Tensions in the Periphery: Dependence and the Trajectory of a Low-Cost Productive Model in the Central and Eastern European Automotive Industry

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ABOUT THE PROJECT

This study was prepared in the larger framework of “The Changing Nature of Employment in Europe in the Context of Challenges, Threats, and Opportunities for Employees and Employers” initiative (http://www.changingemployment.eu). The ChangingEmployment program is a Marie Curie Initial Training Network funded by the Seventh Framework Program of the European Commission between 2012-2016. This paper focuses on Romania, and is part of a series of studies on trade union strategies in the automotive sector in Eastern Europe. Other studies in the series focus on Poland, Slovakia, and Hungary.

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TENSIONS IN THE PERIPHERY: DEPENDENCE AND THE TRAJECTORY OF A LOW-COST PRODUCTIVE MODEL IN THE CENTRAL AND EASTERN EUROPEAN AUTOMOTIVE INDUSTRY

Dragoș Adăscăliței and Ștefan Guga
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INTRODUCTION

The automotive industry has been one of the vital components of the manufacturing complexes of Central and East European (CEE) countries both before and after the demise of state socialist regimes. If before 1990 the industry was largely state owned, during the first postsocialist decade CEE states privatized most of their assets to foreign multinationals. This paper seeks to contribute to the literature on the CEE automotive industry and industrial relations by focusing on the Dacia–Renault factory in Romania. Particularly, we are interested in the strategy employed by Renault for its Romanian investment, the adaptation of Renault’s existing productive model according to this strategy, as well as the implications of this productive model for enterprise-level industrial relations.

We begin by embedding the story of Dacia’s privatization into the larger CEE context. A survey of the literature on foreign direct investments (FDI) in the CEE automotive industry shows that these investments initially followed a “low-road” strategy that gradually shifted into a complementary specialization strategy, which came along with a more pronounced interest from components manufacturers to invest in the region. Taking advantage of the low production costs, automotive manufacturers used CEE as a staging ground for developing low-cost models destined to respond mainly to consumers in postsocialist countries, but which also began to appeal to Western consumers. In the case of Dacia, the Logan project took a more radical approach to the concept of low-cost production. The Logan was conceived as a car cheap enough to compete with older models produced in the region, yet with high enough quality to compare with Western standards. Against the odds, the project ended up being a remarkable success story. We analyze how this was possible and what made Dacia become Renault’s “profit machine” (Automotive News Europe 2012).

The success registered by Dacia with its Logan project has not been without its problems. The low-cost productive model of Renault’s Romanian subsidiary has generated recurrent conflicts between labor and management, which have been temporarily solved through moderate increases in wages and improvements in working conditions. In the absence of market competition for models based on the Logan platform, a productivity-for-wages bargain—forged between the plant union and management after an almost three-week long strike in 2008—seemed to offer the necessary stability in the relationship between the two actors. As we will show, however, this bargain proved to be a double-edged sword for both company and union. While it secured higher wages for workers, it also altered the
strategy used by management in attempting to contain future wage increases. In recent years, threats with relocation and automation have become more frequent and, despite their questionable credibility, have not remained without consequence for the local union’s negotiation approach. A discussion of these strategic dilemmas suggests several hypotheses regarding not just Dacia’s future but also the future of CEE automotive industry as a whole and the region’s peripheral status within the EU. In the following, we develop each of these points in light of the empirical evidence gathered from fieldwork at the Dacia plant.

DEPENDENT MARKET ECONOMIES, GLOBAL VALUE CHAINS, AND PRODUCTIVE MODELS

During the past decade, studies have gradually moved from analyzing the political economy of transitions in terms of the capacity of these countries to emulate Western models of development towards a historically informed understanding of the factors that are specific to the region. In consequence, the turn towards historically informed studies they manner in which CEE capitalisms are depicted: from economic and social systems that are organized in a sub-optimal manner and never seem to succeed in reaching the institutional coherence found in Western countries towards capitalist regimes as such, with their own set of defining features.

In this key, the adaptation of the “varieties of capitalism” (VoC) approach to the CEE context (Nölke and Vliegenthart 2009; Vliegenthart 2010) has provided a particularly articulate framework for making sense of the regions’ socio-economic transformation. As opposed to the “liberal” and “coordinated” market economies analyzed in the initial version of VoC, Nölke and Vliegenthart identify a third type, specific to CEE, which they name “dependent market economy” (DME). Similarly to the two initial varieties, the coherence of the DME model stems from the existence of a relatively stable arrangement of complementary institutions regulating the core of capital-state-labor relations. What differentiates it from the other two models is its structural dependence on FDI, drawn to its abundant supply of comparatively cheap and skilled labor. This renders the intrafirm hierarchies of transnational corporations into the distinctive coordinating mechanism of DMEs. FDI and foreign-owned banks serve as the primary means of raising investment, and control by TNC headquarters bears massive weight in the system of corporate governance. Labor relations are generally non-conflictual, with foreign capital set to “appease” skilled workers, not primarily by way of wage increases (which would cancel out the very purpose of investment), but rather by improving working conditions. Furthermore, labor relations in DMEs are decentralized, with TNCs not willing to commit and even being hostile toward national- or industry-level collective bargaining. This correlates with their lack of interest in investing in the educational and training arrangements necessary to reproduce the local supply of skilled labor, as well as with the intrafirm transfer of innovations from core locations in relation to which DMEs act merely as “assembly platforms for semistandardized industrial goods” (Nölke and Vliegenthart 2009:680). As Nölke and Vliegenthart show, there is compelling evidence that since the late 1990s the Czech Republic, Hungary, Poland and Slovakia have turned into such consolidated DMEs, which makes them significantly different from other postsocialist European countries. More recently, Cornel Ban (2013; 2014) has argued that Romania also joined this group from around the mid-2000s.
The DME model has several clear advantages in comparison to other ways of dealing with capitalist development in CEE. First of all, it not only breaks with the teleology of transition, but also offers a substantive and coherent theoretical alternative. Since it highlights dependency from the very beginning, the issues of regional integration and uneven development are already built into the model and don’t have to be dealt with as a conceptual surplus. The stress on institutional complementarities trumps partial approaches that focus on a single set of relations and also manages to simultaneously point out the resilience and vulnerability of dependent political economies in CEE. Finally, it provides an excellent starting point for the comparative analysis of capitalist development in CEE in relation to its Western, Eastern and Southern neighbors.

