

UDC 339.13.024

Gorbatenkov Timofey V.,

student,
international economics and business programme,
Graduate School of Economics and Management,
Ural Federal University named after the first President of Russia B.N.Yeltsin,
Ekaterinburg, Russian Federation

Shilov Georgiy A.,

student,
international economics and business programme,
Graduate School of Economics and Management,
Ural Federal University named after the first President of Russia B.N.Yeltsin,
Ekaterinburg, Russian Federation

Scientific advisor:

Lopatkova Yana A.

PhD, associate professor,
international economics and management department,
Graduate School of Economics and Management,
Ural Federal University named after the first President of Russia B.N.Yeltsin,
Ekaterinburg, Russian Federation

CURRENT STATE OF RUSSIAN CAR MARKET*Abstract:*

The paper compiles data from different sources to examine the state of the Russian automobile industry throughout the past 10 years. How it responded to occurring challenges that faced Russia. Suggesting possible ways of developing the automobile industry through analyzing China's experience and existing partnerships.

Keywords:

Automobile industry, Russia-China partnership, effect of sanctions, protectionism.

The automotive market in Russia plays a very important role in the economy, being an indicator of consumer sentiment and economic health, and contributing significantly to employment, industrial output, and financial stability.

The Russian car industry and aviation are being hit hard by the sanctions, as they are highly reliant on global value chains for their investment capacity. The production of passenger cars has been severely impacted by the departure of foreign automakers and the lack of inputs, with a 95% decrease in May 2022 compared to the same month the previous year [1]. Restrictions on equipment imports, especially in high technologies, and foreign industrial activity had a significant impact, leading to a near-complete shutdown of Russia's automobile industry. Many non-Russian producers chose to leave the country, but their factories typically remained, either temporarily closed or sold to national firms at reduced prices under Russian regulations. While key components needed to be sourced domestically, much of the necessary infrastructure, including management, financing, and labor, remained available in Russia. Restarting production mainly involved filling gaps in the supply chain [2].

An analysis of the Indian automobile sector showed that developing a globally competitive automobile industry cannot be achieved by only providing trade protection in the absence of favorable conditions for foreign technology transfer [3].

Chinese automakers have been able to expand internationally thanks to their dominance in the home market. 2020 saw a sharp decline in the Russian auto industry, which greatly boosted sales of Chinese brands like Haval, Chery, and Geely. Chinese brands have, all told, tenfold increased their market share in Russia over the last five years [4]. China is also among the top five exporters of cars to South Africa, although Chinese brands are not yet in the dominant group [5].

Among end-use industries in Russia, the most dependent on imported inputs are medium- and high-technology branches such as computer and electronic equipment, motor vehicles and other transport equipment, pharmaceuticals and machine-building. In these branches, the share of imported inputs ranged from 26 % to 35 % in 2018 [6].

The likelihood that a business will begin exporting to a country improves if it has previously imported goods from there. Furthermore, such a trading alliance has a longer duration. It explains why major importers also major exporters at the same time [7].

This study aims to investigate the dynamics of automobile production, sales, and imports in Russia and their significance within the automotive industry. The methodology employed in this research involves a comprehensive

analysis of existing literature, statistical data, and industry reports to provide insights into the trends and factors influencing the Russian automotive market. The automotive industry is a significant contributor to the Russian economy, generating employment, investment, and export revenues. Thus, we can assess the industry's overall health and its contribution to the economic growth of the country.

Overall sales is an important indicator that signifies changes in consumer behavior due to political, economical and other factors. During the last 10 years there have been increasing geopolitical tensions, an increased number of sanctions and pandemic, and such indicators can provide a lot of important information about Russian consumers.

Import would provide information about how the Russian government conducted the policy of import substitution. As was mentioned in the literature, there should be conditions for technology transfer or protectionist policy would only lead to creating globally ineffective companies when, in case of admission of foreign producers to the Russian market domestic producers will lose competition and will be simply substituted.

Changes in structure of import are as important as import itself. In 2022 the main exporters of automobiles, the United States, Germany, Japan and South Korea, ceased their activity in Russia due to the Ukraine crisis. On the other hand, China has been supplying Russia with more automobiles. According to Chinese customs data, in 2023 Russia rose from 11th place to become China's top auto export market, with a value of \$9.4 billion between January and October. \$1.1 billion worth of automobiles were exported to Russia during the same time last year [8].

Russia is leading in the automotive industry worldwide. Almost 1.4 million automobiles were produced in Russia in 2021. Compared to the value of passenger and commercial vehicle imports, the value of cars exported from the nation was significantly less. The export of the domestic brand Lada to the European Union (EU) was discontinued in 2018 as a result of environmental regulations, which was one of the factors contributing to the trade deficit. Furthermore, due to the conflict in Ukraine, in March 2022 we saw the suspension of luxury car exports to Russia by the EU, the US, the UK, and Japan as part of the sanctions. International automotive companies like Mercedes Benz, Volkswagen, BMW, Toyota Motor, Nissan, General Motors, Audi, Skoda and many others limited their operations temporarily or permanently left the Russian market in 2022.

