were at 10 percent from the US (only 2.5 percent the other way around) but naught percent to and from Mexico. Consequently, importing from the US to the EU is too costly which acts as a strong incentive for US mass-market manufacturers (e.g. Ford, GM) to maintain local manufacturing in Europe. Manufacturers of high-end vehicles however can build in the cost of tariffs to the price more easily and opt for exporting from their home countries (e.g. Porsche, Lincoln, etc.). On the other hand, cheap access to Mexico, and through it to NAFTA and elsewhere, is a strong incentive for European and Asian firms to set up their regional manufacturing centres increasingly there instead of the US or Canada (more on this later). If only tariff mattered for a more streamlined and centralised production, US firms could equally use Mexico as a springboard to the EU instead of keeping production in Europe. However, the rationale of being close to and understanding local customers, and keeping political clout at regulators through local presence would unlikely change.

Thus, the present regulatory environment is more conducive to regional and not global or transatlantic organisations of production, even if firms claim, they would benefit from more flexible supply chains and the cost reduction effect of a more global or inter-regional regulatory regime.

> What is really important, because in TTIP for example, they always talk about the whole vehicle but I'm also always pushing for the parts. If Toyota USA can buy parts they need here [in the EU] for whatever reason because there is a shortage in the US, there is a lot of customs to be paid and it's not even a regulation issue. They could also have regulations that

> this part is also homologated or OK for the US. But these are issues [when] we need to think about vehicles, certainly, but also about the flexibility in the supply chain. And also technology: Toyota is the example of hybrids. We use the same technology in the US, in Japan and in Europe. It's the same, it doesn't have to be adapted which is good and then we have to find the best solution for the production. Globalisation! (MANUFACTURER 1)

Global tariff elimination or harmonisation could lead to a dispersion of production to low cost/low wage zones in relatively close proximity of main markets, or at least more flexibility in the supply chain. However, as regionalism has not led to the disappearance of old manufacturing locations, nor a strong agglomeration of production regionally, a disappearance of global tariffs would unlikely overwrite current production patterns significantly.

> Renault has given upon the idea that if they had conceived something that was pleasing the French 'in-laws' then they were producing it; they had to decentralise their outlook. They have done this on the base of the Logan; after much reflection they took it to Romania. And today, they are [manufacturing] in France, in Korea, in Romania, and in India, and each time they target a market. For example, when you look at what was forecast in 2011 for Kwid, which is produced in India, you can clearly see the considerations: what could it achieve in Russia, does it respect Russian customer taste, and will the price be suitable? And then they do the same for Brazil to gauge what the market potential is. But they don't do it from France [from a French perspective], they do it by asking themselves how it would work on the local markets, so they don't have 'global' considerations, not for a minute, what matters always is the productive and commercial relevance locally. (INDUSTRY ANALYST 1)

Renault's plant in Tangier, opened in 2012, is a good example of how global tariff reduction could effectuate changes to regionalised production on a larger scale by making regional boundaries even more porous. Morocco is covered by an EU Associate Membership Agreement and the Euromed FTA, providing a cheap location and a tariff free access to the Single Market as long as Renault is producing vehicles according to EU standards and requirements. Moreover, unlike low-wage/low-cost locations inside the EU, Morocco, already a much cheaper location was at liberty to offer strong fiscal policy incentives for local market development that no EU country can replicate lest they violate EU competition rules. VAT rates for Renault and Dacia cars were set at 7 percent, while for all other brands at 20 percent to incentivise local customers to 'buy local', in effect an import-substitution measure. In case of global tariff elimination or regime, these types of instruments could be still used in countries not bound by stricter regional regulations (e.g. EU state aid rules) as incentives for firms to manufacture in a country, creating further pressure in locational competition (e.g. Mexico vs. East Central Europe).

7.2.5 Testing Global Governance: Brexit

An interesting control case of the efficacy of global governance is 'Brexit', the United Kingdom leaving the EU and its Single Market. From a governance perspective, the move can be construed as the substitution of a regional-level positive integration with a global-level negative integration. If the latter functioned at least as well as a regional FTA, Britain's move would unlikely worry car manufacturers; they could continue to export to the EU easily, even if they would lose their Single Market (and Customs Union/FTA) privileges. However, the reality is very different; Carlos Ghosn, Chairman and CEO of Renault-Nissan said, he could not commit to expanding Nissan's manufacturing plant in Sunderland, the biggest in Britain, unless the British government guarantees compensation if it left the Single Market. If car manufacturers would have to trade under WTO rules, Nissan would face an export tariff of 10 percent to the EU, which takes two-thirds of their factory's output.[416] Toyota, which also has important manufacturing plants in Britain, voiced similar concerns ahead of the referendum. (MANUFACTURER 1) In the worst case scenario, apart from tariffs, 'de-regionalising'

[416] The Economist, "The Tories and Brexit: Mind Your Step", *The Economist*, (London: Vol. 421, No. 9010, 8-14 October 2016), 30-32

standards, type approval and other NTBs could raise costs for manufacturers. These concerns were also echoed by British industrialists in an open letter to the UK government.

Therefore, in the absence of a sufficient global tariff regime, Britain needs to secure at least a regional FTA with the EU (just like Morocco), but rather stay in the Customs Union for 'just-in-time' production reasons, if it wants to keep its exporting manufacturing plants for the time being. (See 4.2.4.2) Nissan eventually was promised undisclosed incentives by the British government to stay which already suggests that moving to a lower intensity regionalism may come with serious costs for a country. In a Britain no longer bound by the EU's state aid and competition rules, and working time directives, manufacturers could demand better incentive packages from the government. The Visegrad countries were in a similar regulatory situation prior to their EU accession to what Brexit-Britain would be under a comprehensive FTA; without the restrictive but protective umbrella of regional regulations, V4 countries had to bear the often punitive cost of attracting and keeping car manufacturers, even if they could offer their cheap labour unlike Britain.

However, being the EU's second biggest new car market, firms have a strong incentive to keep (some) production in the UK, regardless of EU membership. This would be even more the case if tariffs or local content requirements were to be reintroduced. Nevertheless, the difficulty for Japanese firms is that 75-80 percent of Honda's and Toyota's UK production is destined to the rest of the EU, while the UK only accounts for less than 2 percent of their total vehicle sales, which raises the possibility of scaling down their operations or closing them altogether in the future.[417] If however Nissan, Honda and Toyota can keep exporting tariff free to the EU, and are offered incentives which are now prohibited

[417] Kana Inagaki, "Japan Carmakers Weigh UK Options Post-Brexit", *The Financial Times*, (Tokyo: 27 June 2016), https://www.ft.com/content/1bef35ac-3c44-11e6-8716-a4a71e8140b0 Accessed: 19 October 2016

under EU law, it may be a precedent of successful ‘de-regionalisation’, something the rest of the EU is keen to avoid for political reasons.

Notwithstanding the role of incentives, it is not entirely regional regulators who decide on the success or failure of (de-)regionalisation. Automotive firms manufacture regional products for the regional market in close proximity of their UK plants; their exports cannot be reoriented at the will of politics, at least not in the short run. Car manufacturing is less mobile than other industries thus it has more interest in stable regional regulatory regimes. It needs more scale than can be achieved at the size of a European country because increasing industry-specific costs (R&D in particular), and international competition make smaller national markets and national regulations too costly to adhere to.

It is also evident that for manufacturers, certain types of regional arrangements (i.e. a looser FTA or NAFTA-type arrangement or WTO rules) can function well under certain circumstances only. A global regime (of trade but also of standards, etc.) could also replace regional ones however the cost of switchover could make it the less attractive choice: mass market manufacturers, which need to adapt to regionally diverging customer tastes more and have regionally diverse product portfolios, could find the arduous creation of a single global regime less than vital. Because of varied products and geography (consequently transport costs and logistics), value chains would unlikely to expand from regional- to global-level easily to truly benefit from a single global regime.

