



Organisation Internationale des Constructeurs d'Automobiles  
International Organization of Motor Vehicle Manufacturers

## **How can public policies attract investment in the automotive sector?**

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### Introduction

In economic terms, the vehicle manufacturing industry and its products are strategically important. The automotive industry does not just manufacture passenger and commercial vehicles. Motor vehicle manufacturers help drive national economies.

In fact, manufacturing motor vehicles is vital to a strong economy, since around the world, prosperity is so linked to mobility. Countries with high mobility and a strong automotive manufacturing presence contribute significantly to their local economies through wages and salaries, purchases of components and services and tax payments.

Vehicle manufacturing requires very high investments in terms of research, development, manufacturing facilities and processes, and manpower.

With their high technological content and consumer value, vehicles have a high social and economic influence and are a vector for development in many other industrial sectors. Motor vehicle manufacturers are among the largest purchasers of products such as aluminium, copper, iron, plastics, rubber, textiles, vinyl, steel and computer chips. Motor vehicle manufacturing depends on a broad range of parts, components and materials provided by thousands of suppliers, as well as a vast retail and vehicle maintenance network.

No other single industry is linked to so much manufacturing or generates so much retail business and employment, especially skilled technical jobs for workers engaged in designing, engineering, manufacturing and supplying parts and components to assemble, sell and service new motor vehicles.

Moreover, the automobile product requires a sophisticated and efficient logistic network, including adequate transport infrastructures, due to the ever increasing globalisation of the markets.

A number of factors therefore affect automotive investment decisions, such as:

### 1. Market potential

Investment policies are strongly dependent on market potential, from a national and a regional point of view. It is clear that no such investment decision will be made if the market, nationally or in the regional neighbourhood does not justify a significant investment.

In order to realise the true market potential, it is therefore also vital that governments set an attractive and stable framework, such as in the field of vehicle taxation, technical requirements, fuel policy and road infrastructure.

Vehicle production facilities can also serve as an export base to other countries.

An open market access will be important for all trading partners worldwide and will support international growth chances of the entire automotive industry thru improved consumer choice, competitive improvements and export potential.

## 2. Legal stability and predictability

Industry needs fiscal and regulatory stability and predictability. Given the long term nature of its development, the automobile industry needs the perspective of a stable framework in which to operate. This legal framework is one of the most critical parts of the overall country competitiveness and plays a major role in the investment decision.

Such framework includes:

- Taxation issues (such as company and/or vehicle taxation), taking into account the characteristics of the market and the price sensitivity of the consumer base; governments should also take initiatives to strengthen the equity capital base by attracting and promoting re-investments of company profits.
- Stability of regulatory policies consistent with local conditions, market access conditions, and private investment protection.
- Efficient and fair bureaucracy, ensuring that the necessary licenses are delivered quickly, without excessive red tape. Studies show that this is one of the top factors determining the competitiveness of a country.
- Protection of intellectual property in technical or design solutions, which is an essential condition for innovation in the automotive industry.

The WTO principles of national and most-favoured-nation treatment should be applied to Foreign Direct Investments. Adequate protection should also be provided through fair and equitable treatment as well as dispute settlement mechanisms.

Incentives for investments and, more generally, any measure aimed at market protection always needs to be WTO compliant.

## 3. Skilled workforce and competitive labour costs

Vehicle manufacturing is complex, involving a wide variety of operations and processes, especially considering the increasingly high technological content. It is therefore important to have the cooperation of a skilled work force able to complete these various tasks. Consequently, the local education systems need to lay down the foundations of a well trained work force that could support the entire automotive value chain.

## 4. Suppliers

Suppliers at various levels play an increasingly important role in vehicle development and manufacturing. Any investment decision will therefore be based also on the availability or the development of an adequate network of suppliers in the country or region.

Suppliers also need to be able to adapt their processes to manufacturers' very demanding requirements in terms of quality control, flexibility, just-in-time delivery, to name only a few. Therefore, stimulating investments, including global investments in the supply chain industry would play an important role in attracting incremental investments in the vehicle manufacturing activity.

## 5. Logistics

Vehicle manufacturing is a material intensive process with an almost continuous incoming flow of goods to be processed during vehicle manufacturing. In parallel, finished products must reach the delivery chain before reaching their final customer.

An efficient transport infrastructure (road, train, maritime, air or a combination of these) is therefore an important factor for any investment decision.

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