International Production in the Russian Automotive Industry

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Abstract

The paper aims to analyze the situation in foreign automobile production in Russia in the context of foreign policy restrictions, economic uncertainty, and the COVID-19 pandemic. The author used statistical data on the production of cars in Russia by local and global brands, decisions of the government and the President of Russia, and expert assessments. The research found that in 2020 the Russian market experienced the largest decline in car production over the past few years. Simultaneously, the decline in production was more significant than the decline in demand due to the impact of negative macroeconomic factors. The author concludes that foreign car manufacturers, despite the scale and great potential of the Russian market, are reducing their presence in it. As a result, there is a general decline in car production because the market share of Russian manufacturers is less than 50%. This trend of reducing production and the interest of foreign manufacturers in the Russian market was noted during the pandemic and confirmed by statistical data and expert assessments. In the current situation, it seems appropriate to reduce the level of localization to attract foreign automakers. However, due to the tightening of sanction restrictions, this seems unlikely on the part of European and American manufacturers. Simultaneously, Russia can expand cooperation with automotive companies from Southeast Asia and thereby neutralize the sanction restrictions. Measures to stimulate the domestic car market in the context of the exit from the COVID-19 pandemic are unlikely to be effective. Therefore, it is necessary to focus on its natural recovery, especially considering the fact that in the short term, it will remain unattractive for foreign manufacturers.

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Keywords

Automotive industry · Car market · Car production · Industrial assembly · Localization of production in Russia

JEL Codes

63 · 23

1 Introduction

The COVID-19 pandemic, which covered almost all countries of the world, negatively affected various industries that were forced to go through lockdown and disruption of logistics and supply chains. The year 2020 has become a test for foreign car manufacturers in Russia and worldwide.

Automaker Sollers (Mazda Sollers) suspended the production of cars from March 28 to April 5. Renault (Moscow plant), Toyota, Nissan, and Hyundai (Saint Petersburg plant) were also suspended. Against the background of the COVID-19 crisis, Volkswagen production was stopped in Kaluga (Tiguan, Polo, and Skoda Rapid) and Nizhny Novgorod (Assembly of Skoda Octavia and Skoda Kodiaq). The Volvo truck plant in Kaluga also stopped production, which is the first time this has happened in Russia (INBC 24, 2020).

The crisis related to COVID-19 has aggravated the systemic problems of regulation and the economy of foreign automobile production in Russia.

Nowadays, Russia has faced new challenges and is operating under a system of serious sanction restrictions that negatively impact the development of the national automotive industry. Many global automotive brands represented in Russia have announced their possible withdrawal from the country.

This is a logical basis for proposing a working hypothesis that the Russian automotive industry increasingly needs to

E. G. Popkova (ed.), *Sustainable Development Risks and Risk Management*, Advances in Science, Technology & Innovation,
https://doi.org/10.1007/978-3-031-34256-1_73

develop its own production and become less dependent on foreign influence on the domestic market, which already manifested itself during the COVID-19 pandemic. The research focuses on the analysis of the situation in foreign automobile production in Russia in the context of foreign policy restrictions, economic uncertainty, and the COVID-19 pandemic.

2 Materials and Methods

The development of automotive production in the Russian Federation invariably attracts the attention of researchers. This is explained by the fact that the automotive industry plays an important role in the country's economy, is one of its key sectors, and has a multiplier effect that affects the development of some other sectors of the economy (Zakrevskaya, 2020). Additionally, the Russian automotive market is one of the largest in Europe, with long-term growth potential (Shcherbakova, 2021).

Simultaneously, the automotive industry in Russia is marked with systemic problems that do not allow national products to compete with foreign brands successfully (Sazhina & Slukina, 2022). Currently, the country has widely developed assembly facilities of well-known world companies. This rivalry is a catalyst for the re-equipment of Russian automotive production and the basis for finding a strategy and own ways for the development of the automotive industry (Zubkova, 2021).