> Not national-level markets but covering [sizeable] regional markets. This is what everybody else doing. Toyota is selling completely different cars in the Far East than in Europe but often their platforms are the same, the engine is probably different, the gearshift is different, etc. So global products for a global market no, we don’t see that. Maybe with the advent of the autonomous, electronic cars; that will be the same for everyone. (MANUFACTURER 3)

Political agency (negative and positive integration at the global level) is thus very much structurally constrained: leaving regional regimes is possible in search of 'global Britain' but Nissan's and others' examples show that it could easily lead to a 'lose-lose' outcome for both the firm and the country's economy.

7.3 The Impact of Positive Integration

7.3.1 Global Technical Regulations

Positive integration measures such as global standardisation of vehicle parts and safety regulations range from the most basic aspects of driving a car to the nuts and bolts of engineering. Most cars come with the same fundamentals: rear lights are red, front lights are white or yellow, indicator lights are typically amber in any part of the globe (though not in the US) and these are all the results of international regulations. Variation in headlight strength (dipped beam, main beam, etc.) is also typically the same, including their green/blue International Organisation for Standardisation (ISO) symbols on the dashboard, just as in the case of the red triangle of the hazard flashers, for instance. Although these global regulations (the 1949 Vienna Convention on Road Traffic, the 1968 UN Convention on Road Traffic, and ISO) have had significant regulatory impact, they were primarily concerned with providing basic road safety and less so with dismantling non-tariff barriers to assist globalised production or to increase global economic activity by allowing manufacturers to build scale and save costs.

The process of globalising technical regulations for economic gains takes place in UNECE (see Chapter 6). Thus far, only 16 'Global Technical Regulations' (GTRs) have been adopted, regulating diverse car parts: door locks, safety glazing materials, head restraints, electronic stability control systems (ESC), etc.[418] ESC is considered “one example of [success] out of many failures” in the industry. (INDUSTRY ORGANISATION 1) In this case, all governments had wanted ESC systems to become standard issue in passenger cars to increase safety but they did not have the detailed knowledge of how ESC really worked. Consequently, governments turned for technical input to the industry which had developed the system and had the know-how. Because the industry had a strong interest in standard harmonisation, and governments had little insight and thus little stake in regulatory competition, the ESC eventually was passed as GTR No. 8. Moreover, it was properly transposed into US, EU, and Japanese law, etc., thus further development and application of ESC is now globally regulated and is accepted everywhere.

The process in UNECE is highly institutionalised and structured: there are working parties on noise, lighting and light signalling, pollution, brakes and running gear, and safety, etc. For instance, the working group on lighting met for the 76th times at the end of October 2016 in Geneva to deliberate, among others, on a modification to the regulation on direction indicators so that rules would not apply to “dipped-beam headlamps with a light-source or LED module(s) producing the principal dipped beam and having an objective luminous flux which exceeds 2000 lumens”.[419] However, to put the efficacy of the process into perspective, this relatively easy modification took more than half a year to decide and participating countries would still need to voluntarily transpose it into their national legislation. Not surprisingly, car manufacturers describe the process of adopting global regulations and standards as “gratingly slow”. (MANUFACTURER 2) This is partly because

[418] UNECE, Global Technical Regulations, Accessed: 16 November 2016https://www.unece.org/trans/main/wp29/wp29wgs/wp29gen/wp29glob_registry.html
[419] UN Economic and Social Council Economic Commission for Europe, “Proposal for Supplement 16 to 04 Series of Amendments to Regulation No. 48 (Installation of Lighting and Light-signalling Devices), https://www.unece.org/fileadmin/DAM/trans/doc/2016/wp29/ECE-TRANS-WP29-2016-020e.pdf Accessed: 16 November 2016

national/regional regulations and standards simply reflect long-held practices (e.g. left-side driving, bumper testing requirements, etc.), and replacing them with global rules could be too costly for firms and/or political actors. Rules, based on varied practices and traditions, developed in tandem with local customer tastes in countries/regions with significant domestic car manufacturing. This led to product and regulatory segmentation even between two, globally relatively similar-seeming regions such as Europe and North America.

7.3.2 Regulatory Competition

The international standardisation process at the UN level is a way to ensure first-mover advantage for the initiators while laggards or second movers pay the switching costs.[420] (See 6.2.1) The EU is particularly active in this process but with no enforcement powers second movers can eventually ignore voluntary international standards. Eventually, the process of creating a global regulatory regime of technical and safety standards is slow because of regulatory competition. UNECE was a forum of Europeans initially who have been conscious of the potential of first-mover's advantages and tried to pass their regulations as global standard; Japan often followed suit. The US, traditionally in the position of being an international rule-maker and wary of rule-taking, often did not transpose GTRs into its national legislation. China's rising interest in car manufacturing further increased the number of players with varying interests.

> [The process] is [now] less homogenous because before we had a situation where it was usually the European standards that were adopted – and the Japanese follow very much our standards as well although they have their own cycles. With the help of the Unites States, China is trying to introduce their own regulations and that complicates things because while

[420] Mattli and Büthe, *Setting International Standards*, 4

> we would like to see as much harmonisation as possible internationally, on the other hand we cannot accept something per se that is different. We have to pass it through controls and consideration, etc. For instance, [in the case of] evaporative canisters, we developed something in between [the standards] that we had before and [the standard] of the United States. The Chinese, influenced by the United States, developed something that is more advanced but without having done any negotiation at the international level. So we are forced to pass our regulation at the international level now, because we want something better, but eventually we will need to consider also their regulation. So it is more complicated than having just the US and Europe developing their own standards. Now there are other countries that start to develop their own. (REGULATOR 1)

Thus, the dynamics in UNECE is reminiscent of the EU's 'variable geometry'; the important difference is that in the EU's case the political purpose of integration, supranationality, and compensatory mechanisms can often bridge the gap between competing interests while at the global level, governments have little incentive to compromise on these issues. Nevertheless, the increasingly global presence of car manufacturers, putting pressure on competing national/regional regulators, may bring about change over time. Very crudely, this would be similar to, and at the same time in contradiction with, Mattli's argument about (potential) winners of regionalisation pushing for (more) regionalism at the political level.[421] In this vein, car manufacturers, potential winners of 'globalisation', push for more global regulations (as opposed to regional or national ones). For Mattli, these firms theoretically should push for more regionalism in their respective regions and not global regulations. However, since TNCs are more or less the same in all regions, this raises the possibility that winners of regionalisation may no longer push for more regional integration but more inter-regionalism or 'globalism' at the regulatory level.

[421] Mattli, *Explaining Regional Integration*, 1-27

7.3.3 Path Dependency

Once standards, regulations and other institutional practices are different it is difficult to give up first mover advantages. Initially, when manufacturers were predominantly active on their home markets, these acted as NTBs to keep out newcomers or make barriers of entry painfully high. Nowadays, however, all firms try to be present in all markets and regions which have important regulatory influence, thus firms would have a lot to gain and little to lose from switching to more globalised regulatory regimes.

> I've been working in this field for more than 30 years, and the problem is that many people suffer from what I call the 'not invented here syndrome'. Simply saying: you have the American rule and let's say the European or Japanese rule, and their performance is the same, one is not better than the other – they would always say: 'nah, nah, nah, what I've been doing for 25 years is much better than what you've been doing for only 5 years'. Government and industry are made up of people with their own human personalities and that [causes] a lot of problems to overcome this syndrome to say: 'OK, what the Americans do is as good as I'm doing' or vice-versa. It's very much a problem of personal behaviour and mentality and in any case, it's often very difficult to prove with correct scientific data that the performance is the same. (INDUSTRY ORGANISATION 1)

Resistance often comes because governments involved in setting GTRs would bear the political costs, if safety standards would weaken, and/or local firms went out of business because of increased global competition as a consequence. While the industry would welcome global rules, it finds the current process often too costly: for fear of being seen to be giving ground to regulatory rivals by accepting their standards, governments often make compromise by 'racing to the top', by adopting the strictest and most costly regulations to stave off criticism.

