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# DEVELOPMENT OF LOCAL AUTOMOTIVE MARKET IN RUSSIA AND FURTHER EXPECTANCIES

## Bachelor Thesis


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## Contents

**Abstract**

The automobile industry is the main part of automotive manufacturing, that influence on processes of economics and social development in the Russian Federation.

Car manufacturing consists of a wide spectrum of technologies, fabrication output and elements of economics. The Automotive industry is unlike any other of the branches of modern engineering in combining the structural and technological complexity of each product with the mass scale of production. This sector influences technological progress directly. The level of its stage of development indicates both the solvency of the population and the standard of living in the country as a whole.

Automobile manufacturing in many industrial countries holds a leading position in the production of GDP and affects the economic and social development of society. It stimulates the elaboration of inter-industry relations, provides employment, increases turnover and makes a contribution to the state budget. The car industry has a significant impact on the level of growth of the national economy. This can be fully attributed to our country.

These circumstances determine the relevance of the research topic of this thesis. It is devoted to the study of growth factors and ways of development of the Russian automotive industry since the industry needs investment to modernize the production and output of products that can compete with foreign automakers. The level of development of problems in the modern automobile industry, in particular in Russia, is currently high. Since the national automobile industry, especially passenger cars, is currently under threat of extinction, solutions to problems are widely discussed and proposed by the state, car manufacturers, as well as experts, economists, and analysts. However, in order to solve these problems, we need a state policy aimed at creating favorable conditions for investment activities, protecting the domestic market, and improving the competitiveness of domestic products. The purpose of this work is to study the prospects for the development of the domestic automobile industry.

To achieve the goal of the work the following tasks have been set:

- analyze current trends in the automotive industry.
- determine the main directions of state policies in the field of the automotive industry.
- identify factors of growth in the competitiveness of the Russian automotive

industry.

- review and evaluate the structure of the Russian passenger car fleet.

## Introduction

The thesis consists of an introduction, four chapters, conclusion, list references and applications. In the introduction relevance of the research topic, the extent of the problem is described, formulated the purpose and objectives of the study, subject, object.

The first chapter examines the characteristics of the Russian automotive industry, current trends in the development of the industry in different segments of road transport, as well as the analysis of state policy in the field of the automotive industry, and the prospects for the development of the Russian automotive industry upon accession to the World Trade Organization.

The second chapter examines the issues of competitiveness of the Russian automotive industry, in comparison with the global experience in this industry, ways to improve competitiveness in the production of automotive components, as well as factors for increasing competitiveness. A separate paragraph is devoted to the specifics of investment cooperation in the Russian automotive industry.

The third chapter describes the General trends in the Russian automobile fleet, the share of passenger car fleet by manufacturer, the structure of the fleet by age of cars, and the distribution of the fleet by Federal districts and regions. The structure of supply and demand in the market is also analyzed.

In the fourth chapter, the enterprises related to the automobile industry in the Republic of Bashkortostan and their activities are considered. The General structure of the automobile fleet of the Republic of Bashkortostan, the structure of the automobile fleet of the Republic, the analysis of the activities of LLC "Ufa – AVTOVAZ" is given. The work is illustrated with tables, graphs, diagrams, and an Appendix.

# 1 Current trends in the development and state regulation of the automotive industry

## 1.1 The place and importance of the automotive industry in the Russian economy

The automobile industry is the leading branch of mechanical engineering that influences the processes of economic and social development of the Russian Federation. The presence of developed automobile industry is an important element of ensuring the national security of the state. In many countries, the automobile industry is a strategic sector of the economy, which, along with related and auxiliary industries, represents a significant part of the national industry, provides employment, and implements the country's technological capabilities. In Germany, for example, the automotive industry accounts for about 13.5% of total industrial production, and in Canada, automobiles, and their components account for 30% of the country's exports.

In Russia, the share of the automotive industry in GDP is small - only 2% compared to 10% in developed countries. The Russian Federation also occupies a very modest place in the world car production, its share in the world car production reaches only 2.6%. The entire volume of passenger car production in the Russian Federation is only slightly more than 15% of the output of the world's leading automobile manufacturer “General Motors” (San-Zhong, P. 76).

The automobile industry is the largest machine-building industry in terms of production volume, as well as the cost of fixed assets. Automotive products are widely used in all sectors of the national economy and are one of the most popular products in retail trade. More than 80% of the transported cargo is accounted for by road transport.

Most of the production is concentrated in historically industrial areas of the European part of Russia with a high concentration of traffic and the presence of large transport hubs. The industry has a high level of production concentration. More than 1/2 of commercial products, fixed assets and personnel are accounted for by enterprises with more than 10 thousand employees, which makes up only 11% of the total number. This group includes AMO " ZIL "and JSC" GAZ “(Nizhny Novgorod), JSC” VAZ “(Togliatti), JSC” KAMAZ " (Naberezhnye Chelny). The main areas of

placement are the Central (more than 1/5 of gross production), Volga, Volga-Vyatka and Ural districts (Matyushov, P. 35).