The research methodology is based on systemic-structural analysis of international car production, using groups of dialectical principles of knowledge social phenomena, including the principles of dialectics, the universal interconnectedness and the inseparability of the processes in the global economy, and the movement from the abstract to the particular, which allowed identifying systemically important segments of the international production of cars in Russia and revealing their dynamics.

During the research of international automobile production in Russia, the author was methodologically guided by the basic principles of dialectics, which allowed analyzing the internal contradictions of the dynamics of foreign production in Russia and revealed the interdependence of its qualitative and quantitative changes. As a result, the author identified the stages and dynamic nature of general and particular mechanisms for forming contemporary (related to current crises) phenomena in the system of international automobile production in Russia.

In preparing the research, the author applied specific scientific methods: comparison—which allowed the author to identify the essential content of forms of international penetration of automobile concerns in Russia. The author also relied on the principle of representative sample estimates, thus singling out the sectors of automobile production and the market where the specifics of the formation of international automobile production in Russia are most clearly visible.

3 Results

Before the crisis of 2008–2010, Russian automotive production was about 80%, while joint production was about 20%, but their share was constantly growing. Russian analysts noted that the market for cars and trucks "is experiencing an unprecedented boom in Russia and the trend towards growth continues" (Stepenko, 2009). This boom has made the priority attention to product quality, which has stimulated the growth of demand for high-tech products from international manufacturers. For its part, the Russian government assumes that the automotive industry is one of the strategic growing ones in Russia, and it needs special attention from the state, manifested in the policy of localization of automobile production on the territory of Russia.

Localization requirements have been increasing annually. Nowadays, the government requires engines and gearboxes to be manufactured in Russia. However, the necessary components, including cylinder blocks, heads, and pistons, are not produced in Russia, and it is impossible to establish their production of proper quality.

For localization issues, it is critical who will create and develop automotive components—the car manufacturer or specialized companies. In the USSR, this was done by car factories. A car contains about 20 thousand items of materials, parts, and assemblies. Outside of international production chains, it is unrealistic to be at the level of global requirements for the parameters of all names. Even German, Japanese, Korean, and American companies do not produce their cars without each other.

The cost of research, development, design, capacity building, and organization of production of a contemporary mid-price car is 2.5–3 billion euros. In Russia, no car manufacturers can solve this problem every 3 or 4 years. Moreover, no market can provide a return on these investments.

Perhaps, there should be specialized manufacturers of automotive components in Russia that will work independently on the free market. Otherwise, the automaker is forced, as in the USSR, to buy outdated and not very high-quality components because it produces them at its own factory.

In this situation, the government, insisting on deeper localization, should support the production of automotive components not by worsening the economic situation of some car manufacturers in favor of others but at the expense of the amounts received from scrap collection from direct imports, excise duty on passenger transport, transport tax, and other budget revenues generated by motor transport. It is necessary to pay subsidies to manufacturers of components to make them cheaper, as well as to buyers of cars. These proposals were formulated by a working group under the Ministry of Industry and Trade of the Russian Federation, which proposed additional subsidies for high localization (Nikitina, 2019).

Foreign automakers in Russia seek to deepen localization because it is economically feasible and justified and not because it is ordered from above. Deeper localization should be considered in the context of integration into global production chains.

Even before the COVID-19 pandemic, Western experts pointed out that the decline in the Russian automobile market occurred despite the great advertising and marketing activity of car manufacturers. Thus, the industry can do little to increase sales without active support from the Russian government (Cordell, 2020). In the pandemic, 12 automakers in Russia were included in the Russian government's list of strategic enterprises, i.e., those that play a vital role in the economy. They are provided with preferential loans for working capital replenishment. Additionally, the government decided to purchase an additional 1200 reanimation ambulance cars for regional medical institutions for 5.2 billion rubles.

At a meeting on the development of the automotive industry on April 24, 2020, the President of the Russian Federation instructed to organize operational work to remove administrative barriers, including in the car market, so that it is possible to purchase a car remotely. The President also ordered to allocate 2.5 billion rubles to car-sharing companies and provide them with preferential leasing mechanisms.

