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Economy

The automotive industry will be at the heart of the coming economic crisis

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Since mid-2019, we have been living through the prelude to a deep crisis in the most important industrial sector of global capital. The automobile industry, the leading manufacturing sector of capitalism, is facing a crisis. By 2018, total car production in Germany was declining. In June 2019, there was a sharp 4.7% drop in new registrations (compared to June 2018). In August, manufacturers producing in Germany alone announced the loss of more than 30,000 jobs. The contradiction in Opel is typical. This subsidiary of the French group Peugeot is finally back in the black. But at what cost? In terms of employment, the numbers are dark red. Since the takeover by PSA [in February 2017], 8,000 jobs have been eliminated at Opel, which corresponds to 25% of the total; the reduction of 2,500 additional jobs is envisaged, as well as the closure of one of the three production sites.

In the United States, GM and Ford have been reducing their investments for months. The Japanese auto industry is also weakening. An extensive consolidation process is currently underway in this country, where only four of the eight current groups are likely to survive as independent companies. This will be associated with the removal of tens of thousands of jobs.

The situation in China is extremely dark. On July 28, the *Financial Times* announced "Shrinking Chinese car market sparks fears over foreign groups' future". There, car sales have already fallen by 4% in 2018. In the first half of 2019, a dramatic drop of 14% was noted. China is the biggest market for most Western automakers. For example, Ford's sales in China fell by 27% in the first half of 2019. A new Peugeot plant in China sold only 201 cars in the first half of 2019.

All indications are that we are facing a deep crisis in the world's largest industrial sector since the second half of 2018 in China and since mid-2019 globally.

In order to recognize the importance of the new crisis in this industry, we will first examine the weight of the international auto industry in globalized capitalism, then the changes in the regional concentration of car manufacturing, and finally the financial structure of automotive groups.

The global automotive industry

The automotive industry is the most important industrial sector in the world capitalist system. That's not to say it's the biggest industry in terms of jobs. The textile industry is much more important in this respect. In Germany, on the other hand, mechanical engineering [machine tools, etc.] represents significantly more jobs than the automobile industry. The export rate is even higher than in car manufacturing and the car industry is concentrated in only a few countries. However, these are extremely powerful states: at the top is the quartet of the United States, China, Germany and Japan, four countries that set the tone in world capitalism. This quartet is followed by the weakest trio of the countries of automobile production: France, Italy and South Korea. In all other countries with an automotive industry, it does not play - or no longer plays - the role of leader.

However, in the global economy, the automotive industry is the decisive industry in the sense of being "the most powerful". The huge concentration of capital in the automotive industry makes it the leading industry. It is also the rising star of the global capital cycle and has played a key role in the ups and downs of global gross domestic product and world trade over previous economic cycles.

So far, the automotive industry has been closely linked to the oil industry. The term “fossil capitalism” characterizes this industry well: the manufacturers of motor cars that burn oil derivatives - diesel and gasoline - show the way. Recently, it has sometimes been claimed that the oil and auto industry has lost its weight in world capitalism, or at least was in decline. This thesis does not resist confrontation with reality. The weight of oil and auto among the ten largest companies in the world has remained about the same for decades if sales turnover is taken as the basis. In 2018, oil, automotive and aircraft construction accounted for about one-third of the total sales of the “Global 500” [the largest 500 transnational companies]. Among the 10 largest groups in 2018, there were six oil groups and two automobile groups.

It is true that there is a rise of electronics and Internet companies. With the production of electric cars, however, there is an alliance of these sectors with the basic production groups. And with the intensification of the elements of “autonomous driving”, this energy cartel also merges with these same electronic and Internet groups. The “traditional” automotive industry is likely to strip down and reinvent itself once again. Without control and expropriation of this concentrated power of capital, it will not be possible to make a shift in transport without the conversion of car companies.

The automotive industry is the “clock” of global capitalism. Like the world economy itself, it operates cyclically around the world. This cycle first appeared in the international automotive industry after the Second World War in the mid-1970s. Since then, there have been five global cycles and five sectoral crises. And in all five cases, these sectoral crises have been associated with global recessions or global crises of capitalism as a whole. These crises occurred in 1974/75, 1980-82, 1991/92, 2001/02 and 2008/2009. This latest crisis has been the worst and most profound that the automobile industry and global capitalism have known since the global economic crisis of 1929-1932.

Dramatic changes in the “geography of production”

Changes in global capitalism are closely linked to changes in international car manufacturing. For more than half a century - from the early 20th century to the 1960s - the global auto industry was dominated by the United States. It was the period of unlimited American domination in the world capitalist economy.

The dominance of the US auto industry was followed by a period during which the Japanese auto industry set the tone. It was also the time of Japan's rise to globalized capitalism, where there was talk of a “triad” between the United States, Western Europe and Japan.

Since the beginning of the twenty-first century, China has seen a meteoric rise to the largest workshop (not an established one!) for cars. By the end of the 20th century, more than four-fifths of all motor vehicles produced in the world were produced in North America, Japan, South Korea and Western Europe. This share has fallen to less than 50% since 2018. During the same period, China's share rose from just over 3% to just under 30%. In 2018, according to the ACEA (Automobile Manufacturers Association), the production of passenger cars is distributed among the countries or regions as follows:

Europe: 24.0%

EU: 20.5%

Russia: 1.9%

Turkey: 1.3%

North America: 16.4%

of which USA: 10.2%

South America: 3.5%

of which Brazil: 3%

Asia: 53.5%

of which China: 29.2%

of which Japan: 10.4%

India: 5.1%

South Korea: 4.7%

This production by country does not correspond to the distribution of production in terms of car manufacturers. Specifically, the world's 12 largest car manufacturers still controlled three-quarters (75.2%) of global automotive production in 2017. In 2005, this share was not significantly higher (80.3%). According to our definition, eleven of these twelve companies are to be considered “Western” in the broad sense. In 2017, there was only one Chinese automaker in the top twelve, SAIC. It is a state company linked to VW as part of a joint venture and does not have a major presence in the global market - outside of China.

The balance sheet

The new crisis in the global auto industry is not yet fully developed in the West, but it is already a hard reality in China. With the crisis of the automotive sector in China, the world's largest car market is affected. And it is also Western companies that are affected by this industrial crisis in China. Because they are also the champions of production in China. The fact that VW, Daimler and BMW were not affected until the summer of 2019 can be explained by the peculiarities of these manufacturers (prestige and manufacturers of high-end passenger cars for the “Chinese upper middle class”). But German manufacturers should also be hit hard by the new industrial crisis in 2019.

In the context of the crisis in the global economy as a whole and the intensification of trade disputes, there is every reason to believe that the evolution of China and the automobile industry will be at the heart of a new general crisis of global capital.

PS:

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