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# Welsh Economic Review

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The *Welsh Economic Review* is produced twice yearly, by the Welsh Economy Research Unit (WERU) at Cardiff Business School. The aim of the *Review* is to provide an authoritative and objective analysis of the Welsh economy in a manner that promotes understanding and informs decision-making. The 'core' section of the *Review* is written by members of WERU, with feature articles contributed by academics or practitioners within or outside Wales. The *Review* is circulated widely within Wales, to both private and public sector organisations, including the education sector and the National Assembly.

#### **Notes for Contributors**

Authors should send papers for potential publication in the *Welsh Economic Review* to the Editor at the address given below, preferably via e-mail in a Word for Windows format. Papers are welcome on any topic that would be of general interest to the readership, and should be written in a style suitable for non-specialist readers. Papers should be approximately 3,000-4,000 words and any graphs or figures should be accompanied by the underlying data to allow reproduction.

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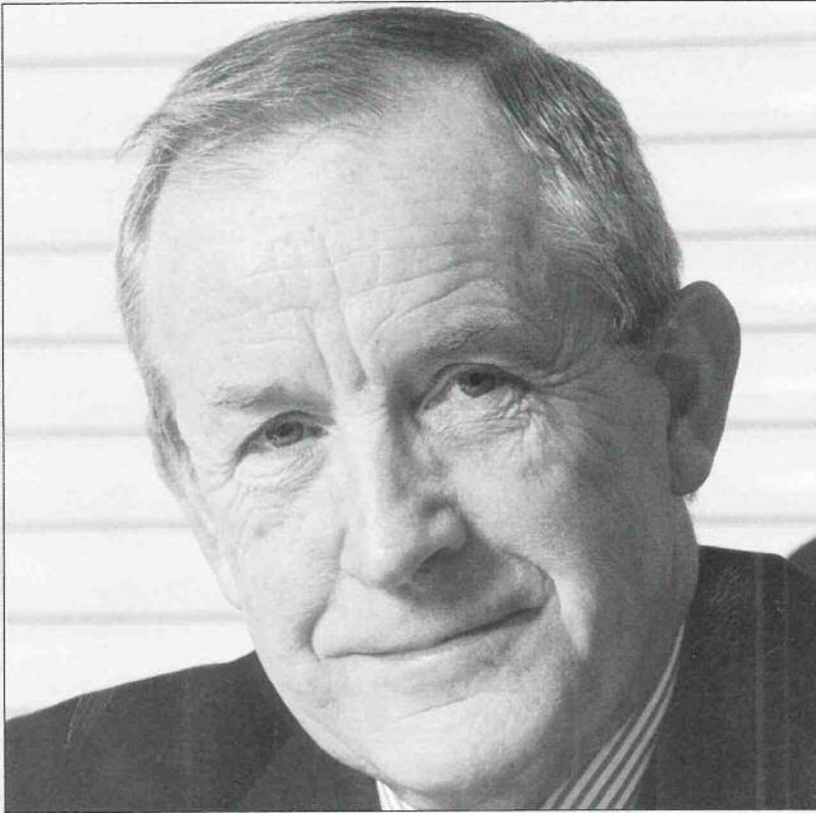
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**Interview  
&  
Feature  
Articles**

# Interview with Garel Rhys



Professor Garel Rhys holds the Society of Motor Manufacturers and Traders Chair in Motor Industry Economics in Cardiff Business School, Cardiff University, and until 1999, was head of Economics. He is Director of the Centre for Automotive Industry Research (CAIR) in the University. In June 1989 Professor Rhys was awarded the OBE for services to the motor industry and education, and in 1993 he was made Welsh Communicator of the Year. He has held numerous advisory positions including in the United Nations Industrial Development Organisation, the National Economic Development Office, House of Commons Select Committees, the Welsh Automotive Forum and the Welsh Development Agency. Recently he was appointed chairman of the Economic Research Panel of the National Assembly for Wales.

**You enjoy an international reputation as a 'guru' in the field of automotives. Did you plan your career in this way, and what have been your major achievements (or significant moments) along the way?**

I never planned my career. I was not one of these people in school or even university who knew from an early age exactly what they wanted to do. True, I was always interested in transport and vehicles but whatever position I hold in analysing the economics of the auto sector emerged from a set of circumstances. When I had finished my undergraduate exams at University College Swansea I was wandering about in the library. I noticed that one of the new books was on the economics of the motor industry. It was a good read, but I noted that it only really covered the car sector at a time when the UK commercial vehicle (CV) industry was

receiving much publicity for its success. When the head of the economics department suggested I do research I suggested that I look at the CV industry. He thought it a good idea. I did my thesis at Birmingham University fully expecting that would be that. However, and as they say, the rest was history as one thing followed another and the automotive industry became a major part of my life.