In addition to the purchase of reanimation ambulance cars, another 5 billion rubles were allocated for the purchase of ambulances. The President believed that such an order would help stimulate the demand and support automakers. However, according to the President, "first of all, it is important now for people," meaning, probably, industry workers. The President also supported the proposal to develop a set of solutions to increase the demand for cars from the state and companies with state participation by taking inventory of national projects in terms of purchasing vehicles and implementing them ahead of schedule. Additionally, the President noted the need to work out a mechanism for providing loans to replenish working capital for industry enterprises (Ministry of Industry and Trade of the Russian Federation, 2020). From the President's decisions and instructions, it is unclear whether these measures will affect foreign manufacturers. Nevertheless, it is apparent that the structural issues of the industry and localization are not considered.

The issue of industrial subsidies remained controversial. The decision of the (previous) government to differentiate them actually meant redistributing the money earned by some automakers in favor of others, which is expected to lead to the closure of a number of industries, for example, Avtotor and its related companies, as well as Russian enterprises Volvo, Scapia, Peugeot, Citroen, Toyota, Mazda, and Mitsubishi.

"Industrial subsidies" are not charity from the budget but rather the redistribution of the fee paid by enterprises for the future disposal of each car. The so-called "industrial subsidies" are then paid these funds. The amount of subsidies cannot exceed the total amount of the previously paid scrap collection. When signing the special investment contract (SPIC), producers and the government assumed mutual obligations: one to invest large amounts, the other—to maintain the current conditions, which will allow each manufacturer to implement its own investment program.

The Russian government did not have time to implement one policy in the form of increasing waste collection and signing SPIC with manufacturers because it began to adjust it, making it dependent on the localization of critical technologies. Earlier in the SPIC, each manufacturer set a deadline for achieving certain parameters in its investment program; now, it is proposed to set a certain intermediate finish for everyone. In this difficult situation, foreign car manufacturers in Russia are trying to maintain production volumes.

According to the Federal State Statistics Service of the Russian Federation, in 2019, 1.72 million units of various automotive equipment were produced in the Russian Federation. As of the first quarter of 2020, more than 235,000 passenger cars were produced in Russia by foreign automakers. However, 75% of light commercial vehicle (LCV) production and almost 80% of truck production were carried out by national brands (Statista, 2022).

In recent years, the production of automotive equipment in Russia has grown steadily. Nevertheless, it did not reach the highest volumes in 2012, when the production of passenger cars alone amounted to 1.97 million units, with 1.33 million (67.5%) produced by foreign companies and 0.64 million cars of Russian brands (32.5%) (Fomin, 2016).

There were no significant changes in the production structure compared to 2018. As before, about half (47.1%) of all cars are produced by Avtovaz (20.5%), Hyundai Motor Manufacturing Rus (14.2%), and Avtotor (12.4%). The producer group had a share in the range of 5–9%. These are Volkswagen group Rus, GAZ, LADA Izhevsk, and Renault Russia. In turn, Toyota Motor and Nissan manufacturing Rus had 4.3% and 3%, respectively, while the share of UAZ, PSMA Rus, and KAMAZ fluctuated in the range of 2–2.5%. Other manufacturers had a smaller share.

The interest of global automakers in developing their business in Russia in the face of unfavorable foreign policy conditions, economic uncertainty, and the recession associated with the COVID-19 pandemic remains low.

American giant Ford closed its businesses in Russia in mid-2019 after sales of its vehicles fell by 57% (Cordell, 2020). The largest Russian automaker, Avtovaz, announced the purchase of General Motors' share from their joint venture that produces cars in Russia under the Chevrolet brand, which effectively put an end to GM's presence in the field of car assembly (Stolyarov & Marrow, 2019). At the end of May 2020, Nissan management decided that the Datsun brand would leave the Russian market (Nikitina, 2020). For 2020–2023, the company plans to reduce the number of brands in its portfolio. Datsun was built based on Lada models at Avtovaz facilities. Additionally, Nissan has a plant in St. Petersburg that can produce up to 100 thousand cars (Qashqai, X-Trail, and Murano). In 2019, the plant reduced production by 7.4%, to 52.3 thousand cars. The Qashqai crossover accounted for most of the production; its output increased by 3%, to 27.3 thousand cars. The company is also assembling a Terrano crossover in Moscow along with a co-platform Renault Duster. Officially, the company refers to the optimization of the brand line (Nikitina & Shcherbakov, 2020).