At least in its initial formulation, these advantages are accompanied by a series of shortcomings that boil down to the actual role played by capital, labor, and the state in the DME theoretical framework. More precisely, the DME model doesn’t seem to leave any room for maneuver—nor, more broadly speaking, for agency—on the part of these three central types of actors. This renders the DME model particularly inflexible, which, when combined with its avowed claim to generality and lack of specificity, puts its entire usefulness into question. Indeed, the DME model appears particularly insensitive to any sort of variation in behavior of any of these three actors, a direct consequence of which is that, despite Nölke and Vliegenthart’s insistence that future research would have to deal with both the historical becoming of DMEs and the mechanisms that render them vulnerable, neither the past nor the future of DMEs can be accounted for in the terms of the initial model. Similarly, this rigidity seems to preclude any sort of systematic analysis of variability within the DME group. Though Nölke and Vliegenthart tend to highlight the particular vulnerabilities of DMEs, they cannot account for what might trigger them; the claimed temporary exclusion of “domestic class struggles and transnational politics” (Nölke and Vliegenthart 2009:673) from the model appears to be permanent. Some authors (Bohle and Greskovits 2012) have claimed that these are reasons enough for abandoning the DME model in favor of a Polanyian approach that leaves more room for conflict and agency. Others (Ban 2013) argue for combining the two and developing a Polanyian-inflected DME model. We take the latter path, though we claim that this requires a reevaluation of how the agency of capital, labor and the state fits into the analysis of dependency.

Admittedly, Nölke and Vliegenthart try to anticipate at least part of this criticism by highlighting not only where their argument requires further elaboration, but also that the concept of DME is from the very beginning not meant to cover everything and pertains mostly to certain dominant or leading sectors of CEE economies (2009:679)—broadly speaking, these comprise mostly manufacturing and especially industries such as automotive and electronics. It is precisely in the case of these sectors that Nölke and Vliegenthart’s assumption of a set of uniform and generic needs and investment strategies of transnational corporations proves untenable. First of all, because there are significant inter-sectoral differences when it comes to the ways in which cheap and skilled labor can fulfill capital’s needs and end up being factored into corporations’ strategies (Bohle and Greskovits 2006; Greskovits 2008). Disregarding differences in sectoral logics evacuates any chance of grasping dependence beyond a limited set of general observations and prevents any sort of systematic dealing with the internal dynamics of DMEs. To take one particularly important example, the willingness and ability of corporations to relocate from CEE if its reserves of cheap and skilled labor are threatened varies greatly between sectors,

1 Bohle and Greskovits (2006:4) define these CEE leading sectors as “industry groups that share factor intensity and product character, and significantly contribute to exports.”
since the costs and implications of relocation can be radically different from one sector to another, which, 
pace Nölke and Vliegenthart, renders the assumption that TNCs can do so on a whim completely untenable even only as a thought experiment. Furthermore, research has shown that both corporations’ strategies and FDI outcomes on the ground can differ quite radically between firms belonging to the same sector (e.g., Meardi et al. 2009b). While this might appear to be less important than inter-sectoral variation, when it comes to companies that each bear a huge weight in the overall DME dynamic, such as automotive OEMs (Pavlínek 2002), intra-sectoral differences in strategies, needs, and outcomes are of great significance cannot be left out. In a nutshell, despite apparently taking capital as a prime mover in understanding capitalism in CEE, the original formulation of the DME model strangely leaves out the very agency of capital in shaping outcomes and attributes a predefined role to transnational corporations investing in the region. We argue that a more dynamic understanding of DMEs needs to consider not only inter-sectoral differences, as Bohle and Greskovits (2006) argue, but also intra-sectoral variations, with the latter being particularly important in the case of vehicle production.

The active role of labor is virtually absent in the original DME model. Though Nölke and Vliegenthart acknowledge that the rising labor costs and the exhaustion of skill resources constitute major vulnerabilities of DMEs, skilled and cheap labor is dealt with almost as a natural resource whose supply varies in accordance with a limited set of a priori fixed principles. Labor appears as an object of capital’s “appeasement,” while transnational corporations encounter no significant issues in sticking to company-level bargaining and eluding involvement in upscale regulation. Behind this bracketing of labor agency in understanding the dynamic of DMEs lies Nölke and Vliegenthart’s reliance on the standard argument of labor weakness in postsocialist CEE (Crowley 2004). This, however, is from the very start problematic, since historical research has shown that relations of dependence based on investment in manufacturing tend to eventually produce labor unrest addressing not only working conditions, but also issues of wages and the overall improvement of labor’s share in the surplus (Silver 2003). On a closer look, within a leading sector such as the automotive industry, there is a great diversity of labor arrangements regulating both cost and skill between large companies like OEMs (Drahokoupil, Myant, and Domonkos 2014; Mrozowicki 2014). Contrary to what some others have argued (Bohle and Greskovits 2006; Jürgens and Krzywdzinski 2009), these differences cannot be considered as simply being the making of capital—i.e., as the outcomes of investment decisions and strategies of labor appeasement. Rather, issues related to labor shortage and the improvement of wages and working conditions have a great deal to do with the agency of CEE workers and unions, especially since the labor weakness argument does not seem as straightforward as it did a decade ago (Lee and Trappmann 2014; Meardi 2007; 2012; Meardi et al. 2009a). The possibility that CEE labor has a proactive role in and not just a reactive one to the fostering of dependence and uneven development (including the decentralization of collective bargaining and the incompleteness of social pacts) in the region must at least be considered and not excluded from the very beginning. It might just be that, as elsewhere, what appear to be the new European geographies of capital might also constitute new “labor geographies” (Herod 2001).

The active role of the state is similarly downplayed in the original DME model. While this can be compensated by adopting a Polanyian perspective on CEE dependence (Ban 2013), understanding the manner in which a relatively autonomous state functions in regulating the relationship between foreign capital and local labor requires a more than just simply bringing the state back in. Indeed, CEE states have not only targeted specific industrial sectors for drawing investment—again, the automotive industry
is exceptionally prominent in this regard (Pavlínek 2014)—but have also transformed themselves in the process and adopted a proactive stance toward fostering uneven development, selective growth and overall social inequality (Drahokoupil 2008). The decentralized industrial relations observed by Nölke and Vliegenthart in the case of CEE leading sectors are not simply the result of the imposition of the will of corporations, but also have to do with a simultaneous double rescaling of state spaces from the national to the local and supranational scales (Brenner 2004). The variety of inter-sectoral and intra-sectoral arrangements between capital and labor are regulated not just by intra-firm hierarchies and strategies and local-level labor empowerment, but also with de-nationalized forms of state authority (Sassen 2006). Once again, this should be particularly obvious and relevant in the case of large investments by automotive OEMs, whose regulation is not so obvious from a national perspective and have to be dealt with in terms of overlapping local, national and supranational mechanisms.