The automobile industry, one of the most important branches of the Russian economy, accounts for 31% of domestic engineering products and consumes 35% of steel and 75% of the rubber produced in the country. From the point of view of tax collections, it is the third-largest source of income from tax revenues to the state budget, after the production of alcohol and tobacco products. The automotive industry accounts for 2.5% of Russia's gross domestic product and over 4% of state budget revenues (Sintserov, P. 3).

The industry plays a very important role in the Russian economy, being one of the largest sources of jobs. Production of automotive equipment is carried out in close cooperation with enterprises of electrical, metallurgical, chemical, electronic, light and other industries. About 650 thousand people are employed directly in the production of cars. Another 5 million people work in related industries that supply components, semi-finished products, and raw materials to automobile plants. In total, together with families, this is about 15-16 million people.

The industry relies on advances in basic and applied Sciences and, in addition, itself it is a driving force for technology development.

The functioning of the automobile industry is an indicator of the country's ability to ensure economic growth and develop a competitive market economy. In Russia, this industry is still slowly developing under the weight of accumulated problems, and, first of all, we are talking about the low competitiveness of Russian cars, which is a consequence of the long closure of this sector of the economy from imports of products of the world's largest companies (San-Zhong, P.77).

The role of the automobile industry in the development of modern civilization is well known. It consists not only in the fact that the automobile determines the way of life of a significant part of the world's population but mainly in the fact that for several decades the automobile industry has been the engine of development of all the most economically developed countries.

The main areas of influence of the automotive industry on the economy are as follows:

- filling a significant part of consumer demand by meeting the population's demand for individual means of transport.
- formation of a wide range of associated demand related to the availability of

a car.

- providing most of the cargo transportation of the country's economy.
- development of a modern network of roads and road communications.
- creating demand for a wide range of resources and materials needed for car production.
- formation of demand for the products of industries that serve the functioning of individual and public vehicles, roads and communications.
- formation of requirements for the structure and quality of products of related industries.

## 1.2 Areas of specialization and characteristic features of the Russian automotive industry

After the collapse of the USSR, automobile production in Russia became much less geographically concentrated: by opening new car assembly plants with foreign firms and creating domestic car factories subsidiaries for assembling cars in other cities (Appendix: Map of automobile plants and car assembly plants in the CIS). In Soviet Russia, the main area of the automobile industry – the Volga-Kama "triangle", with peaks in Nizhny Novgorod (the former city of Gorky), Tolyatti and Izhevsk, and internal centers in Ulyanovsk and Naberezhnye Chelny, accounted for more than 3/4 of automobile production. In the shape of an almost regular triangle with sides of 500-550 kilometers, it had a production capacity equal to that of the automobile industry in Great Britain and Spain. Moscow, the capital region, provided about 20% of the industry's output. On the scale of car production, Moscow surpassed all the Union republics (now neighboring countries) combined.

The Volga – Kama ‘triangle’ and the capital region form the mega core of the domestic automotive industry. In recent years, the share of this area in the Russian automotive industry has increased to 97%. Tolyatti and Nizhny Novgorod alone account for more than 80% of the Russian automotive industry, including about 85% of passenger cars. Gorky automobile plant accounts for a fifth of the gross Regional Product of the Nizhny Novgorod region and more than 40% of all revenues to the budget of Nizhny Novgorod. The Volga automobile plant accounts for more than 35% of the total budget revenues of the Samara region. The Volga automobile plant accounts for more than 35% of the total budget revenues of the Samara region.

Thanks to AVTOVAZ (more than 100 thousand people work at the plant) Togliatti today is one of the most prosperous cities in Russia. Tolyatti - the top of a huge mountain production pyramid: up to 55% of the cost of VAZ cars is created by related companies from other cities that supply components and materials.

The sales market for Russian passenger car industry products has decreased significantly since 1990. During the nineties, the export quota of the Russian passenger car industry, that is, the share of products exported from Russia in relation to the total volume of production decreased from 55% to 17%. There was a reorientation of the industry to domestic consumption. This is primarily due to the' decolonization " and the collapse of the automobile market in neighboring countries. In recent years, car deliveries from Russia to the former Soviet republics have decreased by almost twenty times. This is due to the fall in the solvency of the population in the former Soviet republics and the loss of position in the former countries of the socialist camp and the free markets of foreign countries. There is a further curtailment of the foreign trade turnover of the domestic passenger car industry (Zubov, P. 19-23).

In the automotive industry of the Russian Federation, there is a clear specialization of enterprises to produce certain types of cars. Only the plant in Nizhny Novgorod (GAZ) produces trucks and cars at the same time. All others specialize in the production of individual types and kinds of machines.

Production of passenger cars is carried out:

- VAZ (Tolyatti), GAZ (Nizhny Novgorod), SeAZ (OKA, Serpukhov), IZH – Avto (Izhevsk), TagAZ (Taganrog), GM – AVTOVAZ (Tolyatti), UAZ (Ulyanovsk), RosLada (production of some VAZ models) (Syzran), AVTOTOR (Kaliningrad), Avtoframos (Moscow), ZMA (Naberezhnye Chelny).