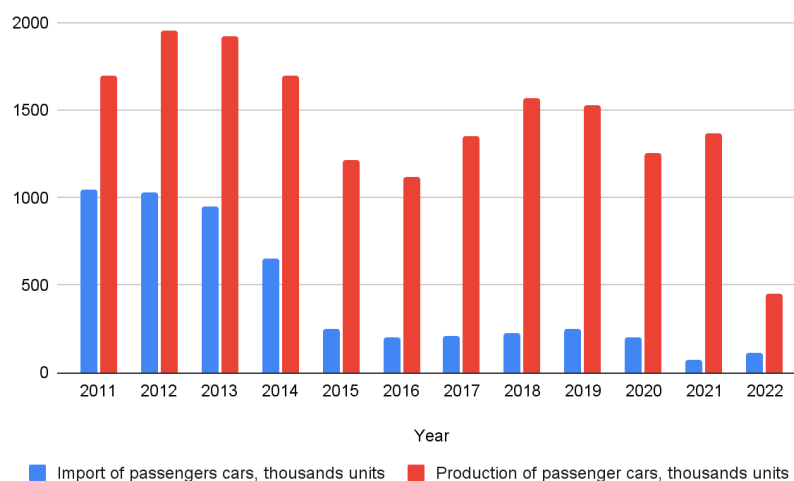


Figure 1 – Dynamics of import and production of passenger cars in Russia in 2011–2022.

The policy of import substitution and the accompanying protectionist measures in the Russian automobile market resulted in the fourfold decrease in the number of imported cars over the past 10 years (Figure 1). At the same time, the production capacity of the relevant national enterprises increased, factories of the world's leading automotive OEMs appeared in the country providing a high level of localization of their production, a local component base was formed, and large automotive clusters were set up in the Volga region, in the North-West, and in the center of Russia. Russia's car production fell more than by 50% in 2022, and sales decreased by almost 60%, falling short of 2020 even as Covid-19 restrictions.

In Figure 2 we can observe that in 2014 about 2.5 million cars were sold and in 2014 there was a sharp drop, after which the indicator jumped from growth to decline. This is primarily due to the crisis and unstable economic situation in the country. The low base effect was the primary driver of the 2023 sales increase. In 2022, new car sales were drastically low as a result of several automakers pulling out of the market and a car shortage. Positive dynamics are also the result of increasing stability in the economy in 2023. The expansion of Chinese automakers, the expansion of the range of models in different market groups, and the recovery of production volumes at AvtoVAZ are some of the additional factors contributing to the increase.

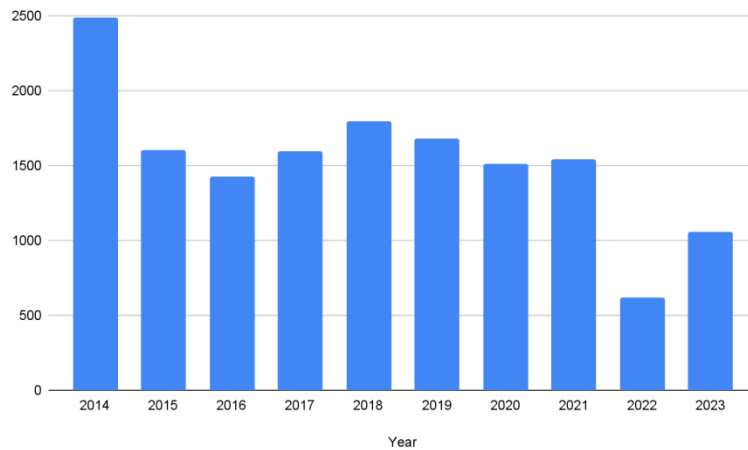


Figure 2 – Russian automotive sales 2014 - 2023, thousands of units.