These shortcomings are partly addressed in the analysis of leading CEE sectors and especially in the by now considerable literature on the automotive industry (Pavlínek 2015:21-2). Research on dependence and automotive investment has mostly dealt with CEE integration in terms of global value chains (GVC) (e.g., Domański and Lung 2009). This has allowed for considerable room for intra-sectoral and firm-level variation; it has also provided detailed accounts of changes over time, as transnational companies readjust their strategies in response to the shifting contexts in which they operate (e.g., Pavlínek 2002; Pavlínek 2015). From this perspective, dependence appears as a much more flexible and resilient relationship and the factors triggering vulnerability are much more clearly specified. Since it emphasizes upgrading, GVC analysis allows for a more nuanced account of the capital–labor relationship and shows how substantive transformations of both actors can take place behind the generic appearance of cheap and skilled labor being used by foreign investors. Recently, authors employing this approach have moved away from a partial focus on generic sectoral investment strategies and upgrading trajectories to more contextualized understandings stressing the evolutionary character of companies’ strategies and the incremental shifts in trajectory, as changing “local conditions” are actively factored into investment decisions which in their turn have consequences for these conditions (Pavlínek, Domański, and Guzik 2009:58-9). Some scholars have taken this even further and rejected the central concept of upgrading used by GVC analysis as “a linear, deterministic process” and opted for an understanding of upgrading “as an outcome of different, sometimes conflicting strategies of investors, states and organized labor” (Bernaciak and Šćepanović 2010:124). If the need for accounting for the ways in which value chains are embedded in local institutional settings is by now generally acknowledged, it is less obvious whether the GVC perspective itself can provide a coherent and internally consistent manner in which this can actually be done. Ironically, by stressing the need to account for the complex relationships between capital, labor and the state, GVC analysis of the CEE automotive industry is compelled to hark back to the type of institutional analysis it rejected from the very beginning. In this sense, the stress on institutional complementarities in dealing with dependence that lies at the core of the DME model has clear advantages over any attempt to simply add the state and labor to the GVC mix. In other words, instead of the somewhat vague and unspecified notions of “integrated peripheral markets” or the apparently ad-hoc separation between Central Europe and Eastern Europe (Pavlínek et al. 2009), we believe retaining the notion of DME is necessary.

In a nutshell, a dynamic analysis of CEE dependence would have to account for the diversity of investment strategies, and the multiple ways in which such strategies face up to challenges raised by labor and the state in local contexts. Accordingly, there can be a great diversity of outcomes, which
directly relates to the significant plasticity and possibly quite radically different contents of dependence relationships from sector to sector and firm to firm. This is not merely an attempt at overcomplicating things by pointing at local differences rather than regional commonalities, but rather a necessary step in moving from a generic understanding of CEE dependence to a substantive account that can explain differences in trajectory and highlight the mechanisms buttressing both resilience and vulnerability of DMEs. We have argued that this is particularly obvious in the case of large automotive OEMs, whose investment strategies have a disproportionately large role in the dependent integration of CEE countries.

We argue that one alternative solution for maintaining the advantages of both DME and GVC approaches to dependence is provided by the “productive model” analytical framework developed by Boyer and Freyssenet (2000; 2002) which is specifically targeted at bringing together micro-level strategies, mutual adjustment and outcomes with macro-level regulation and institutional complementarities. Productive models are “company governance compromises” enabling a durable implementation of those profit strategies that are viable for the growth mode frameworks of the countries in which a firm is organizing activities. These compromises are forged through a series of means—a specific product policy, productive organization, and employment relationship—that “are coherent and acceptable to the people involved” (Boyer and Freyssenet 2002:20). According to Boyer and Freyssenet, a company’s profit strategy can tap into one or, at best, two of six possible available sources of profit: economies of scale, supply diversity, product quality, pertinent commercial innovation, productive flexibility, and the permanent reduction of costs at a constant volume:2 First of all, the viability of profit strategies is dependent on their being adapted to the specificities of commodity markets where they try to sell their products and labor markets where they set up production operations. These two markets are in their turn shaped by what they call “national growth modes”, differentiated by the major source of growth (either investment, consumption or export) and form of income distribution (competitive, coordinated etc.). This means that in order for a company to be able to implement a given profit strategy successfully it first needs to take account of available demand for its products and supply of labor, which translates into achieving relevancy “within the framework of the growth mode that governs the economic and political entity within which the firm is deploying its activity” (Boyer and Freyssenet 2002:19-20). The second condition of profitability consists in setting up “a durable company compromise […] between the firm’s various actors (owners, executives, employees, labor unions and suppliers) concerning the means that are to be used so that the chosen strategy can be implemented in a coherent manner” (Boyer and Freyssenet 2002:19-20)—namely, the type of product sold and market segments targeted (the product policy), the actual means of implementing this policy (the organization of production), and the role and compensation of labor (the employment relationship).

A productive model is the unintended outcome of achieving a more or less stable equilibrium between these elements, which implies that a work of adjustment has to be made in order to fit a profit strategy to the available product market, labor market, possibilities of shaping relations in production. The stabilization of a profit strategy into a productive model is neither automatic, nor the result of a single actor’s purposive design, but rather emerges “from these partly unintended processes which result in coherence between strategies, organization forms and practices, and the fit between these and the economic and social environment. It is a process of achieving internal coherence and external fit which makes companies successful.” (Boyer and Freyssenet 2002:xiv).

2 They identify six strategies employed by carmakers in the 20th century: diversity and flexibility, volume, volume and diversity, quality, permanent reduction of costs, and innovation and flexibility.
Besides providing a concise and coherent manner for bringing together company strategies, labor and national institutional complementarities, the productive models approach also provides a framework for detailed case-study research and comparative analysis of investment outcomes in CEE. Automotive OEMs vary not only in regard to their profit strategies, but also in regard to the means each company uses in attempting to achieve its set goals. Boyer and Freyssenet spend most of their research efforts in analyzing the wide diversity of profit strategies and productive models that exist within the group of automotive assemblers that the GVC approach mostly considers to be homogeneous. These differences are significant enough even in such cases in which we can assume there is no relevant variation in the growth mode. DMEs correspond to what Boyer and Freyssenet (2002:12-3) call the “competitive and price export-oriented” growth mode, in which growth is “driven by export of competitive standard products”, distribution “depends on local and category-specific balance of power”, labor is abundant and relatively poorly organized, there is a dynamic of rapid (re)industrialization, and the potential of the domestic market is limited and lacks a virtuous circle. In attempting to profit from the labor and/or market resources of such a growth mode, foreign carmakers can employ different strategies and deploy diverse means in trying to achieve external fit and internal coherence. These differential combinations entail a similarly diverse range of strengths and vulnerabilities of CEE automotive FDI. In the next section we will deal with commonalities of automotive FDI in CEE, determined by the specific conditionalities imposed by the DME growth mode on the sector as a whole. We will then move to a detailed analysis of a single case study and highlight the particular strengths and weaknesses of a low-cost productive model that emerged as a result of one OEM’s attempt at profiting from the opportunities provided by CEE since the late 1990s.