> [The idea of the 1998 UNECE Agreement is that] all countries in the world which have an interest in vehicles with Japan, Korea, China, India, the EU, etc. to develop global technical regulations: 'develop once, accept it everywhere'. So when there is a GTR, all countries

> would transpose this GTR into their national legislations. We are 18 years later, not that much has been accomplished unfortunately. We have a couple of GTRs, 15-16. Just last month [March 2016] there was a meeting of the governments and a paper was adopted on improving the functioning of the 1998 Agreement because all countries have realised that it's so heavy, so difficult to overcome the 'not-invented-here' syndrome, and even with new regulations to make the process a little bit more flexible and fluent. That's one point. The second point is indeed when you try to harmonise existing regulations through a GTR, the problem is that these negotiations don't end up in a compromise – in a compromise you normally ask this to obtain that, and here usually you ask this and you do want to obtain that and the other party does exactly the same. In the end, all too often unfortunately, these global technical regulations tend to be an addition of the various requirements and ending up with something that is the top severity level that can in some cases become unfeasible from a technical point of view, from an economical point of view. (INDUSTRY ORGANISATION 1)

7.3.4 Global Cars

In some ways, there are already 'global cars' only they are called global platforms on which locally varied models and bodies can be built. It was argued (Chapters 5) that in the absence of regionalised demand firms responded by regionalising non-visible aspects of the product as much as they could. This is increasingly true globally. Reducing the number of platforms on which regionally/locally designed body can be added is partly caused by the opportunities created by positive integration measures (i.e. international standardisation), and the increased global competition created by negative integration. However, the growing cost of product design and development is arguably the most important driver. Cars have practically become 'computers on wheels' with higher performance, safety, and emission requirements than before, which compels even rival manufacturers to develop platforms together.[422] The development of electric, zero-emission, and self-driving cars also create enormous financial pressure to build scale, and to reduce costs elsewhere. Thus, some of the most popular models are increasingly built on the same and fewer numbers of platforms, which are used in a modular way and across the globe. Over one million cars produced on a

[422] Sturgeon et al, *Globalisation of the Automotive Industry*, 20

platform is estimated to make the development of a global platform profitable, which makes it an unviable cost reduction measure for the luxury segment manufacturers like Mercedes; for them joint developments can help cutting costs.

The trend for mass market producers however is global regardless of the firm's origins, type, or of their most important markets. *European* Volkswagen is considered to be the market leader in global platform reduction: its 'MQB' platform will serve Golf, Jetta, Beetle, Passat, Skoda, Seat and Audi models.[423] By 2020, a staggering 5.8 million vehicles are expected to be built on it; Renault-Nissan is set become the second with 3.5 million cars on its CMF2 platform.[424] The millions of units produced on a single platform is an entirely different scale compared to the 1970s and 1980s when this number was always below 400 thousand.[425]

American firms have also been cutting the number of models and platforms: between 1970 and 1984 GM had more than twice as many models (31-32) than any other rival, produced on 11-13 platforms, and Chrysler and Ford were also among the more prolific manufacturers in terms of model variety and the number of platforms.[426] GM used 26 in 2014 when it announced that it would cut the number to only 4 by 2025.[427] FCA expects to produce 95 percent of all of its vehicles on 9 global platforms by 2018, down from 12 in 2013.[428] Ford wants to reduce its platforms to 9 global platforms by the end of 2015 from 27 in 2007.[429] Among *Japanese* firms, Toyota is also planning a major reduction of platforms by 2021. By

[423] Sedgwick, *Carmakers Bet on Big Global Platforms*, 2014; Panait, *Ford Plans to Decrease the Number of Global Vehicle Platforms*, 2015
[424] Sedgwick, *Carmakers Bet on Big Global Platforms*, 2014
[425] Jullien and Pardi, *In the Name of Consumer*, 6-7
[426] Ibid.
[427] Panait, *General Motors Vehicle Platforms Explained*, 2015
[428] Sedgwick, *Carmakers Bet on Big Global Platforms*, 2014
[429] Klayman and Lienert, *GM's 2025 Platform Plan*, 2014

2020, 27.8 million vehicles are estimated to be built on the top 10 platforms while this number was 19.2 million in 2014. (See Figure 7.5[430])

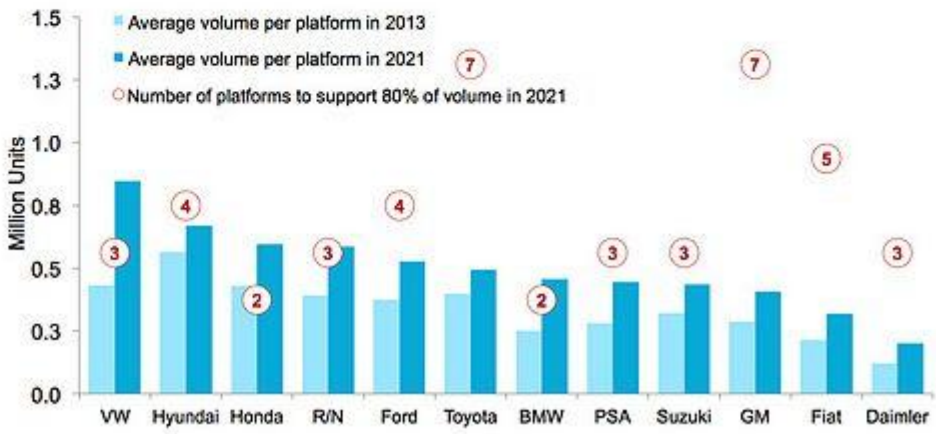

Figure 7.5 – Number of Platforms/Average Volume per Platform 2013-2021

Some firms manage to market their cars globally beyond building them on the same platforms. In the luxury segments, manufacturers can relatively easily push the same models worldwide (e.g. Mercedes), even if cars are adapted to local standards and regulations and thus become 'regional cars' in the process (see Chapter 6). The Renault Group, which is traditionally strongly dependent on Europe and South European customers, is also now pushing some of its models across its different brands globally: Dacia Duster is marketed as Renault Duster outside of Europe, while Renault Alaskan is almost identical to Nissan Navara NP300. The profit logic, of course, drives firms to try to push a model which became successful at home everywhere but more often this, in itself, is not enough for a globally balanced presence, especially in the mass market segments where variation is the most visible.

[430] Table by Kami Bucholcz, "OEMs Planning Major Platform Consolidation by 2021, Says IHS", SAE International (30 September 2014), http://articles.sae.org/13537/ Accessed: 17 November 2016

Thus, there is a clear move to globalise those aspects of the product which can be globalised; technically and from a productive point of view, on which locally demanded design can be built in a modular way. Firms also try to gauge whether their products have relevance elsewhere globally which may lead to some convergence of how cars look worldwide.

7.4 The Impact of Non-Governance Drivers

7.4.1 Regional Demand

The main reason why it is so difficult to balance a firm's revenue structure globally, and produce global models is the divergence of customer tastes and demand across regions and countries. This forces mass-market producers to develop varied regional products, before even having considered geographic, industry-specific, regulatory and institutional variations which can be obstacles to globalised production.

> Well, there are two reasons for the difference: the main one is the nature of the consumer demand, clearly. [For instance], in Europe, typically people are happy with smaller vehicles than in the US – terrible exaggeration to say that but anyway that is roughly true. So there is a sort of consumer angle to this that we shouldn't forget but yes, the main reason why it has been quite difficult to establish a global model is precisely because they have to be different to some extent, at least, and very often to a considerable extent region by region. There have been some attempts to set up global models and there are global chassis and there are developments which are relevant here but even at the same model, there will be significant differences between the markets. And even within Europe, actually, there will be some variation... (MANUFACTURER 2)

Manufacturers, industry representatives, and analysts argue that even by globalising technical regulations and standards would not erase customer taste differences between regions, just as European integration has not led to customer demand harmonisation either.