Production of trucks:

- a small tonnage (the segment is determined by the tonnage) - GAZ, UAZ, IzhAvto, and a subsidiary of the VAZ, TagAZ.
- average tonnage - GAZ, AMO-ZIL (Moscow), AZ "Ural" (Miass).
- large tonnage - KAMAZ (Naberezhnye Chelny), AZ "Ural" (Miass).

The production of buses:

- small buses up to 6 meters - GAZ, UAZ, PAZ (Pavlovo), Kurgan AZ.
- medium buses from 8 to 10 meters - Kurgan AZ.

- large buses-Likinsky AZ (Likino), NefAZ (Neftekamsk), GolAZ (Golitsyno).

For a long time, the Russian passenger car industry has been characterized by the following features:

- mass production of similar cars of a limited model range.
- controlled development with a small share of imports and a lack of domestic competition.
- funding for the development and restructuring at the expense of budget allocations.

The specification of Russian passenger car products is outdated by compared with foreign analogues on the following points:

- high consumption of fuel and lubricants.
- non-compliance with modern requirements for ecology, ergonomics, and passive safety.
- low resource of components and low build quality.
- outdated external and internal design.

As a result, the Russian passenger car industry is 10-15 years behind similar industries in developed countries, and this gap continues to widen. And so, despite the relatively high prices of foreign brands, in comparison with domestic ones, for many, buying a used car of foreign production is the best alternative.

At present, the mass media and various state organizations constantly say that the domestic automobile industry has lagged the world in terms of technical level and that under current conditions it is impossible to ensure its normal existence. Many people suggest abandoning measures to develop the domestic automobile industry and focusing entirely on easing working conditions in Russia of world car companies.

Indeed, the technical gap in the domestic passenger car industry is significant. Now, of all Russian car manufacturers, only AVTOVAZ continues to operate at the project level. Gorky automobile plant operates at a fairly high level due to a very proactive position on the development of new models. Aware of the need for four-wheel-drive vehicles for the conditions of agriculture and off-road, Ulyanovsk automobile plant is still producing, although the technical lag is obvious here.

The need to develop the domestic automobile industry in any country is confirmed by world practice. All States in the early period of the country's motorization

organized mass production of small-size cars that could meet the needs of low-income populations. On the other hand, the development of its own automobile industry leads to the revival of all other industries and the national economy (Zubov, P. 19-23).

## 1.3 Characteristic features of the modern development of the automotive industry

### 1.3.1 General trends in the automotive industry in Russia

In the automotive industry, there are the following sub-sectors: passenger cars, trucks, and buses. Each of these segments develops according to its own scenario and has its own prospects. Despite the growth of the automotive industry in 2009-2013, in 2014 there was a decrease in production volumes, caused by a pull in demand towards imported cars and foreign cars of Russian production in the first quarter of 2014. For passenger cars, the main trend is the development of industrial assembly of foreign cars, which is gradually replacing cars of domestic models. For the other two segments, we can note the desire to use foreign car components to improve quality and compete with imported cars, mainly used ones.

The General factors that determine the development of all three segments are as follows:

- Together with an increase in the solvency of consumers and the preservation of relatively low quality of domestic car models, contributes to the growth of demand for foreign cars, including those produced in Russia.
- customs policy 2009-2014 differently affects the car market: the segment of cars it is one of the factors in the development of the industrial assembly, in the segment of trucks is one of the factors for the gradual growth of import of new trucks and as for buses - the main deterrent for used car imports.

Since the main threat to manufacturers of cars and trucks is the rapid growth of imports, it is worth discussing in detail the import duties and their impact on the Russian car market.

High taxes on the import of new passenger cars, combined with the growth of this market, contributed to the emergence of projects for assembly production of foreign models.

The world's largest automobile companies open Assembly plants in developing and former socialist countries if the import taxes on new cars are at least 35%. The high duty rate encourages investment in technology and production in Russia, especially in conjunction with the duty-free import of certain car components introduced in 2016.

**Table 1.1.**

The numbers of current taxes on the import of cars and buses.

| | | | |
|---|---|---|---|
| Trucks | 5-15 (depending on the purpose and tonnage) | 10-15 (depending on the purpose and tonnage) | Euro 4* (depending on the tonnage and type/volume of the engine) |
| Buses | 10-20 | | Euro 5* |
| | | | |
| | | | |

* Per 1 cubic cm of engine capacity.

Low import duties on new trucks allow foreign companies to increase their presence in the market without organizing assembly. However, due to the large price difference between Russian and foreign products, the main competition is made up of used cars, which, according to KAMAZ data, account for 83% of all trucks imported to Russia in 2014. The increased import duties imposed on buses significantly reduced the volume of imports but did not contribute to a noticeable increase in demand for domestic cars. The deterrent factor is consumers' ability to pay (for large buses these are mainly municipal organizations) which is limited by the growth rate of transport tariffs.

The main problem of the automotive industry - the gradual loss of competitiveness of Russian manufacturers and the strengthening of the market position of foreign cars with the annual growth of the market.