DEPENDENCE AND AUTOMOTIVE INVESTMENT IN CENTRAL AND EASTERN EUROPE

The opening up of CEE economies to global markets in the early 1990s has stirred an unprecedented transformation of their manufacturing sector. Apart from the usual story of its massive industrial decline, during the past two decades the region has also witnessed a much less discussed process of selective (re)industrialization aimed at key economic sectors. Led by investments coming from Western multinationals, the automotive industry has been at the vanguard of this latter transformation. FDI contributed to a substantial reorganization of the former state owned enterprises in terms of management style, product market orientation, and work organization methods. By 1996, the most westward group of CEE countries—the Czech Republic, Hungary, Poland, and Slovakia—were already experiencing a high degree of foreign capital penetration in their automotive industries with around two thirds of total production being foreign owned (Pavlínek 2002) and reaching over 90% in the mid-2000s, far exceeding overall manufacturing and other leading sectors such as electronics (Vliegenthart 2010:250).

The timing of this “spatial fix” (Harvey 2006) could not have been better for the Western automotive industry, which in the beginning of the 1990s was entering one of its recurrent bouts of severe crisis. With an estimated overcapacity of around 25–30 percent (Becker 2006) and saturated home markets, Western European car producers were very much keen on tapping into emerging
markets. They were also under pressure from Japanese and Korean manufacturers using just-in-time (JIT) and lean production methods as well as from their own low-cost plants in Southern Europe (Hudson 2002; Zagelmeyer 2001). These factors contributed to a rush to the East by Western automotive multinationals, who adopted rapid and aggressive strategies for acquiring existing local manufacturers as well as setting up new, greenfield operations. By 1992, Opel, Volkswagen, Fiat/GM and Renault moved to some of the CEE sites with which they had maintained historical ties. The opening up of CEE for sales and investment provided an opportunity to expand high volume production, alleviate structural overcapacity problems, and also to experiment with new organizational and management practices (Grabher and Stark 1996). In this case, once again, “[f]or the weak European industry […] growth in overall market size and an expansion in the available market space […] served as a lubricant which prevents breakdown of an otherwise fragile and highly-stressed industrial architecture” (Williams et al. 1994:177).

However, the fluctuating political and economic environments in CEE upheld the need to limit investment risks and, consequently, the first FDI pouring into car manufacturing enterprises was prudently invested in joint-stock companies, with governments sharing the burden of restructuring (Šćepanović 2013). This type of investment entailed acquiring a controlling share of state enterprises by foreign multinationals in order to lock-out other competitors (Layan and Lung 2004). In practice this meant that the multinationals had full control over industrial policies at the plant level, with governments exercising only a limited influence over the fulfilment of the privatization plans.

For governments, automotive FDI was meant to compensate for the lack of their own lack of required material resources and know-how for investing in state-owned enterprises and modernizing outdated industrial facilities. But governments’ embracing of foreign investment also reflected a belief that privatization to foreign investors was the only way to achieve prosperity (Bohle and Greskovits 2012). As a result, in order to attract FDI, governments introduced special incentives for multinationals (Drahokoupil 2008). Although the exact shape of these policies varied from country to country, they usually entailed modifications to import tariffs, tax breaks, and guarantees for investments in dedicated infrastructural projects.

Besides being cautionary, the first phase of investments in CEE adopted a “low-road” approach aimed primarily at making use of the region’s low labor costs and large reserves of skilled and semi-skilled labor (Jürgens and Krzywdzinski 2009). In this respect, CEE was integrated in the supply chain of multinational companies via two main strategies: least-cost and complementary specialization (Kurz and Wittke 1998). The least-cost strategy consisted in the partial and temporary relocation of labor intensive manufacturing operations to CEE. This strategy was driven exclusively by the need to cut production costs and was used primarily by German manufacturers who could take advantage of the productive capacities of CEE countries located in close spatial proximity to their production facilities at home. For these investors, the least-cost strategy meant gaining market access via specialization in car assembly using imported parts. By comparison, the complimentary specialization strategy did not concentrate strictly on the cost advantages of CEE countries but sought to “partly utilize Eastern specialties in some industrial sectors” and “reorganize, set up and run manufacturing plants in the East largely for themselves” (Kurz and Wittke 1998:23). For car manufacturers, this strategy served to reorganize and expand production capacities, as well as gain access to new consumer markets.
Automotive manufacturers therefore sought to exploit the competitive advantages of the region—in particular, the low labor costs, the abundance of skilled labor, and the geographical proximity to Western markets. These advantages were ideally suited for specializing in the assembly of low-cost small- and medium-sized passenger cars, which, due to the small profit margins and fierce market competition, required carmakers to produce as cheaply as possible (Pavlínek 2002:1702). Though to a much lesser extent, the region also specialized in the low-volume production of premium models, for which the direct cost of labor as well as its flexibility play an important role in achieving efficiency. Because their low prices responded to the low purchasing power of CEE consumers, small- and medium-sized cars dominated CEE domestic markets. At the same time, these model ranges responded to the shift in consumer preferences in Western Europe towards smaller and more affordable vehicles. As a consequence, during the early 1990s such models dominated both the export and the domestic markets of CEE countries.

The end of the 1990s marked the rise of the components manufacturing sector in CEE. Following the first wave of investments by car assemblers, supplier companies gradually became the leading investors in the region (Šćepanović 2013). The expansion of the components subsector reflected the industry’s new needs. Starting with the 1990s, a new division of labor had been taking shape in the European automotive sector, with components suppliers assuming a higher responsibility in production. At the core of this change stood the idea that the partial externalization of the supply chain would produce gains in terms of cost efficiency, reduce design-related delays, and allow for a greater degree of

Data source: OICA.
customization. For supplier firms, this translated into a push to consolidate via mergers and acquisitions in order to generate economies of scale, diversify their customer portfolios, and acquire complimentary competencies (Frigant and Layan 2009). The rising importance of component manufacturers also came with a greater pressure to reduce production costs, which contributed to their relocation to low-wage countries. Geographical proximity to new assembly plants held the added advantage of lower transportation costs and better integration with the JIT production systems run by assemblers.

In CEE, all this added up to a complete reorganization of production, though only with limited industrial upgrading. As Pavlínek et al (2009) argue, FDI-led investments in the automotive sector in CEE have not been significant enough to raise the region from its peripheral status. Rather, it turns out that, in addition to being geographically uneven, FDI-driven transformation has created a dual export profile for the countries in the region, as producers of both low and high value added products, with the former occupying a dominant position. Over time, the tendency to relocate ever greater parts of the supply chain to CEE has expanded to the larger Eastern Europe (EE), in countries such as Romania or the Ukraine. By the 2010s, most large assemblers from Europe, Japan and Korea had plants up and running in CEE and a pre-crisis estimate put CEE production for 2014 at over 30 percent of total EU production (Pavlínek, Domański, and Guzik 2009:46). This has partly been due to growing capacities in CEE and partly to significant capacity reduction in continental Western Europe, with the important exception of Germany. In 2013, The Czech Republic, CEE’s largest producer, had reached an output comparable to that of France, which has witnessed plummeting production figures since the early 2000 (figure 1). Romania, on the other hand, despite its latecomer status, has recently entered the top 10 of European automobile producing countries, practically equaling Belgium, another traditional producer whose automotive sector has shrunk considerably in the past decade.