The ‘regionalisation-circle’ is self-perpetuating to some extent: as customers want/need different cars in different regions, firms find it necessary to remain close to potential customers to be able to design cars that customers want. Local incentives (if not restrictions) make it necessary to keep or place at least parts of the productive process in the region/country in question and over time, this leads to the maintaining of varied customer demand.

> Ford was working on the ‘world car’ already in the 1980s, and hoped Ford Mondeo would be such a car, both for Europe and the US, but there has never been a Mondeo which functioned with the same motor, on the same platform even if it was traded under the same brand name. It’s been around 50 years that the Americans have tried to do this; Chrysler was talking about this for years but a Chrysler will never be the same in Europe and in the United States. Very objectively, this is not [realistic]. Of course, we can make these platforms, engines, a part of the suppliers [global] but even there, there are very striking things: for instance, Renault in the case of global sourcing, which was one of the main elements of their recent globalisation project, came to the conclusion that if they introduced global sourcing and went with the same suppliers everywhere, the suppliers would fix the prices all over the world and the savings from price competition would be lost. I do think that the recent dynamics [in internationalisation/globalisation] is everything. Despite the managerial credos which remain very ‘global’, we are very quickly reaching the limits with the current dimensions: it rather permits us ‘glocalisation’, but surely not globalisation. (INDUSTRY ANALYST 1)

However, considering the complexities of creating a single market in the EU, and its persistent variedness in customer taste, it is difficult to imagine how more important differences in taste would disappear, especially in the absence of similarly strong regulatory activism at the global level. Alternatively, a NAFTA-type, shallow and intergovernmental integration could be a model, primarily based on negative integration for global market integration. However, NAFTA’s results in integrating customer demand were argued to be conditional on the lack of rival car industries in Canada and Mexico, and the pre-eminence and overbearing dominance of the United States, substituting positive integration, something which is clearly not the case globally.

7.4.2 Industry-Specific Drivers

There are several industry-specific factors which are more conducive to organising production at regional-scale than globally. Firms organise manufacturing in an ‘ecosystem’, in close geographic proximity to suppliers. Until the 1970s and the rise of the Japanese manufacturers, supply and demand was organised differently: plants churned out certain car models en masse and then dealers tried to sell them, often leading to overproduction. The ‘just-in-time’ model of Toyota and others reshaped the industry: plants produce what buyers order and with the specifications they want. This provides greater flexibility for the buyer and reduces risks for the firms but the approach needs shorter supply chains and a very close cooperation with the suppliers:

> One of my activities was purchasing from suppliers and when you negotiate with the suppliers they all say the same thing: Toyota is the worst customer with respect to quality, meaning that engineers are constantly at the suppliers’ facilities to check every single detail of the parts and they will check them twice, three times, ten times. It’s not a question of trust but making sure that everything is [OK]. Toyota is cautious because it is a Japanese firm and it could be hurt more if something goes wrong, especially in the US. In the US, you have class actions, you have huge risks from legal damages, less so in Europe but we apply the same principles because we first had the experience [on a foreign market] in the US. (MANUFACTURER 2)

This means that for some firms the production chain cannot extend beyond a certain distance, otherwise the logistics of it would not work. However, one does not have to be a cautious newcomer like Toyota to have a similar approach. Home-region firm Audi’s engine factory (and assembly plant) in Győr, Western Hungary is only over 600 kilometres from Audi’s headquarters in Ingolstadt, Germany. Both cities are by the River Danube with easy road and rail access and even the local airport in Győr was upgraded by Audi to be able to provide convenient and fast connection for the management, should the need arise for quick personal intervention. Audi's Mexico plant however shows that distance can be a flexible term if cost saving gains and tariff-jumping reasons (to NAFTA) provide stronger incentives. Nevertheless, even in Mexico, having the suppliers literally at arm's length signals the importance Audi attributes to short production chains and shows that 'global' production is organised through concurrent regionalisations.

Convenience aside, certain car parts simply cannot travel to great distances for technical and cost reasons. A 2016 decision by the European Commission well illustrates this: Plastic Omnium, an automotive equipment supplier, wanted to acquire Faurecia's, a major first-tier supplier's bumper maker business. In its merger notification submitted to the EC, Plastic Omnium claimed that "various markets for automotive components and assembly of automotive modules [...] should be regarded as being EEA-wide in scope" because "barriers to geographical expansion are low".[431] In other words: there is a European single market, OEMs can buy from any suppliers they wish; given the number of available suppliers the acquisition will not reduce competition. However, the Commission basically ruled that *de facto* there is no Single Market: the "geographic scope of the market for plastic front and rear bumpers" has a "catchment area of 250 km around each of the OEMs' production plants" but "on average, the supplier who is finally awarded the contract has a production facility located within 100 km from the OEM".[432] Differently put, decades of regional market integration notwithstanding, bumpers on average come from no more than 100 kilometres away to car manufacturing plants in the EU.

The EC, thus, cleared the transaction subject to conditions of divestiture by Plastic Omnium of several production facilities in France, Spain, and Germany to maintain "sufficient competitive pressure from remaining players in the market" and not to cause price

[431] European Commission, Case M.7893 – Plastic Omnium/Faurecia Exterior Automotive Business, *DG Competition*, (Brussels: 11 July 2016, C(2016) 4572 Final – Public Version), 1-90
[432] Ibid.

hikes.[433] One of the reasons why bumper suppliers were found to be difficult to replace was that transporting bumpers from alternative providers could mean long-distance transporting which is problematic for the 'just-in-sequence' production system. In the event, it would require special logistics in order not to damage the special paint and would entail higher costs. (REGULATOR 2)

This example also highlights that the supervisory body established to oversee the EU's *regional* market, in fact, considers *relevant* markets which may well be smaller units than the region; whether the relevant market in question is national- or sub-national-level as opposed to the entirety of the 'Single Market' depends on the industry, the players, the activity, and a lot of other factors. (REGULATOR 2) Thus, the 'regional' organisation of production in this context is a relative and flexible term, sometimes only applied as a heuristic device even by the firms themselves to describe their activities within a geographically/politically defined area.

7.4.3 Reindustrialisation

The reason why 'relevant market' is often smaller than the region proper is because assembly plants need to be in relatively close proximity of suppliers. When opening new plants in other countries, firms either move to where there are already potential suppliers or bring their own suppliers with them even within a region. From a productive point of view the location also influences heavily what can be manufactured in a country. Even if the same car could be sold in every country and region, there would be limits to where it could be

[433] European Commission, "Mergers: Commission Clears Acquisition of an Automotive Component Business of Faurecia by Plastic Omnium, Subject to Conditions", *EC Press Release Database*, (Brussels: 11 July 2016), http://europa.eu/rapid/press-release_IP-16-2484_en.htm Accessed: 25 July 2016

produced: labour is not trained similarly in different countries, productive capacities are different, or the region could be wanting in suppliers. Therefore the idea that manufacturing could be done with a globally dispersed value chain (beyond easy-to-ship parts), or exporting from a single location to far-flung places is very much constrained.