Nissan's decision on Datsun attracted the attention of experts as an indicator of the state of international automobile production in Russia, as well as the prospects for the development of the Russian car market.

It should also be noted that the production of the problematic brand was located in Russia, which seems to be erroneous. Prices for Datsun in Russia are such that they do not interfere with sales of Nissan or Renault, as well as new Lada models. At the same time, combining Datsun and Nissan under the same brand was probably a mistake, recalling the experience of Renault, which, in contrast to Europe, assembled and sold in Russia the Dacia Logan, Duster, and Sandero models as Renault, which changed the brand's positioning in the Russian market as a low-budget. For the Russian market, it did not make sense to combine the brands because the Russians percept Nissan as a more expensive brand, and this perception is stable.

The decision of the Nissan concern to abandon the production of the budget Datsun brand in Russia will most likely not affect the loading of the Avtovaz plant in Togliatti, where they are produced. According to Reuters, Datsun absorbs Nissan sales in some markets. However, in Russia, this brand competes only with Lada models and is assembled on its platform. If the brand collapses, Avtovaz will replace its sales with its own models.

Analyzing the situation in 2019—the first half of 2020, we should conclude that the situation for Nissan in Russia is not comfortable: sales are steadily falling, and market participants are talking about a short model line, in the expansion of which Nissan is not ready to invest.

By optimizing the situation in medium and small markets, Nissan is preparing to significantly reduce capacity to increase sales in the USA and China (Norihiko, 2019). As part of the "recovery plan," the Japanese carmaker intends to move sharply away from the strategy set by the former head of the Renault-Nissan-Mitsubishi Alliance, Carlos Ghosn, and provides for a massive expansion of the business.

Nissan plans to focus on the American and Chinese markets. In the USA, the plan is to refuse to increase market share by selling cars to fleets, including rentals, at large discounts, which affects the profitability and image of the concern.

There are no grounds for expanding the international presence in Russia yet. In 2019, 90.3 million new cars were sold worldwide, with 60% in China, the USA, Japan, Germany, and India. In this row, Russia took 12th place in 2019 and 5th place in Europe. This is 1.76 million cars sold (−2.3% by 2018). These indicators are insufficient for full capacity utilization of plants already operating in Russia. In this regard, there is no question of deploying additional capacity.

Additionally, statistics show that auto loan approval rates fell from 51% to 44% in 2019. Thus, the tightening of credit regulations designed to cool the borrowing market has begun to impact the automotive market (Cordell, 2020).

Against this background, in April 2020, car brands produced in Russia increased their product prices (Analytical portal "Cena-Auto" [Price-Auto], n.d.).

As a result, despite all measures taken by the government, according to the Analytical agency "Autostat" (2021), a decrease in the number of cars produced was noted in Russia during 2018–2019. Nevertheless, the decline in the indicator in 2020 turned out to be the most significant in recent times (Fig. 1).

As follows from the analysis of the above data, the reduction in car production in 2020 compared to the previous year amounted to 284,836 (about 17%).

Thus, the crisis situation provided an opportunity to adjust the main approaches to regulating foreign automobile production in Russia, in its bad times, but this was not done.

