

Overseas Market Information



Slovakia – Field Market Survey

(Continued from previous issue)

The Slovak Industry

Development

The transformation of economic and social life after 1989 was much harder for the economy of the Slovak part of former Czechoslovak Federation. There were many structural deformation from the period of centrally planned economy. These deformations were mostly the result of an effort to increase the industrial development of Slovakia after 1948.

This transformation had the strongest impact upon the armaments industry. Before 1989 the armaments industry in Slovakia represented 80 per cent of the Czechoslovak armaments production. In 1987, during the period of its strongest development, the armaments production represented 5 per cent of the total industrial production and 12 per cent of total exports. There were about 80,000 Employees working in this field.

Approximately 70 per cent of this production was exported. Due to the decision of the federal bodies, production was lowered to a minimum. This decision also resulted from other objective factors including the end of the Cold War and the disintegration of the Warsaw Pact and Council for Mutual Economic Aid. The absence of substitute production programmes resulted in serious transformation problems in engineering for the next few years. Only in 1994 did the production in this field of engineering begin to slowly grow with the decisive production programmes for the production of cars (Volkswagen), vehicles, subcontracts for foreign automobile industry, production of bearings and the shipping industry.

Other fields of industry were not affected by the transformation process as much as the engineering industry. Chemical, metallurgical and pharmaceutical industries are the most important cornerstones of the Slovak economy. Part of the timber industry, pulp mills, textile and clothing industry, producers of electronics, food and tobacco industry were also relatively successful during the transformation into the conditions of a market economy.

Industrial Production in Slovakia

<i>NACE Sections & Subsections</i>	<i>2003 million SK</i>
Industry in Total	1 339 076
of which :	
Mining and quarrying	12 802
of which :	
Mining and quarrying of energy producing materials	8 810
Mining and quarrying of except energy producing materials	3 992

<i>NACE Sections & Subsections</i>	<i>2003 million SK</i>
Manufacturing in total	1 102 394
of which :	
Manufacture of food products, beverages and tobacco	119 032
Manufacture of textiles and textile products	36 271
Manufacture of leather and leather products	15 115
Manufacture of wood and wood products	41 593
Manufacture of pulp, paper and paper products; publishing and printing	60 464
Manufacture of coke, refined petroleum products	58 587
Manufacture of chemicals, chemical products and man-made fibres	43 521
Manufacture of rubber and plastic products	49 909
Manufacture of other non-metallic mineral products	47 615
Manufacture of basic metals and fabricated metal products	176 059
Manufacture of machinery and equipment n.e.c.	74 270
Manufacture of electrical and optical equipment	102 443
Manufacture of transport equipment	233 255
Manufacture n.e.c.	44 260
Electricity, gas and water supply	223 879

Consequences of EU Enlargement for Slovakia's Industry

Strengthening of the economic power of Europe and its companies within the global economy struggle is the very purpose of the European Union enlargement process. The growth of the economic power of the EU is tightly linked with above all the ability of the industry to maintain and to develop its competitiveness and at the same time to strive broader social, environmental and international ambitions. Enlargement is expected to bring about a significant contribution towards the growth of the competitiveness of industry. Enlargement will be the major source of opportunities for the industry for both the new and the current member states of the European Union.

EU accession will bring Slovakia speeding up of its economic growth. The GDP generation dynamics will positively influence an increased volume of foreign direct investments in particular, along with financial aid from structural funds and growing consumption as a result of changes in income levels, and the Slovak Republic will become part of the uniform single market and Customs territory of the EU. Relations with the member states will thus be of the intra-Union nature.

With the accession, the trade relations of the Slovak Republic with non-member states will follow uniform principles based on the application of equal tariffs and equal trade arrangements. They will be charges of Union Customs tariffs upon imports and these are higher than it is the case at present in the SR, in particular with respect to agri-foods and textiles. Also, the Slovak Republic will take over the system of EU measures of protection against unfair trade practices vis-à-vis third countries (dumping, prohibited subsidies, additional anti-dumping equalisation duties). After the accession, such measures will concern about 1 per cent of the imports from non-member states.

Access to third country markets for goods originating in the EU will be secured by concluding preferential agreements; on the other hand,



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the Slovak Republic will take over EU preferential regimes concerning aid to developing countries.

With the accession, pro-export policies will remain the full competence of the member states. The extent of the aid provided to Slovak exporters will be dependent on mainly the potential and decisions taken by the SR. It is the granting of export credits only with respect to which provisions of EU directives and decisions concerning insurance and financing of exports with state aid will have to be respected.

Principally, the EU enlargement process is a coordinated adjustment of existing and new members in the development of world economy. They are characterised by mainly continuing intensification of globalisation processes, broad-spectrum development and utilisation of new technologies, development of the inventive backyard, business skills, and progress in achieving sustainability. Industrial development is of particular importance for economic growth and competitiveness of EU-25.