> Globally, there is no globalisation. The problem is that you are eventually obliged to do a complete reindustrialisation because you have commercial objectives there [outside of the home-region/home-country], and because once you have located your production, you have to have locally sourced components otherwise the whole thing doesn't make sense. Once this dynamic is set in motion, it means we are 'de-globalising'. Twice: commercially and productively. And, of course, politically because this is what is demanded in countries where politics is not as stupid as in the EU; you are asked to specialise. They say, this is what we do, so come to our country, we will block [the import of] every car, say, over 4 meters which will make everybody come here under 4 meters... every big country has the benefit to play it like this. (INDUSTRY ANALYST 1)

Local 'reindustrialisation' in practice is indeed a costly affair for firms: Audi's Mexico plant for instance came at a cost of $1.3 billion. It needed to train 1800 staff; of this, 600 Mexicans were trained in Germany for up to two years, each mentored by a German worker to teach them technical skills, corporate culture and 'German life'. Housing and facilities in Mexico for around 200 white-collar workers from Germany (and their salaries to incentivise relocation) also add to the costs. All machinery, brought in from Germany, had to be adapted to local voltage and other requirements. Motorway and railway connections come as standard-issue for such investments but a new hospital, a complete fire station with German fire engines, and a new 'Motown' to house workers are just some of the less typical additions, as well as the planting of 100 thousand trees over 100 hectares to replenish local aquifers by better capturing rainwater.[434]

[434] Audi USA, *Audi Plant in Mexico* 2015; Andras Kismartoni, "Hungarians Also Work in Audi's Mexican Smart-Factory", *Origo*, (15 October 2016), [in Hungarian], http://www.origo.hu/auto/20161014-gyori-motorokat-is-beepitenek-a-q5-okbe-az-audi-mexikoi-csodagyaraban.html Accessed: 15 October 2016

Audi was attracted to the advantages of Mexico's NAFTA membership and FTA network for exporting; Mexico's relatively small domestic market alone would not suffice. Thus, from the 'more trade' globalisation point of view the plant has global and not just regional importance for the firm. The plant and the manufacturing process is monitored live from Ingolstadt, as is planning, R&D, etc. are done in Germany. The close supervision indeed creates a strong global linkage, especially if one compares it to a few decades ago when such subsidiaries, if they existed at all, would have more likely been relatively self-contained units with a more arm's-length relationship with headquarters. However, already at the time of the plant's opening 70 percent of the parts were sourced from the NAFTA region, a "proportion of *localisation*" Audi was keen to increase in the long term. Suppliers not simply come from the region but the region came to the plant: a supplier park of seven suppliers and logistics providers had also been established adjacent to the factory, which includes press, body, and paint shops and the assembly line.[435]

Thus, the production chain is dominantly and increasingly local/regional, demonstrating how 'global expansion' becomes local reindustrialisation in practice. Nevertheless, part(s) of even this highly localised operation is inter-regional or global: some of the engines come from Audi's factory in Győr; the Made in Mexico Audis then return to the Hungarian showrooms only as finished products. Audi, which is a high-end car producer of the Volkswagen Group, will not be constrained by regional customer taste and will sell Q5 globally. However, mass producers would probably be manufacturing a local/regional product or variation in a similar instance (e.g. Volkswagen's 'proper American car for America' destined for manufacturing in its Tennessee plant), further qualifying the meaning of 'globalisation'. Nevertheless, it is evident how productive globalisation is regionally

[435] Audi USA, "Audi AG Opens Automobile Plant in Mexico", *AudiUSA.com*, (Ingolstadt/San Jose Chiapa: 30 September 2016), https://www.audiusa.com/newsroom/news/press-releases/2016/09/audi-ag-opens-first-north-american-plant Accessed: 10 October 2016

constrained even in the case of Mexico which took advantage of being in NAFTA, on the one hand, but NAFTA not being a customs union, on the other. The latter enabled Mexico to enter into other FTAs (including with the EU) and to become one of the top global production bases, positioning itself not just as a cheap location but a more accessible one than, for instance, the US and Canada vis-à-vis the EU (and in fact, compelled Canada and the US to negotiate their own FTAs with the EU; CETA and TTIP respectively).

7.4.4 A World of Regions

Peter Katzenstein argues that "globalisation and internationalisation processes make regions porous".[436] This is indeed visible in the data discussed in this chapter: regional processes increasingly show inter-regional, global characteristics in the car industry. International standardisation, including attempts at voluntary adoption or acceptance as equivalent of other countries' or regions' regulations and standards, also point in this direction. Katzenstein also argues that regionalisation is the geographic manifestation of international or global economic processes.[437] I argue congruently that from the perspective of car manufacturers, the *logic* of the process is *universal* whether it takes place at the level of the region or globally: firms look for new markets in countries, regions, continents, other than their original home markets for their products, and/or sites for their operations for cost-cutting or strategic purposes. However, I also argue that for historic, institutional, and structural reasons regionalisation has become the dominant process. In many ways, it is at the regional level car manufacturers can develop varied products for diverging customer tastes while building sufficient scale, and suitable supply and production chains. Regionalisations are

[436] Katzenstein, *A World of Regions*, 13, 19, and 22
[437] Ibid., 354

varied but geography is only one of many determinants; structural, industry-specific factors, some of which are unlikely to change, as well as varied regionalisms, and the lack, or feebleness of existing global regulatory regimes contribute to varied outcomes.

Eventually, the question at the heart of this debate is whether regionalisation is not globalisation because we have more regional incentives, regulations, and institutions than global ones, or there are structural determinants which keep the process regional. Based on the analysis of car manufacturers' strategies, activities, and interviews with their representatives, I argue that the car industry finds the regional-scale optimal for structural reasons therefore regionalisation as an organisational/operational level is not simply a question of incentives, regulations and institutions. Nevertheless, regional regulations are strongly conducive to regionalisation in some parts of the firm's activities, while others become global, some parts remain national.

> The regional configuration [of the industry] remains absolutely dominant but within the regional configuration [it varies]. [...] As there was no unified 'European' market, so it is even more likely that we'll never have a single global market. Renault, for instance, has a completely different line for India because the demand of the European market (of 28 countries) is just very different, obviously you don't do the same things, you don't ask for the same things from your suppliers. For 15 years, everybody believed in globalisation, it remains very important for the analysts, it's an illusion we can still tell the morons about in Brussels but nobody in the industry believes in it, not for a minute. (INDUSTRY ANALYST 1)

Frieden argues that with the return of globalisation at the end of the 20th century, companies could not only sell their products and services easily anywhere but "could locate research and development, marketing, manufacture, and assembly thousands of miles away from one another for economic, political, or regulatory reasons, then ship the ultimate product to consumers everywhere".[438] In the car industry this is only partially true. Manufacturing is primarily organised regionally (cross-cutting national borders), and it supposes at least a basic

[438]Frieden, *Global Capitalism*, 416

regional regulatory regime. North American production and value chains have been organised in tandem with and around NAFTA (and prior trade agreements: the Auto Pact and the Canada-US FTA), European production expanded together with the European economic space, and ASEAN regulations even include incentives to place complementary parts of production to different member states to encourage industrialisation by ‘free trade’.

7.5 Conclusions

In this chapter, I was examining whether regionalisation(s) in the car industry is becoming more global or at least inter-regional in character, and if so, what the current limits of this process are. Two meanings of globalisation were considered: globalisation as the transnationalisation of markets or ‘more transactions’, and globalisation as organisational level of production. Compared to a similar survey in 2001, I found that several car manufacturers have indeed become global, measured on their ability to generate sales revenues in all important car market regions. However, most firms were still found to be dependent on their home-regions for their revenues even if firms strive to become more regionally balanced, with measurable success nevertheless. Beyond sales, it was also found that an increasing percentage of regional production is destined for other regions. Moreover, the share of home-regions in productions has significantly declined since 2006; the Great Recession has compelled firms to look for new growth regions and further cost savings. It was argued that these data demonstrate growing inter-regional and global linkages.

Increasing inter-regional activity notwithstanding, it was argued that more transformative changes, a globalisation of production chains, replacing regionalised production, have only taken place to a limited degree. Some parts of the productive process was found to have become more global or at least crosscutting regional boundaries but the bulk of car manufacturing is still organised regionally; some activities have become more global, others remained firmly national. Most manufacturers were found to be globalising their platforms for cost cutting reasons, and push their successful models worldwide despite varied customer tastes, though this was less true of mass market producers. Consequently, it was argued that globalisation in the car industry is still better construed as *concurrent regionalisations*. Weak global market integration measures both negative and positive ones (e.g. global tariff regime, global standards, etc.) were found to be partially responsible, however, it was argued that even if global measures became strongly conducive to globalising operations, structural reasons would still maintain strong regionalisation processes.