4 Conclusion

International production in the automotive industry in Russia has a long history associated with the cooperation of Soviet factories GAZ, VAZ, and others with foreign partners. In the 1990s, with the economy's transition to the market, the interest of world car manufacturers in Russia increased significantly. In the 2000s, it became a rapidly growing sector of the Russian economy, outstripping the production of national brands. Simultaneously, being influenced by global trends in the development of the world economy and industry, as well

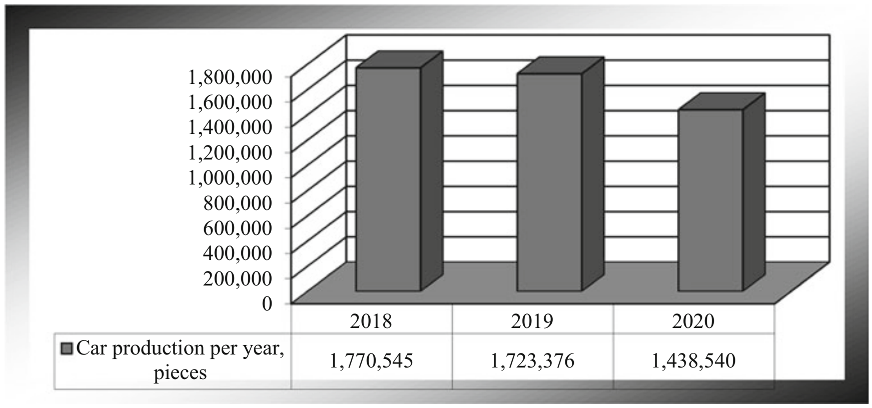

Fig. 1 Car production in Russia in 2018–2020. *Source*: Compiled by the authors based on Analytical agency "Autostat" (2021)

as the corresponding risks, the international production of cars in Russia depends on them to the same extent as on the state of the domestic market.

In recent years, there has been a tendency to reduce the interest of world car manufacturers in production in Russia due to the narrowing of the Russian domestic market, unfavorable production conditions for foreign manufacturers, the global crisis processes, and the COVID-19 pandemic. Solving the problems of industry regulation, within the framework of increasing the percentage of localization, the Russian authorities encourage the development of related industries in Russia. Simultaneously, the level of localization reaches the limits beyond which the technological backwardness of the Russian economy manifests itself, in which it is impossible to produce components of the required quality. Foreign automakers operating in Russia agree to deepen economically feasible localization. Nevertheless, they are critical of the directive, in fact, planned indicators given by the authorities. For the current level of technology, it is apparent that instead of deepening localization, it is more appropriate to integrate Russian automobile production into global production chains.

In the context of the pandemic, global automobile production inevitably experiences a decline, and its fate largely depends on state support measures. In Russia, they have only affected public procurement of new cars, without affecting the reform of institutions for the development of the industry, for example, the widely discussed industrial levy.

As a result of the analysis, we can talk about the formation of a number of trends that can determine the place of foreign manufacturers in the Russian automotive market in the strategic future: there exists a trend of declining interest in car production in Russia:

- The narrowness and significant shortcomings of the Russian state measures taken to stimulate industry, especially regarding recycling collection and containment that put foreign producers at a disadvantage;
- The unreality of high localization rates for foreign manufacturers, especially in the high-tech part of components;
- The need for the development of specialized manufacturers of automotive components in Russia that would work independently in a free market;
- The desire of foreign automakers working in Russia to deepen economically feasible localization and not the one that is ordered from above, while such a deepening is possible only in the context of organic integration into global production chains;
- Measures to support the industry only affected the areas of public procurement of new cars and not the reform of institutions for the development of the industry, especially those that cause the most discussion: industrial collection, etc. From the President's decisions and instructions, it is not clear whether the measures taken will affect foreign manufacturers;
- The decline in car production and the narrowing of the Russian market that make it unattractive for foreign manufacturers.

In the current situation, it seems appropriate to reduce the level of localization to attract foreign automakers. Nevertheless, this seems unlikely on the part of European and American manufacturers due to the tightening of sanction restrictions. Simultaneously, Russia has the opportunity to expand cooperation with automotive companies from Southeast Asia and thereby neutralize the sanction restrictions. Measures to stimulate the domestic car market in the context of the exit from the pandemic are unlikely to be effective. Therefore, it is necessary to focus on its natural recovery and consider the fact that it will remain unattractive for foreign manufacturers in the short term.

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