Like other peripheral regions situated in close proximity to large markets and traditional car-production countries (Mexico for North America; Indonesia and Thailand for South-East Asia), CEE has rapidly grown into an automotive industrial powerhouse that nonetheless remains dependent on continued investments from core producers as well as on the vitality of core markets. In the following we attempt to outline the growth of one assembler in CEE, the factors contributing to its success as a European producer, as well as the inherent tensions of its profit strategy.

**“EUROPEAN QUALITY WITH ROMANIAN PRICES”**

Located outside the strong CEE automotive cluster of the Visegrad Four (Pavlínek et al. 2009:47), the Romanian automotive industry started to truly benefit from FDI inflows only in the late 1990s and early 2000s. Investments have remained primarily dependent on the country’s cheap labor (Ban 2013; 2014) and have kept their ties to global networks of production while avoiding high levels of embeddedness in the local economy (Egresi 2007). Export-oriented components manufacturers have flocked especially in the Western part of the country, which ensures easier access to export destinations, as well as around several traditional industrial centers, where skilled labor could be found in abundance. As for assemblers, Romania has yet to attract any greenfield investments. Oltcit and Dacia, the two producers of personal cars set up under state socialism, are today both owned by foreign multinationals—Ford and Renault, respectively.
Despite Dacia officials’ active efforts at seeking foreign investors starting with the early 1990s, political instability and dissatisfaction with foreign companies’ interest only in pursuing a least-cost strategy, which would have entailed a significant downsizing of its highly integrated production activities, kept the company under state ownership until the end of the first postsocialist decade. Talks with producers such as Audi, Peugeot, and even Renault failed in the first half of the 1990s. Even though towards the end of this decade both management and plant unions were willing to compromise and assemble vehicles from imported parts, the Asian crisis put an end to Dacia’s agreement with Hyundai before obtaining any tangible results.

The same crisis put the final nail in the coffin of the joint-venture between Oltcit and Daewoo. Set up in the early 1990s, the partnership never took off as expected, with abysmal output and sales figures compounding its chronic overcapacity problems. Dumped by Daewoo, the ailing assembler was bought by Ford in 2008, only to see its plans thwarted once again by the onset of another global crisis. Despite initial production plans and the privatization contract stipulating that Ford would produce 300,000 cars per year by 2012, production picked up only in 2013, when the 50,000-units threshold was passed for the first time. Nonetheless, in 2013 and 2014 production was halted several times due to poor sales, and a program of voluntary layoffs was announced in late 2014 in order to adjust output to market conditions (Ziarul Financiar 2014). Plagued by fierce competition and sluggish market conditions across Europe, the prospects for Ford’s Romanian operations remain uncertain.

After 2000, Dacia had a completely different trajectory from that of the neighboring Oltcit. Bought by Renault in 1999, it took less than a decade for it to become a genuine “revelation” (Freyssenet 2009) both within and outside Europe. Production boomed after the launch of the Logan model in 2004 and its quick development into a series of low-cost models based on the same platform. With uncertainty permanently looming at Ford, it was the Dacia plant in Mioveni that put Romania on the map of European car producers and secured its spot among the rising CEE producers (figure 2).

In broad strokes, Renault’s investment at Dacia followed in the footsteps of other Western assemblers setting up operations in the region: labor costs were low, even lower than in the Visegrad countries; skilled labor abounded, with Dacia peaking at just under 30,000 employees before privatization; the Romanian market was far from being saturated and good prospects for the national economy would make it grow rapidly in the years to come. After having missed out on acquiring Skoda in favor of Volkswagen, in the late 1990s Renault was actively seeking to benefit from the labor and market resources of CEE before they were grabbed by its competitors. Renault planned to take the low-cost strategy adopted by other assemblers moving into the region to an entirely new level. Driven by a strategy of pushing for innovation, Renault planned to use the Dacia brand and its production facilities to put out a much cheaper and more cost effective model than any of its competitors had done in CEE.

The project of “the 6000-dollar car”—or, as it would later be known, “the 5000-euro car”—was aimed at producing an automobile with a similar price to old Dacia models but with vastly improved design, equipment, and quality. “European quality with Romanian prices” was one of the intensely circulated slogans at Dacia in the first half of the 2000s. With such a product, Renault intended to conquer emerging postsocialist markets, which were becoming more and more heterogeneous as advancing

3 Contrary to what is usually thought of the Romanian automobile industry, it should not be seen as a latecomer when it comes to attracting automotive FDI. To be sure, it was a latecomer in achieving significant production figures and securing external market success, but the Daewoo investment came relatively early, in 1994. The Romanian–Korean joint-venture represents one of the few stories of failure for automotive FDI in the region (see Pavlinek 2002:1696).
TENSIONS IN THE PERIPHERY: DEPENDENCE AND THE TRAJECTORY OF A LOW-COST PRODUCTIVE MODEL IN THE CENTRAL AND EASTERN EUROPEAN AUTOMOTIVE INDUSTRY

social differentiation transformed consumer needs. Due to increasing consumer dissatisfaction with the aging models produced by indigenous companies since before 1989, in the 1990s these markets were quickly falling prey to the massive imports of used vehicles from Western Europe. With the 6000-dollar car, Renault meant to offer CEE and EE customers an alternative to both imports and aging indigenous models. This was a textbook case of complimentary specialization, which fit in quite well with the desires of Dacia management and employees.

Figure 2. Passenger car production (units) in CEE (Czech Republic, Slovakia, Poland, Hungary, Romania), 1999–2014.

Data source: OICA.

Renault’s plans closely aligned with Dacia’s hopes of survival and ambitions of keeping a strong foothold on the Romanian market. Though its production had grown significantly in the 1990s and reached a peak of over 100,000 units in 1997 and 1998, both managers and workers at Dacia were well aware that their outdated technological means, comparatively low quality levels, and inability to invest in the development of new models would render them increasingly vulnerable to competition and eventually spell their demise. The 6000-dollar car project, for which Renault firmly committed in the privatization contract signed with the Romanian state, would allow Dacia to retain its dominance on the Romanian market. It also meant that production would not be downsized and, despite a thorough restructuring program, as many jobs as possible would be kept.