Thus, to turn the perspective around on Alexander Wendt's argument about structure and agency, regionalisation is 'not just what states make of it'; they are also reflections of structural givens which are difficult, if not impossible to change.[439] However, it is also a dynamic process where agency by national, regional, global institutions shapes outcomes. As a result, concurrent regionalisations have changing contours, or porous borders, for extra-regional economic activities. This process is not unidirectional in that only globalisation shapes regionalism and regionalisation. Regional powers/institutions compete on whose term globalisation should take place, if at all (e.g. US-, EU-, or Chinese-inspired standards, institutions, etc.), thereby shaping whatever becomes of globalisation. Therefore, the question of whether regions are 'stumbling blocks' or 'stepping stones' to globalisation might never be decided definitely. If the current state of affairs is a snapshot of a fledgling process between regionalisation and globalisation in the car industry, the future may lie not in an 'either/or' outcome but in a mixture of the two, coexisting processes.

[439] Alexander Wendt, "Anarchy is What States Make of It: The Social Construction of Power Politics", *International Organization*, (Vol. 46, No. 2, Spring 1992), 395 391-425

CHAPTER 8 – CONCLUSIONS

This research situated itself at the intersection of two sets of literature: regional integration concepts of political science and economic regionalisation of political economy. It asked two main questions; one relating to regionalism's impact: *how does regionalism impact regionalisation in the EU and NAFTA?* Two, it also enquired about the varied intensity of impact: *does the more intensive integration (EU) lead to different regionalisation patterns than the weaker one (NAFTA)?* For the first question, the impact of regionalism-, and non-regionalism related factors (e.g. global and national-level regulations, and what is often referred to as 'firm, profit, or product' logics) on regionalisation were examined. Particular attention was given to the other main cross-border process, globalisation, to pin down if it was indeed regionalisation or rather globalisation that we were witnessing. For the second question, outcomes in the EU and NAFTA were compared and contrasted to find out whether similarity drivers and the fact that today's regional borders are 'porous' lead to similar regionalisation, or a deep integration with complex institutions (EU) leads to different outcome than a thinly institutionalised shallow integration (NAFTA).

The central argument of the thesis was that regionalisation intensity is not necessarily linked to the type/intensity of regionalism alone but to the interplay of regionalism and non-regionalism factors, on the one hand, and the specific part of regionalisation where the impact takes place (e.g. production, market, product), on the other. This is because regionalisation is always context-dependent and regionalism rarely exerts influence over it on its own. It was also argued that regionalisation processes are firmly regionally embedded, (at least in the car industry and in producer-driven chains). However, 'winner' firms of regionalism, which Mattli argues to be potential supporters of further integration, have an increasing stake in regionalism having 'porous borders'. [440] They may well support flexible 'inter-regionalism' and global regulations than 'more regionalism'.

8.1 The Main Findings

8.1.1 The General Mechanism of Regionalism's Impact

Regionalism was argued to have exerted either a 'relatively strong' or 'relatively weak' influence over regionalisation (Chapter 2). There were more shades of 'strong' and 'weak' visible when regionalism's impact was described in connection with other, non-regionalism related mechanisms. When the impact of regionalism-related measures were strong (and non-regionalism dynamics were also strong), regionalism either played an 'enabler' role for non-regionalism related dynamics to come to the fore (e.g. locational choices – Chapter 4), or the two acted 'in tandem' (e.g. sales heterogenisation – Chapter 5).

When regionalism-related measures were strong (and non-regionalism related dynamics were weak or negligible/irrelevant), regionalism was unquestionably the main driving force of changes (e.g. technical/emission standards – Chapter 6). When regionalism-related factors were relatively weak (and non-regionalism related factors were strong), regionalism could only play 'second fiddle' (e.g. convergence of customer tastes in NAFTA – Chapter 5). When regionalism-related factors were weak (and non-regionalism related factors were weak), regionalism's impact was argued to be ambiguous or non-existent (e.g. lack of common commercial policy in NAFTA, Schengen in the EU – Chapter 4). (See Figure 8.1 for illustration)

[440] Katzenstein, *A World of Regions*, 22; Mattli, *Explaining Regional Integration Outcomes*, 3

		Regionalism-related: Strong	Regionalism-related: Weak
Non-Regionalism related	Strong	Enabler/'In Tandem'	'Second Fiddle'
	Weak	Driver	No/Ambiguous Impact

Figure 8.1 – Interplay of Regionalism/Non-Regionalism Factors

Figure 8.1 is only a stylised summary of the effects of regionalism, as described in individual chapters. While there were obvious cases where regionalism was driving change (e.g. standards), or its role was pivotal but in itself was only a necessary but not sufficient condition (e.g. locational choices, sales heterogenisation), at other times regionalism was just one of several factors, and disentangling its effects were more complicated. Nevertheless, these findings are argued to show that regionalism's impact is varied in its intensity and in the ways it leads to change. More significantly, they show that intensity is not necessarily linked to the type/intensity of regionalism but to the interaction between regionalism and non-regionalism factors, on the one hand, and the particular aspect of regionalisation, on the other.

8.1.2 Varied Impact on Different Firm Activities

It was argued that regionalism effectuated changes through three, larger groups of regionalism-related mechanisms: negative, and positive integration measures, and ideational factors. (Figure 8.2) These impacted all three examined aspects of regionalisation but to a largely varying degree.

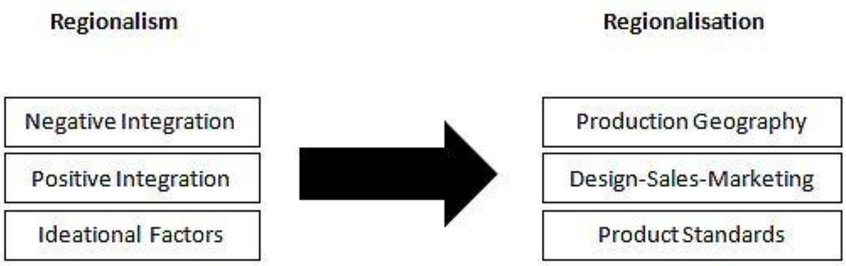

Figure 8.2 – Regionalism-Related Factors and Regionalisation

Negative integration (the removal of barriers) was found to have had a strong impact on the ‘production geography’ and ‘design-sales-marketing’ of firms, in both regions. Positive integration (common policies to achieve integration) had a strong impact on ‘product standards’ in the EU, and played smaller roles in ‘production geography’ and ‘design-sales-marketing’. In NAFTA, its absence was at times substituted by non-regionalism related dynamics. Ideational factors, understood as a ‘template for decisions’, played a role in most aspects of regionalisation in both regions when firms made long-term decisions about their regional presence; ideational factors as ‘regional identity’ were less prominent but nevertheless present in the EU. National political dynamics related to the regional frame were found to have played a role (e.g. locational choices, regional market), often limiting the impact of regionalism, in both regions.

Regionalism was argued to have had a *strong* impact on the geography of production (i.e. manufacturing locations, and the structure of the firms). The type and intensity of regionalism was *secondary* in both regions because it was the initial tariffs removal which enabled non-regionalism related economic processes to come to the fore (e.g. scale building, efficiency savings, etc.); other aspects of regionalism were found to have been overall secondary. In *spatial* terms, this led to the development of dispersed and polycentric production networks. While new locations in the periphery offered important cost savings and new opportunities in good times; old locations promised important government support in hard times. Thus, to reap maximum benefit, firms had the incentive to be present in both core and periphery countries. In *organisational* terms, firms responded by horizontally and vertically integrating their sites and national subsidiaries into regional networks.