Each segment has the prospects of its solution: in the production of cars, we can expect the transition of smaller producers to the assembly of foreign cars; in the truck segment from domestic manufacturers - to retain their place in the market, greatly improving the product quality (partly due to foreign components): in the bus segment - the appearance of a joint venture with foreign companies. The most dangerous of all is the appearance on the Russian market of Asian cars - Korean and especially Chinese, which are affordable for the Russian consumer and at the same time demonstrate better quality. Integration of the domestic "automobile industry" into the world market cannot be avoided, when it is inevitably to gradually reduce import duties and open the market for inexpensive Korean and Chinese cars and their assembly lines. Accordingly, the next 2-3 years will show whether Russian producers can survive in market conditions.

The transition of control over AVTOVAZ to Rosoboronexport and the formation of GAZ Group (the largest player in the truck and bus market) may have an impact on the development of the Russian automotive industry. In the passenger car segment, this may give AVTOVAZ a privileged position. The structure of the leading company has been finalized in the truck and bus markets. Thus, the unified company will be able to develop more actively, attracting financial resources to create new models and high-quality modernization, which will further strengthen the company's position in the occupied segments. (Shashkina, P. 26-28).

### 1.3.2 Passenger car segment

In recent years, the automotive industry has been reborn: the growth of solvent demand, car loans and the subsequent increase in car imports have forced Russian manufacturers to either develop new models and improve the quality (for example, AVTOVAZ's Kalina: UAZ Patriot), or to convert to the assembly of foreign cars (IzhAvto, TagAZ, ZMA).

The reorientation of part of the demand for foreign cars, including those assembled in Russia, is caused by the following factors:

- increasing incomes of the population in conjunction with the development of the car loan system, which increases the demand for more expensive models. According to estimates of representatives of car dealerships, in the last months of 2014, up to 70 % of cars are sold on credit.

- flexible pricing and sales policy of dealers of foreign companies, the appearance on the market of moderately expensive (10-12 thousand dollars) models of foreign cars.
- the continuing rising prices for raw materials and automotive components, which forces domestic manufacturers to raise prices, losing one of their most important advantages. As a result, some Russian models were in the same price range with cheaper foreign cars of higher quality (mainly Korean manufacturers).
- development of assembly plants that help reduce the cost of foreign cars (Kia, Ford, GM, Hyundai, Daewoo). Today, only the assembly provides an increase in the production of passenger cars in Russia.
- stricter environmental regulations, leading to higher prices for models and, as a result, the removal from the Assembly line of those models that cannot be translated to "Euro-5" (the family of "classics" of AVTOVAZ).

Hyundai, Toyota, Ford and Daewoo and VW are the leaders of sales among foreign cars in the past few years. Three of them have already been assembled in Russia and the CIS. Most likely, in a few years, the greatest threat to Russian automakers will be Chinese cars built in Russia. This statement is supported by the appearance of models in the segment of 6-8 thousand dollars with an acceptable level of quality, which will shake the position of AVTOVAZ.

With the partial abolition of duties on the import of components, which gave rise to talk about the opening of assembly shops of other foreign companies, and the introduction of a requirement for gradual 30 % localization of production, Russian manufacturers of automotive components have a chance to increase production activity. So far, the localization is only expressed in small details. Most components are produced either at joint ventures of Russian and foreign companies, or at domestic sites that have foreign licenses, or are imported or even produced at the factories themselves that are engaged in Assembly.

However, according to the SOK Group, the fixed assets of manufacturers of automotive components in Russia are worn out by more than 60 %, which means that to meet the requirements of assembly plants, companies will need significant investment (most likely, foreign). Manufacturers of automotive components that are

forced to produce products for "endangered" models will be forced to close or re-profile, which can significantly reduce the number of companies in this sector.

The overall prospects for the industry are determined by the document on the development of the automotive industry – the Concept of development of car industry of Russia till 2020, adopted by the Government of the Russian Federation May 19, 2016, If you follow the logic of this document, it is likely that by 2020`s there will be one major Russian manufacturer of domestic cars, and all the rest of the production will be represented by joint ventures with foreign companies. Until today IzhAvto declined to release the all original Izh cars, AVTOVAZ is has moved away from the "classics", "Volga" has declined the production and, the SUV GAZ, as well as "Oka" quit the assembly. Considering current trends, the production of Russian cars will be significantly reduced and will be supported only by state control of the largest manufacturer.

About 65 % of passenger car production since last decade is controlled by state structures, 9.1% by the SOK Group, 7.7% by foreign companies (GM, Ford, etc.), 6.5% by Severstal - Auto (this figure may decrease to 3-5% in future), 6% by Basic element (the share will decrease in the future due to the discontinuation of Volga), and 5.7% by other investors.

With this industry ownership structure, we can expect that companies owned by private shareholders, taking into account their current market share and competition from foreign cars, will continue to engage in "industrial Assembly", and only AVTOVAZ will be left to develop the production of passenger cars, whose market share will slowly decline.

