



THE UNIVERSITY OF
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Dynamic Efficiency and the Automobile Industry

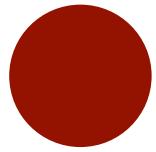
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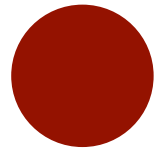
Stand-Out Facts

- \$4.7b in exports (36% direct components)
- Components exported to major auto-making nations while vehicles go elsewhere
- Tight supply chain integration has been implemented
- R&D spillovers are significant between firms but not beyond the industry
- History (including redundancy commitments) may impede efficient rationalisation



Value of component outsourcing

- Novak & Stern:
 - Highest when assembler outsourcing other components
 - Leads to higher quality at product model launch (pick & choose world best practice)
- Opportunities for R&D
 - Large world component market
 - Anchor-tenant advantages
 - Risks of expropriation
- *Green fund needs to target component opportunities*
- *R&D assistance best in terms of facilitating ideas trading (networks and IP)*



Centralised vs Decentralised Exit

- Decentralised:
 - Delay
 - Target inefficient firms
- Centralised
 - Expedited
 - May target wrong firms
- Key variables:
 - Confidence in supply chain
 - Asymmetric effects of redundancy agreements

Should the government take equity?