Europe enlargement will bring in specific problems, in particular for industry of member states. Enlargement of Europe will require industrial policy to be reviewed. What will remain in the centre of its goals will be the development of the EU growth potential, i.e. higher growth rates, higher standard of living, numerous and stable jobs. A contribution towards all this will be brought by also an improved integration of other policies that affect competitiveness (trade policy, single internal market policy, energy and transport policy, research and development policy, competition-related policy, regional policy, inter-linkage of macro-economic and structural policy).

The outcomes of Slovakia's economy restructuring suggest that the response of the previous development to the challenges and the key trends of processes connected with the new economic globalisation were less efficient than those of the economic system of the EU.

EU accession will speed up the actual completion of the transformation of Slovakia's economy, while at the same time providing a wider space for targeted establishment and utilisation of dynamic comparative advantages.

Industrial Production in 2004

The production in industry in September 2004 compared with September 2003 went up 5 per cent. In the industrial production, manufacture of pulp, paper and paper products, publishing and printing reached the highest year-on-year increase (39.3 per cent). Also the production in manufacture of electrical and optical equipment (by 15.6 per cent) rose faster than on average for a branch, in manufacture of wood and wood products (by 14.1 per cent), in manufacture not classified elsewhere (by 11 per cent), in manufacture of machinery and equipment not classified elsewhere (by 10.7 per cent), in manufacture of chemicals, chemical products and man-made fibres (by 10.3 per cent), in manufacture of rubber and plastic products (by 7 per cent) and in manufacture of coke, refined petroleum products and nuclear fuels (by 4.9 per cent). It was lower than a year ago in manufacture of transport equipment (by 12.4 per cent), in manufacture of leather and leather products (by 12.2 per cent), in manufacture of other non-metallic mineral products (by 4.6 per cent) and in manufacture of textiles and clothes (by 4.3 per cent).

Concerning the purpose of final use, a development rate was accelerated mostly by a rise in production of long-term consumption goods by 27.3 per cent. Production relating to energy increased by 7.6 per cent, production for intermediate consumption by 6.5 per cent and production of short-term consumption goods by 0.5 per cent. Production of investment means fell by 1 per cent.

Over the nine months the production of industry was 5.1 per cent higher than in the same period of the last year, of which by 5.8 per cent in industrial production and by 4.4 per cent in electricity, gas and water supply. It declined by 10.7 per cent in mining and quarrying.

According to the purpose of final use, production of long-term consumption goods rose by 12.5 per cent, production of investment means by 9.9 per cent, production for intermediate consumption by 7.5 per cent and production relating to energy by 2.7 per cent. Production of short-term consumption goods was down by 7.7 per cent.

A list of associations in the Slovak Republic is enclosed as *Annexure VI*.

The Engineering Industry in Slovakia

Metal processing has a long history in Slovakia. It is connected with the metal mining, metallurgical and metal production industries. Its beginnings go back to the 17th century when the production of copper in the region of Banska Bystrica represented about 12 per cent of world production. Iron-ore mining and processing were also started in Gemer and Eastern Slovakia region in the 17th century.

The mining industry served as a basis for the boom of the iron making industry. During the Napoleonic wars there was an increase in the production of arms. From 1805 arms (especially carbines and pistols) were produced in large amounts in iron production complexes in the Liptovsky Mikulas and Banska Bystrica regions. Nevertheless, in this period, the main centre of iron production was Gemer with companies like Muranska unia and Rimavska Koalicia. These regions have subsequently become centres of engineering production.

The development of this production was seen after the World War I, but during the economic crises in 1930s there was some recession. The biggest development started after World War II and was connected with the creation of the Council for Mutual Economic Aid and Warsaw Pact. After 1989 recession in the production of arms took place.

After the problematic development of major part of Slovak engineering industry after 1999, positive trends took place in some fields - production of cars and car components, production of metal constructions, ships and boats, energy engineering, production of sanitary equipment and armatures, household equipment, production of bearings and transmission gear.

Over 500 enterprises with more than 20 Employees are engaged in engineering in Slovakia. However, a substantial part of the production is represented by 100 firms. The share on the total industrial production, held by engineering has also been on an increase in the recent years. The majority of the engineering plants are in private hands and their representatives stress the necessity and willingness to search for foreign partners and investors.

The most important engineering enterprises with foreign interests include Volkswagen, Slovakia, a.s., Bratislava, Johnson Controls International, s.r.o., Bratislava, INA, s.r.o., Skalika, INA Kysuce, a.s., Kysucke Nove Mesto, Sachs Slovakia, s.r.o., Trnava, VAP, a.s., Presov and Sauer Sundstrand, a.s., Dubnica. In the last few years in Slovakia suppliers of Volkswagen especially invested in new plants for assembly lines of car parts and sub-groups.

Automotive Industry

Slovakia has become one of Europe's most attractive locations for automotive industry investments in the past five years, following sweeping reforms by pro-western leaders that have included joining the EU on May 1, 2004.