The launch of the Logan, the long-awaited truly low-cost vehicle, in 2004 marked Dacia’s rise as one of the largest producers in CEE. The Logan quickly gained dominance on the Romanian market, which was booming in the mid-2000s as a result of rising incomes, a rapidly growing national economy,
as well as accelerating financialization. Contrary to initial expectations, the Logan performed poorly on other CEE markets and registered a striking success on Western European markets.\(^4\) By the end of the decade, with the Romanian market having collapsed after the onset of the 2008/9 crisis, exports accounted for around 90 percent of production (figure 3). Around the same time, the Mioveni plant reached its full capacity of just under 350,000 units per year. Production and exports were boosted by the expansion of the Logan program into a fully-fledged low-cost series, once the Sandero hatchback and Duster SUV entered production.

In parallel with the development of its Romanian operations, Renault turned the Logan into a global project. By the end of 2012, it was assembling cars based on the Logan platform not only in Romania, but also in Brazil, Russia, Iran, India, Colombia, Brazil, South Africa, and Morocco. Combined, these added up to sales of approximately one million vehicles in 2012 alone (Automotive News Europe 2012). Dacia’s operating margin has been estimated at around 9-10%, equivalent to that of premium assemblers (Automotive News Europe 2012). Thus, if in 2009 Dacia accounted for around 90% of Renault sales growth (Freyssenet 2009:280), in 2012 it was decisive in maintaining positive financial results for Renault’s global operations.

**Figure 3. Dacia vehicle production (units) and exports (% of total sales), 2000–2014.**

Note: figures for 2014 are estimates.  
Data source: Ziarul Financiar.

\(^4\) In 2013, the two main export markets for Dacia were France and Germany, followed by Algeria, Turkey, Spain, Morocco, Italy, Belgium, the United Kingdom, and Poland (Dacia 2014). Almost 94,000 Dacia cars were sold in 2013 on the French market alone. Only the last three were surpassed by the Romanian market, where Dacia nonetheless maintains a market share of over 30 percent.
The Logan program was thought out as a radical version of the low-cost strategies pursued by Western European automotive producers in investing in CEE; radical not just because of the degree to which costs and prices were minimized, but also because of its success on Western markets, its global spread, its financial yield, and its contribution to the growth of its mother company. Understanding the pillars as well as the inherent tensions lying at the heart of Dacia’s rise to prominence is what we turn to next.

SUCCESS, INNOVATION, AND THE TENSIONS THEREIN

Renault’s Romanian plant has been the staging ground for developing the global expansion of its low-cost program. It has also been the main supplier for its European markets. We will look at Renault’s European strategy for the Logan in terms of how its productive model has achieved a certain level of coherence between its product policy on European markets, on the one hand, and its productive organization and employment relations in Romania, on the other.

If investments by automobile producers in CEE after 1989 generally followed the principles of minimizing costs and conquering new markets, they also mirrored the diversity of productive models of their main operations in Western Europe. Hence, Volkswagen’s low-cost strategy at Škoda was markedly different from Renault’s low-cost strategy at Dacia. Having turned to a productive model based on innovation and flexibility in the early 1990s (Freyssenet 1998; 2003), Renault designed the Logan project as “the epitome of conceptual innovation” (Freyssenet 2009:280), or, in the words of Renault’s CEO, as a “major innovation” and “strategic pillar for the enterprise and the [Renault–Nissan] Alliance” (Jullien, Lung, and Midler 2012:vii). As opposed to other assemblers moving into the region, the Logan was not simply conceived as a cheaper version of an existing Renault model, but rather as an entirely new model that would need to stand on its own.

The idea of producing a vehicle as affordable as possible was anything but new in the 1990s. As discussed above, with German producers dominating the market segment for middle-class cars, in the 1990s all other non-premium producers had oriented themselves toward small and affordable vehicles (Williams et al. 1994:170-1). For these companies, investing in CEE was meant to lower costs even further. What was truly innovative in Renault’s case was to believe that costs and prices could be radically driven down far below what was at the time considered to be the industry’s minimum threshold of profitability. When taken seriously, “European quality with Romanian prices” is where the real innovation began.

The initial plan was for the Logan to provide the means for conquering the growing markets of postsocialist countries in CEE. It was assumed that these countries would continue to experience economic growth and the distribution of incomes would be shaped in such a way as for them to develop strong middle classes, whose consumption preferences and purchasing power would make them ideal buyers for such a car. As discussed already, this plan never materialized. With the exception

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5 To be sure, the entire history of automobile production is replete with attempts at producing “people’s cars”—from Ford’s Model T in the US, to Germany’s Volkswagen Beetle and practically all models produced in state socialist countries starting with the 1960s. For a comparison along these lines between the Logan and the Citroën 2CV, see Loubet (2006).
of Romania, the Logan’s performance on CEE markets remained relatively modest. The boom of the Romanian market was brutally cut short once the crisis set in and demand for automobiles on Dacia’s home market has not recovered since. It is difficult to estimate how much worse the Logan would have fared on Western markets had it not been for the crisis. A direct consequence of the economic and social turmoil that came in the aftermath of the events in 2008/9 was the widening of that particular market segment of “people who want to buy a new car but who cannot do it—or who cannot no longer do it—due to insufficient income” (Freyssenet 2009:280)—that is, the very segment carmakers were used to ignoring and for whom Dacia filled the supply gap. Government scrappage programs and the rapidly gained confidence in the quality offered under the Dacia brand compounded the effects the crisis had on incomes, credit, and the overall willingness to spend money on expensive commodities like automobiles.

The crisis therefore allowed for Renault to cash in a lot more innovation rent on the Logan than it had initially been expected by even the most optimistic observers. As some authors argued early on (Croué 2006), and despite other producers announcing they would follow in Renault’s footsteps, so far it seems that the Logan productive model is difficult, if not impossible, to imitate. With no competition in sight, it was soon enough clear that Dacia held a virtual monopoly over a growing market sector. Using the Logan platform to develop a 3- and then a 5-model series provided Dacia with the necessary flexibility to meet fluctuations in demand and expand its market foothold. Brisk demand allowed for the rapid expansion of volumes considerably beyond the initially planned figures. Capacity was accordingly increased at the Romanian plant and, if this were to prove insufficient, new productive facilities in Northern Africa would take over at least part of European demand. Apart from its innovation rent, Dacia was thus able to benefit from expanded demand and economies of scale (Boyer and Freyssenet 2002:14). Tapping into multiple profit sources, Dacia has thus managed to successfully subordinate a volume and diversity strategy to the one based on innovation and flexibility.