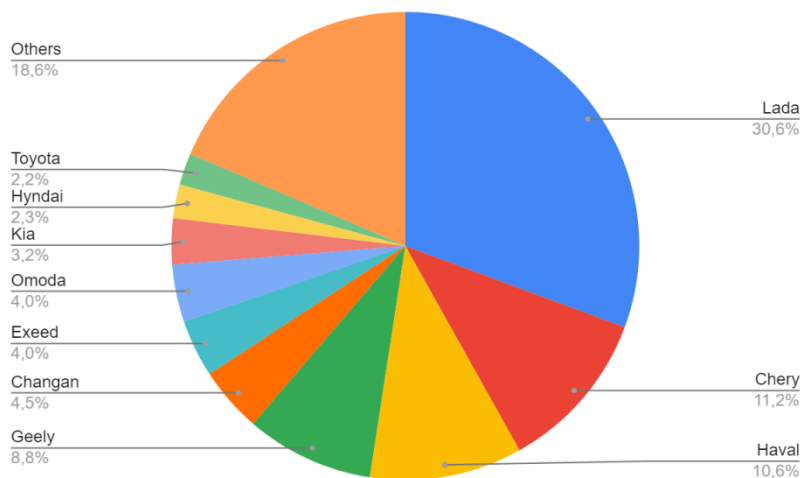


Figure 3 – Share of brands in the Russian car market in 2023, %.

If we consider the share of Lada and Chinese cars in the Russian market (see Figure 3), we can note that China occupy the majority of the Russian market - 43.1% (Chery, Haval, Geely, Changan, Exeed, Omoda), while cars of the domestic manufacturer takes 30.6%. It follows from the above that the partnership between Russia and China in the auto industry has grown significantly in 2023. Russian buyers find it favorable to buy Chinese cars in terms of price-quality ratio. And we can confidently say that this trend will continue in the coming years

If from 2005 till 2012 we see the dominant position of Japan as the main exporter of cars in Russia, then from 2020 at a pretty high rate China will become the main car exporter for Russia (see Figure 4). This is because Chinese automakers are actively developing their technology and production, offering cars with a good price-quality ratio. Chinese automakers are expanding globally, with Russia as a sizable and profitable market. They invest in Russian production facilities and establish assembly plants, cutting costs and enhancing vehicle accessibility for consumers. As a consequence, partner relations between China and Russia started to develop very fast, including corporations in the car industry.

In China, mechanical engineering is one of the largest sectors of the economy. The Chinese government is planning major investments in the machinery industry. Zheng Fan says that improved trade relations with Russia, Brazil and other countries is likely to stimulate the growth of this industry. China's rapid growth in machine building has positioned Russia as a lucrative market for these products, fostering collaboration between companies like OAO NPK Uralvagonzavod, OAO VTB Leasing, and China's Honghua Group Limited in the industry. It should be also noted that the Russian market is also in big demand for automobile production of the Chinese company Great Wall Motors. In 2005, the company sold 4,070 cars in Russia. However, from 2006 onwards, they began manufacturing vehicles in Gzhel, near Moscow. In 2014, Great Wall Motors Company inked a deal with the Tula region government to establish a factory for Haval brand cars, with total investment estimated at 18 billion rubles [13]. Another example of Russia's cooperation with one of the BRICS countries is South Africa. Russia already cooperates with South Africa in the production of automotive components, including glass heaters supplied to Kaluga for assembly. The advantages of car manufacturing in South Africa include incentives, low taxes, availability of highly skilled workers and developed logistics through ports. [14]

The mechanical engineering sector serves as a catalyst for diverse forms of collaboration between the nations. Economic cooperation in mechanical engineering between Russia and partners will boost the economic growth of countries.

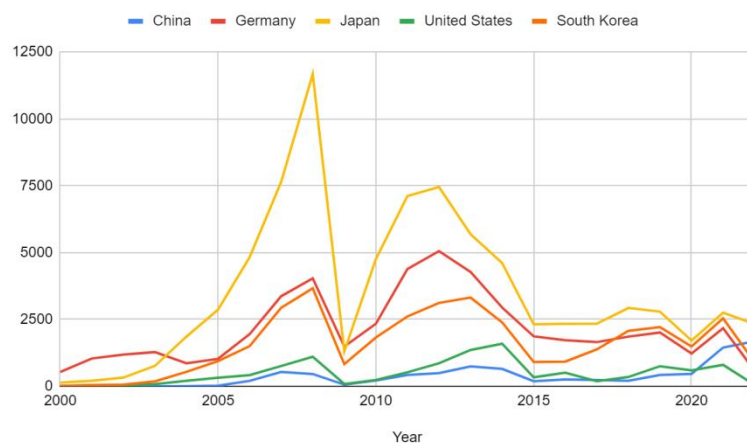


Figure 4 – Structure of Russian import of passenger cars 2000 - 2023, mil. usd.

Continuing the topic of cooperation between China and Russia in the automotive industry, we can think about how Russia can learn from the experience of the same previously mentioned China, as well as from the BRICS cooperating countries. Cooperation with members of the SCO (Shanghai Cooperation Organization) and BRICS countries and members of the EAEC (Eurasian Cooperation Organization) could be a successful solution, thus gaining new markets and the latest technological innovations. The effectiveness of such activities depends on:

- Having a representative of the coordinating council of the technology platform in the cluster's governing body.
- Maximum participation from scientific centers, universities, research institutes, government, enterprises, and infrastructural organizations.
- Utilizing an existing automobile cluster, based on a large automobile production facility, as the foundation.
- Defining specific goals and priorities for cluster development.
- Creating new sources of cluster financing through association formation.
- Establishing innovative infrastructure and engineering within the alliance [15].