Regionalism was argued to have had a *strong* impact on market regionalisation in both the EU and NAFTA, but the outcomes were different because non-regionalism factors in NAFTA acted in tandem with regionalism, while in the EU as a countervailing force. Regionalism enabled competition which led to the heterogenisation of sales in both regions. Firms increasingly moved to regional design, common platforms, and marketed their products regionally; regionalism here acted in tandem with non-regionalism factors. In the EU, advertisement was also increasingly regional; in NAFTA, customer tastes converged. However, in the EU, customer tastes and demand have remained nationally segmented due to non-regionalism related factors. The type and intensity of regionalism was of *primary* importance in the EU: it needed negative, positive integration and ideational elements to effectuate change; in NAFTA, where negative integration alone was enough, was *secondary*. Market regionalisation was argued to show the current frontiers of regionalism: it could change entrenched customer tastes, closely linked to identity and long-term historical processes, only to a limited extent.

Regionalism's impact through standard setting and harmonisation, including safety standards, vehicle type approval, and emission standards was relatively *strong* in the EU; it was a driver of regionalisation. In NAFTA, regionalism's impact was relatively *weak*, in accordance with theoretical expectations. However, non-regionalism factors led to some degree of regionalisation, as standards in Canada and Mexico have converged voluntarily towards the US ones. The type and intensity of integration was found to be of *primary* importance in both regions. Regionalism exerted its influence through positive integration measures in the EU; regional rules and institutions replaced national ones. Uniform regulations made building of scale economies and transformation into truly regional companies possible, while it ensured that there was no race to the bottom in terms of quality. In NAFTA, non-regionalism factors, in particular the dominance of the US, was conducive to voluntary convergence of technical regulations, safety standards, and vehicle-type approvals, and allowed the emergence of a rudimentary regional regulatory space. It was argued that even if NAFTA adopted regional standards, they would logically have to be regionally-applied US standards otherwise the switch would be too costly for firms.

8.1.3 Varied Impact on Regions

One of the central arguments of this thesis was that varied regionalisation outcomes do not depend on the type and intensity of regionalism alone. Instead, outcomes depend on the interplay between regionalism and non-regionalism factors, and the varied aspects of regionalisation (e.g. production, marketing, etc.). This is illustrated in Figure 8.3 which shows that regionalism's impact and the importance of its type on regionalisation outcomes are not necessarily correlating with theoretical expectations. Similarities and differences between the EU and NAFTA do not follow their degree of institutionalisation, and intensity of regionalism.

Regionalism's Impact / Importance of Type	EU	NAFTA	Regionalisation Similar/Different
Regional Space: Regionalisation of Production	Strong/Secondary	Strong/Secondary	Similar
Regional Customers: Regionalisation of Sales	Strong /Primary	Strong/Secondary	Different
Regional Regulations: Regionalisation of the Product	Strong/Primary	Weak/Primary	Different

Figure 8.3 – Matrix of Regionalisation Outcomes

In production geography ('regionalisation of production' – Chapter 4) similarity between the two regions was driven by similar negative integration measures (i.e. removal of tariffs), and the inherently similar business/industry-specific logic of the same firms that regionalism enabled. However, the similar outcome in both spatial and organisational terms is still unexpected from the perspective of regionalism. After all, in the EU several positive integration measures and ideational factors also influenced regionalisation while the former were largely absent in NAFTA. It was contended that similarity drivers between the two regions became salient as variation drivers had been weakened by two congruent developments: first, positive integration and ideational factors had less importance for firms, and second, structural and historical differences in the regional development of the industry were balanced out by other measures.

In market regionalisation ('regionalisation of sales' – Chapter 5) the outcomes were different because non-regionalism factors (customer taste and demand) acted in tandem with the strong impact of regionalism in NAFTA, whereas they acted against the otherwise strong regionalism impact in the EU, keeping demand nationally segmented and regionalisation incomplete. Both regions had negative integration effects which helped increase competitive pressures and sales heterogenisation. The type of regionalism in the EU was of primary importance because positive integration measures and ideational factors were necessary to achieve regionalisation of design, marketing, and advertisement. In NAFTA, the type of regionalism was secondary because regionalism strengthened the positions of firms already influential on all three markets; it did not need to cope with fragmented markets of numerous, and strong national rivals.

In regionalisation of the product (product standards – Chapter 6) outcomes were different because positive integration measures were the drivers of regionalisation which the EU had, and NAFTA did not. This was the only studied aspect of regionalisation where variation conformed to concepts focused on the institutional supply of regionalism. Since replacing national standards and procedures with regional ones requires the intrusive regulatory activity, regionalism's impact was strong and its type of primary importance in the EU. In NAFTA, these processes were largely absent, some degree of voluntary convergence to US standards notwithstanding.

8.1.4 Globalisation v. Regionalisation

Similar regionalisation in varied regionalism contexts raised the possibility that the observed process is, in fact, globalisation in regional disguise. The regional embeddedness of the three examined aspects of regionalisation already suggested that this is unlikely to be the case. Chapter 7 further engaged with this question and considered two meanings of globalisation: globalisation as the transnationalisation of markets or ‘more transactions’, and globalisation as organisational level of production. Based on a rerun of Rugman’s 2001 study, it found that several car manufacturers have indeed become global, measured on their ability to generate sales revenues in all important car market regions.[441] Firms were regionally rooted but increasingly globally linked based on other measures, too (e.g. regional manufacturing for exports, etc.). However, this was a recent development; firms were still found to be dependent on their home-regions for their revenues even if they strove to become more regionally balanced, with measurable success.

Nevertheless, transformative changes, the globalisation of production chains replacing regionalised production, have only taken place to a limited degree. Parts of the productive process became more global (or crosscutting regional boundaries) but manufacturing was still predominantly organised regionally; some activities remained firmly national. Both negative and positive global market integration measures were identified (e.g. global tariff regime, global standards, etc.). However, it was argued that even if global measures became strongly conducive to globalising operations, structural reasons would still maintain strong regionalisation processes. Thus, in the debate between whether regionalism is a ‘stepping stone’ or a ‘stumbling block’ to globalisation, this thesis argued that globalisation in the car industry may be better construed as concurrent regionalisations.

[441] Rugman, *The Regional Multinationals*, 1-2

8.2 Potential for Future Research

8.2.1 Limitations and Future Empirical Research

Some of the mechanisms described in this thesis assume certain scope conditions: both studied regions have firms that can and wanted to regionalise, or trade the very least; both regions had market potential for newcomer firms to want to enter the market; and both regionalisms, through enlargements, eventually ended up having an inner periphery and core-periphery dynamics which mattered at least for spatial regionalisation. Three aspects of regionalisation were studied in detail (production geography, market regionalisation, product standards), which were argued to cover a good proportion of a firm's internationalisation problems. Some others were considered (e.g. pricing, and labour standards) but were discarded for manageability reasons. The study was limited to the car industry and by extension to producer-driven chains.

Future empirical research could include more regionalisation aspects and be extended to buyer-driven chains; while there would certainly be important differences in more mobile, and less region-dependent buyer-driven chains, the dynamic framework of this thesis could still be applied to their case. Mapping out regionalisation in the main sectors/industries of regions would provide a matrix in which both regionalism and regionalisation changes could be observed in a comparative way. Alternatively, the approach could be applied to firms based on their size to include SMEs which provide the bulk of employment and a good part of all economic activity in most regions. This could also highlight whether small firms 'grow into' regional dependence, or as they grow bigger, their reliance on the region diminishes. Remaining with the car industry, the comparative study on NAFTA and the EU could also be extended to other regions, for instance, ASEAN (or ASEAN+3) which would complete the 'triad region' of car production.

8.2.2 Theoretical Questions

8.2.2.1 Structural Constraints in Regional Integration

The findings of this thesis lead to a question, and a paradox and a dilemma, which could also lead to further research. First, the finding that non-regionalism factors can substitute what is offered by regionalism raises questions about the role of structure and agency in the development and advancement of regionalisms. The conceptual starting point of this research was the notion that regionalism creates, or at least is conducive to more regionalisation, or *de facto* integration. This mechanism is present in economic integration processes as well as in those political science integration concepts which understand regionalism as an endogenous process with actor capabilities to create regional cohesion, or 'regionness'.[442] (See Section 1.2 and 2.1.1) If regionalism is conducive to these processes and is the most determining factor impacting them, then more regionalism logically means more, and similarly varied, regionalisation.