The major achievements along the way have been: the establishment of the Centre for Automotive Industry Research at Cardiff University Business School; being appointed specialist advisor to various parliamentary select committees between 1975 and 1999; the appointment to OBE for services to industry and education; the receipt of peer awards such as the Institute of the Motor Industry Gold Medal; making Cardiff synonymous with, and pre-eminent in, the analysis of the global

auto sector. Also the support of the study of the Welsh economy and the establishment of WERU at Cardiff University, and being made Welsh Communicator of the Year.

What success I have had I put down to hard work and a sunny disposition. Perhaps also I was presented with the gift of being a natural communicator. The support of my wife and family cannot be overestimated.

**You have been appointed to the Chair of the newly convened Economic Research Advisory Panel for the Welsh Assembly Government. What is the purpose of this panel and why were you keen to be involved?**

The Economic Research Advisory Panel's purpose is to: advise the National Assembly Government for Wales on a programme of economic research, monitoring and evaluation; advise the Assembly Government and appropriate Assembly Committees on the outcomes of this programme; promote collaboration on economic research and the sharing of knowledge between the Assembly Government, its main agencies and other partners; advise on dissemination on research findings; and advise on how best to develop the capacity and expertise of Wales based institutions to contribute to this research agenda.

I want the National Assembly to be a success. It is all too easy to stand on the sidelines and criticise. I saw the creation of the Panel as an excellent initiative by the Assembly, and a way I could play an active role in trying to help the Assembly Government advance the interests and prosperity of Wales.

**What do you consider to be the most important changes in the Welsh economy during your academic interest in it?**

There has been a revolution in the economic affairs of Wales. Instead of being almost totally dependent on a very narrow range of activities, and around which there is a lot of misplaced sentimentality, Wales has become an "ordinary" economy. It is broad based with a whole range of job categories, very few of which are as life threatening as in the past. It is regretted that the average remuneration in Wales, particularly in services, is not higher, but against that one can put the successful escape from an economy based upon hard toil, drudgery and a scarred environment. All in all, I would argue strongly that the changes have been for the best, and indeed the best is yet to come. The position of Wales in Europe,



and the nature of its environment will be increasingly attractive to new high value-added activities. When I entered Ystalyfera Grammar School, at my first school assembly the headmaster explained the history and *raison d'être* of the school; that the boys and girls of Wales could find a better life. I think the founding fathers of the school would like what they see in the modern Welsh economy.

**To what does Wales owe its growth in automotive component manufacture?**

The automotive sector has grown from nothing in 1940 to being the premier manufacturing activity in Wales. Following the establishment of a Morris Motors component plant in Llanelli during the Second World War, a major expansion occurred in 1945-52 when former Government factories and sites were derequisitioned and became available to a motor industry trying to satisfy chronic excess demand. A second wave of investment followed in the early 1960s when the UK motor industry expanded greatly and was directed to the regions. This is when Merseyside and Scotland became vehicle making centres. A third major expansion occurred in the mid-1970s and since then there has been a steady and continuous net influx of new plants and companies. Wales has developed a long-term record of success where automotive manufacture is concerned. The location is good to serve a variety of markets, the business climate has been supportive and the industrial relations climate has, so far, been exemplary. Success leads to success and a virtuous circle of development has and is occurring.

Wales has not been able to attract a major vehicle making facility, but to have an automotive sector based upon component and material production is an advantage. The firms involved supply a variety of markets (companies and countries) and are not dependent on the success of one product (e.g., a car model) or company. It is a classic example of risk spreading economies of scale.

**What is the future for these activities and employment, especially in the context of recent announcement that Toyota and Peugeot are to set up a joint venture in Prague (200,000 cars per year, Prague Telegraph)?**

The sector is dynamic and it is likely that a major influx and creation of activities wedded to new materials, fuels, and power sources will see the sector in Wales ready to play a major role in the auto industry's need to fit in with future environmental and social needs.