This combination was made possible only partly by the Logan’s overly favorable market position. Renault’s ability to organize production in such a way as to minimize costs as much as possible was another factor that contributed to the success of the low-cost project. All stages of the project, from design to manufacturing and sales were targeted for drastic cost cutting. This involved new approaches to R&D, project management, flexibilization and rationalization of production, a tough approach in relation to suppliers, and strict control over costs and quality in production. Some of these entailed reorganizing the already existing arrangements found at Dacia along the lines of Renault principles and production methods. Others—like the “design to cost” concept, the extensive reuse of parts from existing Renault models, or the rationalization of labor-intensive production—were genuine organizational innovations specifically tailored for cost minimization within the Logan program.

Importantly, the Logan was from the very beginning designed for a labor-intensive manufacturing process, specifically in order to take advantage of Dacia’s abundant reserves of cheap and skilled labor. This low-cost-by-design approach compounds the importance of the labor question.

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6 This possibility is discussed in Boyer and Freyssenet (2002:90). Before the launch of the Logan, Freyssenet (2003:123-4) considered this combination as one possible pathway for the Renault–Nissan alliance in the new millennium.

7 Most authors dealing with the Logan’s success focus on Dacia’s distinctive productive organization (Angelescu 2007; Croué 2006; Debrose 2007; Jullien et al. 2012). If they are correct in highlighting the degree of novelty involved in the design and manufacturing of the Logan, then Dacia is a perfect example of automakers’ experimenting with new ways of organizing production in CEE (see above). Descolonges (2011: ch.3&ch.4) paints a more nuanced and critical picture of the rationalization of production at Dacia.
Labor relations comprise the final dimension of Dacia’s low-cost productive model. The labor question at Dacia concerns not just the cost of labor, but also employees’ willingness to follow through with and contribute to implementing changes and innovations in productive organization. Since privatization, labor relations at Dacia have gone through three phases in which different compromises were struck between management’s goal of confining labor within the requirements of the low-cost program and the union’s demands for higher wages and improved working conditions.

Despite a substantial restructuring program that from the very beginning included the downsizing of personnel by more than 11,000 people, a number that eventually grew to approximately 16,000 over the longer term, there was no major conflict between management and union from 2000 to early 2003. Immediately after privatization, organized labor proved to be largely cooperative and union leaders voiced their willingness to contribute to fulfilling Renault’s plans of turning the company around by upgrading technology, reorganizing production, and improving quality. As agreed during the negotiations for privatization, in which union leaders took part alongside government and company officials, the union would cooperate insofar as Renault kept its end of the bargain and minimized the social impact of restructuring. In doing this, union leaders were responding to the concerns of the rank and file regarding the survival of the company. For several years after it bought Dacia, therefore, Renault capitalized on employees’ pre-privatization fears of Dacia’s imminent demise and the French company’s image as a savior capable of doing whatever it was necessary to keep Dacia afloat and set it on the path to success.

A general strike in February 2003 put an end to the post-privatization settlement and set the stage for an openly confrontational relationship between management and union. Alongside wage demands, the union criticized the abuses of French managers, the harshness of the restructuring program, and the failure to fulfill promises of improving working and social conditions. The union’s failure to resist to management pressure and inability to properly organize the rank and file led to its swift defeat and the reaching of a new compromise in which labor grudgingly accepted to put off part of its demands in wait for the company cutting its losses and improving its financial results. Though the union continued to successfully negotiate wage increases over the next years (figure 4), these were far from satisfactory for both leaders and the rank and file. By the time of the 2007 annual negotiations for the collective labor contract, the union was already showing signs of breaking the power play tactics that management had adopted since the 2003 strike (see Adăscăliței and Guga 2015).
A lengthy strike in the spring of 2008 again reset the terms between the two sides. The union demanded that employees receive a bigger share of what was by then the obvious market success of the Logan program. The union’s sound defeat of management was a watershed for labor relations at the Mioveni plant. Since 2008, the union has managed to obtain substantial wage increases every year, as well as significant improvements in working and social conditions. Though union–management relations have remained declaredly confrontational, the tensions of the 2003-2007 period made room for a trade-off between sustained wage increases and substantial and likewise sustained productivity increases. After 2008, the plant quickly reached full capacity and diversified its production. Management continued pushing for permanent cost reduction and productivity growth, a result of which were the new models launched in 2012—much improved, though at practically unchanged prices. If old fashioned labor intensification proved acceptable, the union has been less keen on fully giving in to attempts at increasing labor flexibility. As a result, the wages-for-productivity compromise has started showing signs of weakness, especially since 2012. In response, management has developed new strategies in attempting to either break the existing compromise or turn it more clearly in its favor by forcing the union to tone down its demands. At present, the question remains as to whether this will spark new conflict, reshuffle the existing compromise, or bring about entirely new challenges and resolutions.
NEW THREATS AND RESPONSES IN SEARCH OF A NEW LABOR SETTLEMENT

As we have argued so far, the success of the Dacia low-cost program was based on a combination of factors comprising its monopoly over a new market segment, its rigorous overall approach to cost cutting, as well as its ability to maintain low labor costs and secure compliance from its employees in Romania. Low labor costs and high productivity levels have thus been essential in squeezing expected profit margins. With wages in the Romanian plant following a sustained upward trend (figure 4) and productivity increases being slowed down as a result of industrial action by the local union, management has developed a new repertoire of threats for containing workers’ demands. Most commonly, these consist of explicit threats with relocation to other low-cost sites where the group has set up assembly facilities or threats with removing jobs by increasing the level of automation in manufacturing.

Talk of relocation to other low-cost sites became common practice at the Romanian plant especially after the 2008 general strike, when the union obtained a significant wage increase despite tough opposition from management. These threats were meant to coerce Romanian workers into giving up on their wage demands by pointing at the danger of them losing ground in favor of assembly plants in Morocco, Turkey, or Russia. Starting with 2012, after the opening of Renault–Nissan’s new low-cost plant in Tangiers, Morocco has been routinely cited as the likely competitor for the Romanian site. Tangiers has been said to have a number of comparative advantages pertaining to labor costs, geographical proximity to Western markets, as well as transportation infrastructure. Time and again, management has underlined that the Mioveni plant is no longer competitive enough in comparison to its counterparts outside Europe, and that relocation to Morocco is a feasible strategy in the medium term. In 2012, for example, company officials publicly argued that wages in Romania were twice bigger than those in Morocco, which was said to weigh heavily on a possible future choice by Renault to downsize or even discontinue its operations in Romania (Ziarul Financiar 2012). Likewise, in the fall of 2014, the Romanian plant was singled out as no longer being a low-cost location for Renault, since it had become the most expensive production location for the low-cost models in Europe’s immediate vicinity (LesEchos.fr 2014).