It should also be mentioned that the Russian government has developed a strategy for the improving of the automotive industry until 2035. The strategy aims to improve the competitiveness and export potential of the Russian automotive industry, including the creation of innovative transportation such as electric vehicles and hybrids. It also proposes deepening cooperation between companies, suppliers and other industries to master new technologies and develop products with new characteristics [16].

In conclusion we summarize that car production in Russia has decreased significantly in recent years due to the uncertainty in the geopolitical environment. Nowadays, the strongest player in the automotive industry market is China, which managed to raise the level of the automotive industry to the world level due to gradual adopting the experience of foreign countries with a progressive automobile industry. Importing cars China got new technologies and experience. Of course, thanks to this, to good organization and government support of the industry. There is no doubt that Russia needs to develop such an important area as the automotive industry. Therefore, it is very important to learn from the successful experience of such countries as China, in this case different corporations with BRICS countries and Asian organizations could help with it. Also, the government is a very important component in the development of this area, so it is necessary to fulfill the plan developed by the state for the improvement of the auto industry.

REFERENCES

1. Demertzis, M. ; Hilgenstock, B. ; McWilliams, B. ; Ribakova, E. ; Tagliapietra, S., Demertzis, M., Hilgenstock, B., McWilliams, B., & Ribakova, E. (2022). *How have sanctions impacted Russia?* [Электронный ресурс] URL: <https://hdl.handle.net/10419/274172>
2. Sonnenfeld, J. A., Tian, S., Wyrebkowski, M., Babinski, W., Yale, ;, Bhansali, Y., Goldman, ;, Forrest, S., Bomann, M., Kaiser, A., Sapient, P., Littlefield, C., Pepsico, ;, Yolou, I., & Zaslavsky, S. (n.d.). *Business Retreats and Sanctions Are Crippling the Russian Economy Measures of Current Economic Activity and Economic Outlook Point to Devastating Impact on Russia.*
3. Athukorala, P. C., & Veeramani, C. (2019). From import substitution to integration into global production networks: The case of the Indian automobile industry. *Asian Development Review*, 36(2), 72–99. [Электронный ресурс] URL: https://doi.org/10.1162/adev_a_00132
4. A. A. Ivanchina, “Analysis of sales growth of Chinese car brands in Russia for the period 2019–2020,” *Nauchn. Issled. Ekon. Fak.* 13 (4), 64–80 (2021)

5. V. A. Bartosh and I. R. Lisetskaya, "Identification and analysis of dominant groups in the automotive market of South Africa (2010–2021)," *Strategii Biz.* 10 (5), 117–123 (2022).
6. Simola, H. (2022.). *Assessing Russia's potential for import substitution.* <https://nbn-resolving.de/urn:nbn:fi:bof-202205051182>
7. He, Z., Dai, M., Davis, D., Khandelwal, A., Verhoogen, E., Vogel, J., Bellon, M., Fajgelbaum, P., Juhasz, R., Kim, R., Miscio, A., Magyari, I., Piveteau, P., Redding, S., & Tian and, L. (2017). *Learning by Importing.*
8. Reuters. [Электронный ресурс] URL: <https://www.reuters.com/business/autos-transportation/chinese-car-sales-boom-russia-levels-off-amid-shaky-local-recovery-2023-11-24/> (дата обращения 11.04.2024)
9. Federal State Statistics Service. Russia in figures. [Электронный ресурс] URL: <https://rosstat.gov.ru/> (дата обращения 11.04.2024)
10. Association of European Businesses. [Электронный ресурс] URL: <https://aebrus.ru/> (дата обращения 10.04.2024)
11. Analytical agency Autostat. [Электронный ресурс] URL: <https://eng.autostat.ru/> (дата обращения 11.04.2024)
12. Observatory of Economic Complexity. [Электронный ресурс] URL: <https://oec.world/en> (дата обращения 12.04.2024)
13. Zheng Fan, (2022), *Mechanical engineering in russia and china and its contribution to the development of bilateral relations*
14. Impact of Brics countries on the Russian automotive industry. [Электронный ресурс] URL: <https://ru.pinterest.com/pin/832110468672750006/> (дата обращения 12.04.2024)
15. E.C. Podbornova, E.K. Chirkunova, (2022), *Opportunities for cooperation and the use of China's experience in automotive industry in current Russian conditions*
16. Reuters. [Электронный ресурс] URL: <https://www.garant.ru/products/ipo/prime/doc/405963861/> (Дата обращения 14.04.2024)