This thesis argued however that regionalism is constrained in its ability to influence regionalisation by non-regionalism related factors therefore regionalisation does not necessarily follow regionalism in its intensity. In the studied cases, structural factors were often prominent (e.g. market fragmentation, dominant/'hegemonic' position of a member state, geography, historical legacies, etc.). These structural factors were at times found to have

[442] Hettne, *Beyond the New Regionalism*, 548

even ‘substituted’ the agency of regionalism, and enabled bottom-up regionalisation without formal regionalism.

This raises the question whether regionalism could be understood as a process which is to redress structural disadvantages; is there perhaps an ‘optimal regionalism response’ to the needs of integrating markets? A fragmented market of many competing jurisdictions (e.g. EU) may need complex institutionalisation, supranationality, etc. to be able to provide similar competitive conditions that another one can manage with loose integration, if it has a rule-maker, a dominant market in its centre (e.g. NAFTA). States may, of course, choose different (‘suboptimal’) paths in the end but their agency may be constrained by these, essentially structural factors. Differently put, could regionalisms be varied because they address diverse structural hurdles to regional integration in a varied way, rather than following similar trajectories and be at different stages in their development in the Balassian sense?[443]

This question could be subject of further studies, both empirical and theoretical. Empirics could be enriched by studying ASEAN which carries both EU and NAFTA characteristics in structural terms: numerous, competing jurisdictions, a fragmented internal market which, according to arguments advanced in this thesis, would call for some degree of supranationalism and positive integration. However, ASEAN remains consciously intergovernmental. At the same time, it has centre(s) of gravity similarly to NAFTA, except that the ‘regional hegemon(s)’ are outside the region proper; the importance of China, Japan, South Korea and adherence to their standards, customer tastes, etc. would limit the viability of an EU-like path to regionalism, or at least would require keeping regional borders porous. As for theorising, Balassa’s ‘stages of integration’ approach still remains a strong and compelling argument; integration levels and the notion that structural factors contribute to or limit the pressures for advancing integration are not mutually exclusive.

[443] Balassa, *The Theory of Economic Integration*, 1-21

8.2.2.2 Who Supports Integration

Soderbaum argues that regionalisation may also emerge without any *de jure* regionalism.[444] This inquiry found that some aspects of regionalisation did indeed take place without much influence of regionalism (e.g. customer taste convergence in NAFTA), but argued that most of the examined regionalisation indicators were strongly influenced and/or driven by regionalism. Thus, it was argued that regionalisation (at least in the EU and NAFTA, and in the car industry) is firmly embedded in regionalism. Regionalism was able to robustly shape where firms operate, what and how they produce, and where and how products are sold.

This highlights a paradox of regionalism. The firms which are most likely to be winners of regionalism (transnational corporations and growing regional multinational enterprises), and are consequently the most likely to support (further) integration, are also the ones which are most likely to be constrained by regional regulatory segmentation if regionalism advances. These are often the same transnational firms whose operations in varied regions could potentially benefit from more 'globalism', rather than supporting further regional integration. Firms, particularly transnational corporations, are also rather adaptable to their environments even if it is less than optimal, thus their allegiance to regional integration may be largely conditional. Thus, "big business' demand for regional rules, regulations, and policies" which is a "critical driving force of integration" may actually be pushing for 'global integration', or at least 'porous borders' to regions.[445]

The dilemma for firms is then whether they should support regionalism which provides them with regulatory advantages, the opportunity to shape the regional and, through

[444] Frederik Soderbaum, "Regionalism", In: George Ritzer (ed.), *The Wiley-Blackwell Encyclopaedia of Globalization*, (Chichester, UK: Wiley-Blackwell, 2012), 1-3.
[445] Mattli, *Explaining Regional Integration Outcomes*, 3; Katzenstein, *A World of Regions*, 22

it, the global regulatory environment, first-mover advantages, and regulatory arbitrage, or they should push for globalism which offers them greater flexibility in production chains, and cost savings. If they choose the former, they may build 'stumbling blocks' to globalisation; if the latter, regionalisms may become mere 'stepping stones' to globalisation. This may turn out to be a double-edged sword; customer markets are at best regionally segmented, demanding different, regionalised products, with related problems often best regulated with regional standards, and at the regional level. This thesis argued that this dilemma may be a false dichotomy: globalisation in the car industry is still better construed as 'concurrent regionalisations'. Its future may lie not in an 'either/or' outcome but in a mixture of regionalisation and globalisation, as two, coexisting processes.

The question then could be asked: if regions have porous borders because of globalism and globalisation processes, under what conditions will demand be for more regionalism, and for more globalism? Brexit in the EU, at least partially, is 'argued' on the notion that alternative arrangements (i.e. globalism and globalisation) can replace the narrower confines of regionalism and regionalisation. American threats to terminate NAFTA suggest that big states can decide that they no longer want to be suppliers of any sort of regulatory regimes which may constrain them.[446] In Europe, the instinctive answer to any crisis historically has been more integration, adhering to the advice of one of the EU's 'founding fathers', Jean Monnet, who argued that Europe "would be forged in crises, and will be the sum of solutions adopted for those crises".[447] Crises abound. Does support for regionalism, too?

[446] Donald J. Trump, @realDonaldTrump, *Twitter*, (27 August 2017), Accessed: 14 September 2017. https://twitter.com/realdonaldtrump/status/901804388649500672?lang=en
[447] Jean Monnet, *Memoirs*, (Garden City, NY: Doubleday, 1978).

APPENDICES

Chapter 4

Table 1 – Corporate Tax Rate Levels in Selected EU Countries

Corporate Tax Rates in Selected EU Countries 2006 – 2014 (in percentage)									
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
United Kingdom	30	30	30	28	28	26	24	23	21
France	33.33	33.33	33.33	33.33	33.33	33.33	33.33	33.33	33.33
Germany	38.34	38.36	29.51	29.44	29.41	29.37	29.48	29.55	29.58
Belgium	33.99	33.99	33.99	33.99	33.99	33.99	33.99	33.99	33.99
Italy	37.25	37.25	31.4	31.4	31.4	31.4	31.4	31.4	31.4
Spain	35	32.5	30	30	30	30	30	30	30
Hungary	16	16	16	16	19	19	19	19	19
Czech Republic	24	24	21	20	19	19	19	19	19
Slovakia	19	19	19	19	19	19	19	23	22

Source: KPMG Corporate Tax Rates Table, Accessed: 29 April 2015
http://www.kpmg.com/global/en/services/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx

Corporate Tax Rates in NAFTA Countries 2006 – 2014 (in percentage)									
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
United States	40	40	40	40	40	40	40	40	40
Canada	36.1	36.1	33.5	33	31	28	26	26	26.5
Mexico	29	28	28	28	30	30	30	30	30

Source: KPMG Corporate Tax Rates Table, Accessed: 29 April 2015
http://www.kpmg.com/global/en/services/tax/tax-tools-and-resources/pages/corporate-tax-rates-table.aspx

Table 2 – Gross Median Salaries of 'Automotive Engineers' with 1-Year Experience

Automotive engineer with 1 year experience Median gross salaries in selected countries in euros (2015)*	
United Kingdom	3439
France	3280
Belgium	2928
Italy	2868
Spain	2390
Hungary	1061
Czech Republic	1037
Slovakia	886**

*Data based on WageIndicator http://www.wageindicator.org/main/salary/Salarycheckers Accessed: 28 April 2015
**Average monthly wage for mechanical engineers at Volkswagen in Slovakia was reported at €1200. In: Barbora Brngalova and Marta Kahancova, *Governing the Metal Sector in Slovakia*, CELSI Research Report (No. 6, 2013), 26

Chapter 5

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