Holding the share of AVTOVAZ by stopping the assembly of Russian cars at other domestic plants is facilitated by the actions of the new management aimed at breaking off relations with the SOK Group: the company has begun to slow down the supply of car kits to RosLada, which are engaged in the Assembly of some VAZ models. At the same time, AVTOVAZ announced plans to develop new models and organize the production, which is planned to spend about 5 billion Russian rubles of state investment. It should be noted that since the fate of many manufacturers of automotive components in Russia depends on AVTOVAZ, companies can at least change ownership (this may happen to some companies that are part of the SOK Group), as a maximum – close in the absence of demand for products as a result of the reorientation of the largest consumer to imported components. Apparently,

functioning under the control of state structures and using state funding is the only way to develop the production of domestic models. It is to be hoped that effective market methods will be used to" improve " the main automobile company in Russia, which can increase the competitiveness of AVTOVAZ products in the conditions of reorientation of demand for foreign cars (Shashkina, P. 29).

### 1.3.3 Truck segment

The truck market is not yet threatened by a rapid increase in the share of foreign cars: the increase in imports of used cars is artificially reduced by increasing taxes on trucks older than 7 years, and the increase in imports of new trucks is limited by a large price gap between Russian models and foreign cars.

At the same time, the production structure is dominated by low-tonnage trucks (64%) and heavy trucks of 8 tons (20%), which determines the leading position in the market of GAZ, KAMAZ and URAL. The main buyers of trucks are low-income carriers who can afford mainly low-tonnage trucks, and industrial enterprises. It is assumed that in the next 5 years, the production structure will remain approximately the same. In the market of low-tonnage (up to 2 tons) and medium-tonnage trucks, mainly Russian manufacturers compete, while in the market of heavy trucks (more than 8 tons), KAMAZ and URAL are experiencing competition with foreign brands, both new and used, whose share is more than 50% of the market (including Belarusian MAZ). It is to protect these manufacturers that import duties on used trucks were raised.

Most dangerous of all is the appearance on the Russian market of Asian cars - Korean and especially Chinese, which are affordable for the Russian consumer and at the same time demonstrate good quality.

The main player in the truck segment - GAZ will maintain its position: its products have proven themselves in the market and are considered quite competitive in the segment of low-tonnage commercial vehicles. In addition, GAZ has started joint production of medium-duty trucks with Renault Trucks.

The most successful representative on the market is RusPromAvto - the company that controls the GAZ Group. It occupies more than 60% of the market and is the leader in the most popular segment - low-tonnage trucks, as well as present in the market of heavy trucks. (Table 1.2) At the same time, the accelerated growth of production of Gas trucks over the past 3 years has significantly saturated the

segment of both low-tonnage and medium-tonnage vehicles, so we should not expect an increase in the company's market share in the nearest future. The greatest growth potential is observed in KAMAZ if the company implements its plans for import substitution, which should be facilitated by an increase in duties on used foreign cars. (Shashkina, P. 29).

**Table 1.2**

Major truck manufacturers.

| Factory | Share in the volume of production | Products (the segment is defined by tonnage) | Owner |
|---|---|---|---|
| GAZ* | 57,9 | Mainly up to 2 tons, and from 2 to 5 tons | About 70% - RusPromAvto |
| KAMAZ | 14,5 | Heavy truck (from 8 tons) | 34% of KAMAZ belongs to state, 40% practically merged structures VTB, Rosoboronexport and Government Of The Republic Of Tatarstan |
| UAZ | 9,2 | Up to 2 tons | 67% - Severstal-Auto |
| IZH AUTO | 6,8 | Up to 2 tons | SOK |
| AMO ZIL | 6,4 | Mainly from 2 to 8 tons, and up to 2 tons | Nominal holder of 63% - Bank of Moscow |
| AZ URAL* | 3,4 | More than 8 tons and from 5 up to 8 tons | 1000% - RusPromAvto |
| REST | 1,9 | - | - |

* Companies controlled by RusPromAvto.

### 1.3.4 Bus segment

After the increase in import duties, this segment of the market does not experience significant pressure from foreign cars and will develop relatively slowly. At the same time, market participants underestimate Korean and Chinese manufacturers, whose products are cheaper than European ones and began to be actively supplied to the Russian market.

The growth of the market was provided by the replenishment of the fleet of small buses due to high demand in this segment. The demand was met and the demand for large buses (urban and tourist) increased. It is in this segment that deliveries of Asian buses have increased since then. Demand combined with high duties may lead to the appearance of foreign bus Assembly projects in Russia. Its ratification would mean the transition of manufacturers specializing in large buses (LiAZ, GolAZ, Volzhanin, NefAZ) to the Assembly of foreign cars, partly to the detriment of their own products.

GAZ group, controlled by RusPromAvto, produces 71.7% of buses in Russia, and another quarter of the market is accounted for by

Severstal-Auto thanks to the production of small buses. Thus, with the possible arrival of foreign cars on the bus market, it is GAZ Group that will face increased competition, which can only be avoided by combining with competitors in a joint venture. This is the most likely scenario, especially given that GAZ Group has already announced that it is ready to cooperate with foreign producers.