Activities continually open and close but a country like the UK, and a nation like Wales, can remain a good centre for auto activities. Highly skilled workers, access to capital, links to manufacturers, a track record of success means that whilst some activities will fail and new centres of production will appear, the basic economics of the Welsh automotive sector will remain sound. Just because a few new investments move to East Central Europe does not mean that the auto sector in Western Europe will be consigned to the dustbin of history.

**What are your views on the various measures to constrain car use? Is it possible to develop a sustainable and integrated transport strategy for Wales/UK/Europe, given that so many people enjoy the peerless freedom conferred by the motor car?**

The auto industry and transport policy must fit in with society's legitimate needs and desires. Concern over vehicle emissions, congestion, noise and accidents is forcing the auto industry to respond.

However the car (and commercial vehicles) are so useful. In effect their users can file their own precise "flight plan". You can travel from your 'A' to your 'B'. Even though too many people may be trying to go to the same 'B', the convenience of the vehicle remains. In short the car provides a bespoke or customised journey. Public transport in contrast is a mass produced journey and involves compromises: it goes from near your 'A' to somewhere in the vicinity of 'B'. This is the fundamental issue that transport policy must tackle. Better public transport alternatives must be offered, whilst a degree of compulsion, say through road pricing, must "encourage" some switch from car use. In all probability the only efficient method to restrain road usage is using a system of charges, tolls and taxes. The marginal social cost of usage must be covered. However such is the convenience of vehicle usage the expenditure needed on public transport to make it a true substitute may not be forthcoming. It is clear that present transport policy is in disarray and it may never be rectified. In short, expect Government to rely on the road vehicle and more road building to get us out of the transport mess that is current in the UK.

**Cars are increasingly homogeneous (indeed car manufacture is also rapidly consolidating). Does this mean we are on a return path to the days of one car design/one maker like the early Model T Ford?**

Despite the consolidations within the vehicle industry, as firms attempt to

unlock further economies of scale to give them the cost structure that will allow them to survive, whatever the increasingly competitive market throws at them, there is still a high degree of competition in the market. Indeed, any further major consolidation may be blocked by the anti-monopoly agencies in the world. The auto market is a contestable one, served by a highly rivalrous oligopoly.

As the companies in North America, Europe, Japan and Korea consolidate expect new entrants in new manufacturing sectors. Within the next twenty years a number of stand-alone car and CV makers will emerge in China, India and elsewhere. So there is no danger of consolidation becoming collusion.

The cars themselves will combine the homogeneity of component commonality with the degree of heterogeneity needed for marketing success. Those firms that forget the need for styling ingenuity will be punished by the consumer.

**The importance of 'just-in-time' work practices is well known with respect to automotive manufacture. Commentators have remarked that this practice passes risk to small suppliers, increases the number of individual road delivery journeys, and has resulted in supplier clusters. Is this practice sustainable in your view?**

The claimed economic benefits of just-in-time are based upon too narrow an analysis of the subject. If the total cost implications of full just-in-time is calculated it may not be economic or efficient from society's point of view. For instance, the replacement of delivery by a 40 tonne truck by car derived vans (carrying the same total tonnage) turning up every few minutes would increase the use of roadspace from 16.5 metres to 1,281.6 metres. Hardly a lean transport system. If road pricing is introduced then JIT could be ruinously expensive. In short, economics tells us that there will be an optimum level of JIT. In addition JIT does not always mean a cluster of activities, it can still operate over longer distances. This means that the economies of scale of concentrated production are not destroyed by fragmented output. Wales in particular must ensure that the JIT "cluster" or "supplier park" mentality does not take root. We would suffer greatly if it did. Such locations would require production adjacent to the assembly plants. As our motor industry is based upon component makers supplying assembly plants elsewhere, we need the economic advantages of concentrated production and longer distance logistics to be

recognised. In any event, huge clusters of activity are likely to create social costs of an unacceptable nature.

The bottom line is that buzz words are no substitute for economic analysis. Lean production may be a necessary condition for survival, but the sufficient condition needs large scale output of the products people want.

**What do you like most about living and working in Wales? If not in Wales, where would you prefer to live and work, and why?**

I feel I "belong" to Wales and feel comfortable working and living here. The quality of life is excellent: within minutes almost you can be in the countryside or on a beach, whilst being within easy access of the cities and

airports of the wider world. Living and working in Wales gives you a good idea of who one is. If I did not live and work in Wales I would like to be in Northern Queensland in Australia for very similar reasons. I could fit into living there like hands into a glove. As for work? Would one have to?!