Management has also been using indirect relocation threats by emphasizing that future projects developed by the group will be assigned to the plant that is more competitive in terms of costs (HotNews.ro 2014). One such example was said to be the Dokker project, assigned exclusively to the Moroccan site. In Romania, company officials framed the choosing of Morocco for producing the new model as a definite loss for Dacia and argued that future investments in Romania would depend on how it fares in competition with places such as Morocco and not with European countries like France or Germany (Ziarul Financiar 2011). After the 2008 strike, both local and central media have systematically, and more or less unanimously, taken the company’s side in attacking both union leaders and the rank and file for their irresponsibility in asking for higher wages and refusing to give in to management’s attempts at adopting more flexible working arrangements. Thus, apart from management’s changing tactics the union has also had to face an increasingly hostile public sphere.

The local union’s reaction to these relocation threats has been twofold. On the one hand, it has questioned the feasibility of relocation, given the importance of the Dacia factory for the entire group. The union has denounced these threats as part of a blackmailing strategy difficult to put into practice since the Romanian site is of strategic importance and delivers not just assembled vehicles but also complete knocked down (CKD) kits, engines and gearboxes to plants in the rest of the group. On
the other hand, especially in recent years, the union has often borrowed management’s discourse of competitiveness, which indicates that relocation threats have not been entirely without consequence. The changing manner in which the union negotiates the annual collective labor agreements also indicates that it has toned down its confrontational tactics. Since the general strike of 2008, the number of strike threats and protests at the plant has been on the decline, with the union choosing to negotiate with management behind closed doors and delivering somewhat poorer than expected wage increases.

Automation is the newest threat used by management in attempting to curtail the union’s demands for higher wages. Replacing human labor with robotic manufacturing systems has been presented as a viable option in reversing the trend of rising wage costs. Although after privatization the Dacia factory underwent substantial upgrading, its present level of automation is estimated to be at around 10 percent (Jurnalul de Argeș 2014), far below industry standards and in defiance of lean production orthodoxy (Camuffo and Comacchio 1999; MacDuffie and Pi 1997). Despite its labor-intensive manufacturing processes, the Dacia factory has achieved similar productivity levels with more capital-intensive sites in CEE (see Jakubiak et al. 2008, 40). During all this time, the union has kept a reserved attitude towards automation and has accepted the push for higher productivity levels while negotiating safe working conditions for workers.

As with relocation, the extent to which these threats can actually materialize is uncertain. There are at least two reasons why the robots-for-humans equation is anything but straightforward at Dacia. First, since the low-cost series is designed for labor intensive production, there is a question as to the extent to which automation is actually possible without having to bear the massive costs of extensive productive reorganization. This would simply translate in the plugging of one leak in the low-cost productive model at the cost of springing another that would be just as major. Second, it is clear that the Dacia union will not remain passive if faced with a concerted strategy aimed at removing jobs by increasing the plant’s degree of automation. Job security is a most prized asset for Dacia union members and the union has made no compromises in regard to this after the post-privatization restructuring program ended. Dacia workers have proved their readiness to take action if their jobs are threatened. In March 2013, a two-day spontaneous work stoppage was sparked by workers’ dissatisfaction over the delaying of the signing of the collective labor contract, the company’s attempt at introducing a more flexible work schedule, and an announcement that jobs in the paint shop will be cut in favor of automated machinery. Just like with relocation, moving beyond simple threats in regard to automation risks provoking a serious conflict, which, as it happened in the past, would most likely catalyze the reaching of a new compromise between management and labor.

This apparently zero-sum game between management and union reflects the tensions inherent to the low-cost, flexible, and labor-intensive production process that has, alongside a favorable market situation, ensured success for the Logan. Behind the glorified façade lie acute conflicts between management and labor over remuneration and working conditions—conflicts which, when won by labor, can put a severe strain on the profitability of the low-cost productive model discussed in the previous section. If we were to listen to voices coming from the side of both Renault and Dacia management, in the medium and long term the solution to the profitability issue can take two forms. Either the company puts its threats into practice and completely relocates to a new periphery, or the plant upgrades its production in order to produce more expensive models that provide higher profit margins (Digi24.ro 2014). In both cases, for Renault’s investment in Romania this would effectively mean the end of low-cost production as it has been understood since the birth of the Logan project in the late 1990s—and which, after all, was the raison d’être of Renault’s acquisition of Dacia.
CONCLUSION

Renault’s radical approach to low-cost production in CEE did not come without its specific antinomies. At present, it is difficult to move beyond speculation in regard to Dacia’s future. It is more or less certain, however, that regardless of the shape taken by the future compromise between labor and management, it will have to be based on significant changes in either labor’s demands or the productive model employed so far. Without a functioning social settlement at its Romanian plant, neither its favorable market situation nor its innovative productive organization will be enough to reproduce Dacia’s European success.

Immediately after the 2008 strike, some observers (Delteil and Dieuaide 2008) expressed their hopes that this particular conflict was merely a sign of a broader movement that would set the stage for the emergence of a “peripheral Fordism” (Lipietz 1987) in CEE, translating into a tendency toward the equalization of wages and working conditions across the EU and putting an end to the destructive intra-regional competition and delocalization of industrial capital Eastwards. Apart from pre-crisis optimism, at that time such a hypothesis certainly had the backing of historical precedent. Throughout the twentieth century, similar waves of automotive investment in other peripheral regions of the globe had contributed substantially to pushing for national settlements favorable to labor (Silver 2003). The fragmentation of union movements and the rescaling of the state have nonetheless rendered this hypothesis largely invalid in the case of CEE.

Instead of a nationally-based peripheral Fordism, automotive investments in CEE have, at most and loosely said, produced pockets of localized Fordist-like arrangements built around assemblers’ pursuit of a (limited) version of the “high road” model employed in their home countries (Jürgens and Krzywdzinski 2009). This has definitely been the case with Dacia. Though the low-cost model has proved relatively stable so far, our analysis of Renault’s investment in Romania points at its inherent tensions as well as some of its possible future limitations. In responding to pressure coming from labor, companies pursuing a low-cost strategy have two options. First, they can relocate to other low-cost locations within CEE, as some components manufacturers have done already (Pavlínek et al. 2009), or they can even reestablish operations in locations in Western Europe where dismantled social settlements have given way to previously unforeseen labor deregulation. Second, they can search for other peripheral regions with cheap labor and favorable governments in close proximity to EU borders. Renault has already done so with its Tangiers plant for low-cost models.

For CEE, these scenarios highlight another possible outcome of European integration and the changing division of labor between Western and Eastern countries of the EU: neither remaining a single, quiet periphery, nor catching up to its neighboring core, but rather entering into competition for grabbing as much as possible of the value chain with peripheral regions just outside the EU and even with parts of the core that have fallen victim to peripheralization as a result of new policies of spatial selectivity. The case of Dacia, in this sense, might just be an example of how both capital and labor attempt to solve an entirely different kind of strategic dilemma from those that plagued the CEE (or, for that matter, the European) automotive industry in the 1990s, from the overcoming of which they nonetheless originate.
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