The change of ownership at a leading automobile plant, the strengthening of the position of imported automakers, the emergence of the largest group in the truck and bus production segments and pushed Russian companies to form a survival strategy through cooperation with foreign manufacturers. This cooperation is developing most dynamically in the growing passenger car market and least in the bus production segment. However, as trends show, Russian manufacturers will either have to give up their place to foreign competitors, or work in the domestic market as part of a partnership.

As a result, we get a division into state - owned companies (AVTOVAZ, KAMAZ), which will develop thanks to state support in the form of possible investments and customs policy, and private companies (GAZ, Severstal-Auto, etc.), which have to sacrifice uncompetitive models in favor of Assembly production (Shashkina, P. 30).

## 1.4 State policy in the field of automotive industry

The issue of state regulation of the automotive industry is mainly reduced to the strategic document on the development of the Russian automotive industry adopted by the Government of the Russian Federation. The document submitted by the Ministry of industry and energy is called "On the implementation in the medium term of priority tasks provided for in the concept of development of the Russian automotive industry". It is a strategic document that defines the direction of development of this most important branch of the modern engineering industry in the country.

The concept of development of the Russian automobile industry defines the goals, objectives and priorities for the development of this industry in order to meet the needs of the domestic market, develop productive forces, increase the export of automotive equipment and ensure national security. The concept takes into account the accumulated experience of countries that implement active state policies in the field of automotive development.

In the adopted concept of development of the automobile industry, the state plans to develop the automobile industry, mainly with the help of Assembly plants of foreign companies.

if we objectively analyze the entire concept, we can conclude with a high degree of probability: the concept of development of the automotive industry does not guarantee the prosperity of the Russian automotive industry, but may worsen the state of the industry. It should be noted the shortcomings and possible negative consequences of the concept.

1. Foreign Assembly companies that produce products should reduce the import of their automotive components by 30% in 7 years, approximately. At the same time, Russia is in the WTO, then preferential duty rates will not make sense.
2. 2. the production Volumes and product range of the automotive component industry in Russia are likely to be significantly reduced.

   Because under the conditions of localization for foreign companies provided for by the strategy, the Russian automotive component industry, due to its underdevelopment, could supply mainly metal and plastic castings, glass and

some other components for foreign cars assembled in Russia. Everything else, as a rule, will be imported from abroad. It is unlikely that foreign assemblers will bring component suppliers with investments in Russia. First, the strategy provides little motivation for this.

But the bigger reason is this. Too many foreign companies will work with a relatively small number of cars each. If each company independently organizes the production of its components, this will not ensure their profitability with a small number of cars produced. And accordingly, it will not do this.

3. The developers of the strategy are unreasonably hoping for technology transfer from foreign companies that have come to Russia. Technology transfer is one of the main reasons for the government's strategy. As a result, this creates the appearance of Russia acquiring modern technologies that it could use for the independent development of the automotive industry.

   Although the technology of the automotive industry should be considered in two aspects: the design of new models of the automobile chassis itself and the area of component improvement.

   Foreign companies will build those models of cars that are developed outside of Russia on components and parts that cost more than 70% of the total cost of components for the car. Therefore, it can be assumed that the transfer of technology will not occur.

   If we take into account the high intellectual potential of Russia, we can assume that individual scientists and engineers will be invited to the research centers of these companies, and individual groups of engineers and laboratories will receive orders for the development of certain fragments of technologies, but this does not change the overall situation. After all, industrial technologies are unthinkable in the absence of industry itself.

4. Evaluating the directions, trends, and prospects for further development of the automotive industry, all the expected changes are positive for the end user. Because thanks to foreign companies, Russia will gradually approach international quality standards in the production of cars. The consumer will be offered a large number of cars assembled in Russia, mainly foreign brands, at an affordable price. These will be reliable, high-quality, comfortable, economical cars with a high level of passenger safety, meeting high

environmental standards.

A negative factor is a significant reduction in the production of domestic automakers. And after them, and other sub-sectors of the automotive industry.

The most likely way to prevent the destruction of one of the most important industries is, in our opinion, the development and implementation of the state industrial policy regarding the largest Russian manufacturer of passenger cars in the shortest possible time. This policy should be aimed at ensuring that this manufacturer produces a new series of popular and middle-class passenger cars equipped with modern power units and control units, and an advanced passenger safety system. These cars should be economical, eco-friendly, and comfortable. At the same time, prices should not be higher than similar foreign models, otherwise the chances are minimal.

Of course, these requirements for new car models could only be met if the components and components are available with the appropriate quality. In other words, the new strategy should include the reconstruction of the main sub-sectors of the automotive industry-the production of engines, transmissions, hydraulics, auto electronics, etc. And the reconstruction of these sub-sectors of the "first link" will cause the need and create conditions for the reconstruction of sub – sectors of the following links-element components such as valves, sensors, micro-motors, bearings, micro-pumps, and many others. And this, in turn, will lead to the modernization of the production of equipment and technologies for their production. At this level, production equipment and technologies are almost universal, ensuring the work of many other branches of modern industry. This is the complex nature of the automobile industry, and that is why all the industrial powers of the world have their own automobile industry and try to preserve it at all costs.