Slovakia manufactures over 225,000 cars a year with a potential annual production of 850,000 cars sometime in 2010. Volkswagen



is currently the only major carmaker assembling vehicles in Slovakia. As of 2006, French PSA Peugeot Citroen will initially produce 300,000 cars at its 700-million-euro plant. The third car producer is KIA Motors, an affiliate of the South Korean carmaker Hyundai Motor Co., which will invest \$ 871 million to build its first European plant in Zilina. These investments will make Slovakia the world's largest per capita automotive producer by 2007.

In the communist era, the State Government promoted the development of heavy industry in rural areas and focused on military production. After the Warsaw Pact was dissolved, conditions changed and defence production stopped. Thus production of traditional Czechoslovakian cars also slowed. Slovak producers began to look for new customers and production opportunities.

In 1992 Slovakia's automotive industry was transformed when Volkswagen agreed to take over an automotive component plant outside of Bratislava. The plant quickly ramped-up production and formed the foundation of the current Slovak automotive sector. This included the development of a strong network of domestic suppliers, who sold to assemblers both at home and abroad.

In 2003 and early 2004 both Hyundai Kia and PSA Peugeot Citroen announced their plans to build large final assembly plants in Slovakia. This investment will nearly triple automotive investment output by the end of the decade and remains the key driver of the Slovak economy.

Slovakia's location is also advantageous from an automotive industry perspective. The country is fast becoming an automotive hub - there are currently over fifty Tier 1 and Tier 2 auto suppliers in Slovakia, supplying clients all over Europe and beyond. Further, many more are expected to locate in Slovakia to supply the new Kia and PSA plants currently being built.

When these plants are fully operational in 2007, there will be up to 850,000 cars (estimated up to 1,000,000 cars) produced annually in Slovakia, making it the largest producer of automobiles per capita in the world.

In 2003 the turnover of Slovak automotive industry manufacturers reported 50.7 per cent growth compared to the previous year. With doubled turnover, manufacturing of components for automotive industry had the most significant growth. Ratio of automotive industry on Slovak industrial production was 25.4 per cent in 2003 (19.5 per cent in 2002). Number of people employed in automotive industry represents 10.9 per cent from total industry employment. Proportion of this group on total industry revenues is 25.4 per cent.

Automotive Industry Structure

Table with 6 columns: Revenues in Bill. SK, 1999, 2000, 2001, 2002, 2003. Rows include Industrial production SR, Auto Industry - manufacturers, AID - sale and services, Employees in thousands, Industrial production SR, Auto Industry - manufacturers, AID - sale and services.

Foreign Trade Balance

Table with 7 columns: In bill. SK, 2002 (Import, Export, Balance), 2003 (Import, Export, Balance). Rows include SR total, Auto Industry, Manufacturers, V W, Auto Importers.

Current rate of exchange 33.10 SK = \$1

Foreign trade balance affected several factors. On one side, vehicle imports, which reported annual growth due to import of spare parts as well as due to assortment of imported vehicles. On another side, foreign trade balance of manufacturers resulting from growth of manufacturing volumes in V W Slovakia and conversion on more demanding models, causing higher demand for component supplies. Existing statistics proves that automotive industry in Slovak Republic has strong pro-export orientation and in whole keeps active balance of foreign trade. On total country exports, share of automotive industry represents almost 32 per cent.

Investments in the Automotive Industry

Table with 6 columns: In mill. SK, 1999, 2000, 2001, 2002, 2003. Row: Investments total

Current rate of exchange 33.10 SK = \$1

Total investment volumes for 2003 in industrial parks Lozorno, Küster and Plastic Omnium represent 226 mil. Euro, which converted on Slovak currency makes 9.2 mld. SK. Investments for PSA appr. 2 mld. SK. Due to building PSA plant in Trnava and following increase in component production for automotive industry in year 2004, the industry expects investment volumes for automotive industry on level of year 2001.

Vehicle Production Development

Table with 3 columns: Year, 1993, 2003. Rows include Passenger cars, LCV, Trucks, Purpose, Trailers/Semitrailers, Buses, Agr. tractors, Motorcycles.

By the end of 2006, there will be three car producers in Slovakia : Volkswagen in Bratislava (one of its largest production units). PSA Peugeot in Trnava and Hyundai Kia Motors in Zilina. According to foreign sources, three unspecified potential investors are eyeing Slovakia - Mazda, Honda and Toyota, all Japan-based. In addition, Slovakia is in preliminary talks with the British carmaker MG Rover over a new \$ 244 million plant in central Europe, which could produce up to 100,000 cars a year. There are also negotiations over a \$ 36.5 million plant with Japanese tyre manufacturer, Bridgestone, which seeks a location in Central Europe to manufacture tyres for its contracted European customers including German-owned Volkswagen, operating one of its largest production units. If any of the abovementioned companies chooses Slovakia for its investment, the current 134 suppliers cannot meet the production capacity needs.

Competitive Analysis

The flat 19 per cent income and value-added tax adopted this year, together with the country's advantageous geographical location and its educated, relatively cheap labour force, make Slovakia a favourable place for investments just like Southeast Asian countries.

(Source : EEPC Duesseldorf Office)

(To be continued at next issue)