# 2 Ensuring the competitiveness of the automotive industry

## 2.1 Competitiveness of the Russian automobile industry

The functioning of the automotive industry is an indicator of the country's ability to ensure economic growth and develop a competitive market economy. Unfortunately, while in Russia this industry is suffocating under the weight of accumulated problems, and, first of all, we are talking about the low competitiveness

of Russian cars, which is a consequence of the long closure of this sector of the economy from the import of products of the world's largest companies.

Considering the competitiveness of the Russian automobile industry, it is advisable to use the concept of the book "international competition: competitive advantages of countries", designed to analyze the determinants of a country's competitive advantage. This concept includes the following main elements: 1. demand conditions; 2. parameters of factors of production; 3. related and supporting industries; 4. firms ' strategy, structure, and competition.

1. Conditions demand. The automotive industry is characterized by large economies of scale. The production of one car model requires a huge amount of equipment and other production needs, and for the production of subsequent models, existing equipment is often not applicable. Sales and service are also very expensive. Therefore, the minimum production volume of automobile companies should be about two million cars per year. In recent years, the Russian Federation has seen a significant, although largely undermined by the crisis, growth in household incomes, which allows us to count on an increase in the fleet of cars. Demand for cars, trucks and buses may also increase as a result of the transition to economic growth, the first signs of which are already being observed.

   However, the low demand of Russian buyers for the quality and performance of cars and, consequently, the lack of incentives for improvement and modernization of products will negatively affect the competitiveness of the Russian automotive industry.

2. The parameters of the factors of production. The most important factors of production are resources (for automobile production, these are steel, aluminum, rubber, etc.), labor, money, technology, and production methods. Russia has rich natural resources and a skilled workforce. However, the presence of positive factors of production does not guarantee the successful development of a particular industry, the correct combination of them is crucial. The fact that the development of the Russian automobile industry cannot be called successful indicates that in addition to resources, it still needs investment in the development of new technologies and effective

management methods. In the USSR, the automobile industry included several large factories that produced a variety of models-from compact cars to heavy trucks. The automobile industry developed as an integral part of the Soviet economy when each enterprise produced vehicles in order to fill a certain planned sector. In fact, the Soviet automobile factories were not independent manufacturers, but represented various divisions of the largest monopoly - the Soviet automobile industry.

The appearance of new Japanese firms on the world market in the 70s led to a radical restructuring of this industry. The change of production types initiated by Japanese automobile companies is one of the most important trends in the modern automobile industry. The traditional mass production type, where there is strict vertical integration of manufacturers - most of the components are produced in one enterprise - it is almost universally replaced by lean production, where most of the components are produced by large independent suppliers, the number of which is small, where suppliers have a number of responsibilities in product design and development of the production concept and supply completed components (for example, completed front and rear parts of the car, rather than bumpers, headlights and mounts separately). In other words, flexible production means eliminating unnecessary production operations, improving the quality of production, and reducing costs due to optimization of the production process. The Japanese method of vertical disintegration and the use of new forms of relations between suppliers and customers represented something new compared to the organizational technology used in automobile companies in the United States and Western Europe, which was largely based on mass production of standardized products and vertical integration. To compete with Japanese companies, most Western firms have switched from the traditional mass production method to flexible production. Car companies in Eastern Europe, in particular the Czech Skoda acquired by Volkswagen, have also adopted the Japanese model of flexible production, raising both productivity and product quality.

3. Related and supporting industries. A car is a complex product consisting of approximately 20 thousand components, so the quality of components and well-functioning of a huge structure of suppliers are very important for

creating competitive products in the automotive industry. The automotive industry is not characterized by product standardization. Each model requires its own network of suppliers who produce components for this particular model and participate in product design, so that production costs become predictable at this stage.

Until recently, most automobile companies produced a significant portion of components within their companies (in 1996, Ford and Volvo produced more than 60% of components within their companies). After some time, a certain number of privileged first-level providers appeared. New forms of interaction between companies and suppliers in the design of main components and subsystems have emerged. Due to the growth of production automation, joint development agreements concluded between companies and suppliers of production technology have become particularly important.

Another important trend in the global automotive industry is the reduction of the diversity of production platforms (for example, the number of different lines for the production of standardized car frames) and the "multiplication" of similar production platforms around the world to achieve greater uniformity of the Assembly process and reduce the number of different parts located under the outer parts of the body. This trend illustrates the increasing importance of operations with components and parts of finished products in the full production chain.

The development of a competitive automotive industry requires developed supporting industries. As a related industry, the electronics industry is of particular importance, as the number of various electronic systems is increasing in modern cars.

The vast territory and scale of the national economy, a large population, a long history of development of the automotive industry, qualified personnel, and a rich transport network, especially in the European part of the country, indicate that Russia has a great potential for the development of competitive supporting sectors of the automotive industry. However, these sectors of the Russian economy are hardly competitive on the world market.

4. The strategy of the firms, their structure and rivalry. As for competition between companies, in the Soviet economy, factories had no incentive to produce a variety of models competing in the market with similar products

from other factories; the market was divided by factories acting as the only suppliers of specific products (trucks, heavy trucks, minibuses, medium and small passenger cars, etc.). the Share of foreign cars was insignificant.

A fairly important competitive advantage of Russian automobile companies is the well-developed (depending on the region) dealer network for sales, as well as a service network for the maintenance of their cars throughout Russia and in the CIS countries. And the lack of such a network for foreign manufacturers in the regions somewhat reduces their competitiveness in the Russian market.

The instability of the financial environment makes it almost impossible to make long-term investments, which means upgrading equipment and products. Thus, the current situation not only does not contribute to improving the competitiveness of the Russian automotive industry, but rather reduces it. This situation leads to an increased interest of Russian automobile companies in the possibilities of attracting foreign capital.

### 2.1.1 Improving competitiveness in production of vehicle components

Russian passenger car manufacturers were initially vertically integrated, carrying out both the production of components and the Assembly of cars. AVTOVAZ's main production base is a good example. It is worth noting that the requirements for suppliers were based on special standards that later became widespread in other industries of the USSR. In parallel with the construction of the Volga automobile plant, hundreds of enterprises were created - suppliers of materials and components.

Too often, the quality of local suppliers ' products leaves much to be desired. There is a General trend towards improvement but achieving world-class quality by the industry as a whole remains challenging. The situation is improving as international automotive component manufacturers increase their presence in Russia. So far, the number of such projects is in the range of one and a half to two dozen, but many of them have been very successful. Most of them are suppliers of AVTOVAZ.

In General, we should note positive trends and a noticeable increase in the majority of foreign manufacturers in Russia. Typical examples are automotive lighting (Ryazan), PES / SKK (Samara), VDO Automotive components in Chistopol.

AVTOVAZ is forced to "transfer" R & D of new components to suppliers in the process of taking out production. However, not all suppliers have engineering services that meet modern requirements. Therefore, such suppliers, firstly, need a developed market for engineering services (Universities, institutes, research centers, academies, etc.) and, secondly, access to information about modern technologies.

In the search for investments for the production of new products and re-equipment of existing production, the following issues are most relevant:

- Creating an integrated investment portfolio.
- Organization of interaction " Assembly plant-related companies-banks-government (including repayment of the loan interest rate) “.
- Integration of the needs of factories.

Today, the introduction of modern logistics technologies is determined by the following factors:

- the tendency to meet the increasing demands of the consumer and the gradual transition from the pushing model of production to the pulling one.
- in the context of competition, the need to reduce logistics costs.
- the arrival of leading foreign OEMs on the Russian market, which put forward strict quality and logistics requirements for suppliers.

To implement modern logistics technologies in the nearest future, the following main approaches are relevant:

- supplier chain management.
- ecommerce.
- reforming the structure of OEM relations with suppliers with the introduction of the concept of industrial parks.

Analyzing the above, you can, for example, consider the strategy of AVTOVAZ for reforming supply chains.

The goal of the strategy is to introduce the best international practices in the industry:

- get a higher percentage of components from suppliers, reduce the number of items produced on their own base.
- allocate components from the enterprise, concentrate the main production capacity on bodies, engines, transmissions.

There are two ways to create a world-class supplier industry: first, to raise the production of traditional components to the highest standards; and second, to motivate world-class suppliers to place their production facilities in the country, especially for innovative products. This work will be carried out step by step, through improving the selection of suppliers and developing relationships with them.

The selection criteria for tenders include the results of technological and quality audits. If there are several suppliers, preference is given to the supplier that has more advanced technologies, uses modern components and materials to improve the quality of the car and reduce the cost of components.

Supplier certification should be introduced the Introduction of common unified requirements for supplier quality systems will eliminate the cost of control by the manufacturer and ensure compliance with international technical requirements.

The main directions of development of relations with suppliers are as follows:

1. Delivery of structural modules. The supplier's participation in the development and development of new integrated components is replacing the supply of individual parts or small components.
2. New types of components. Taking into account the world experience in new components, it is most appropriate to license the Assembly of these products with the development of their production in Russia.

Evolution of automobile production at AVTOVAZ. It is planned to allocate non-core production facilities to leave AVTOVAZ developing and producing only those components that primarily determine the success of the new model (body, engine, transmission). In order to free up space for the placement of new technological processes for the manufacture and Assembly of cars, it is planned to expand cooperation by placing components, blanks, and parts of the current VAZ production at the enterprises of suppliers.

### 2.1.2 Factors of industry competitiveness growth

The main problem, without which there can be no stabilization of the economy or anything else, is an increase in the production of goods that society needs. With it, the automotive industry is now intertwined and another: to maintain production, both the industry itself and the sub-sectors for the production of components and materials. In other words, while preserving the still intact, but already weakened

teams, scientific and engineering infrastructure, the recovery of the industry will be delayed for many years.

Most likely, in the coming years, the recovery and then the growth of production volumes will not be due to innovative efforts and other radical, but capital-intensive measures, the need for which is indisputable, but mainly due to the capabilities of the industry itself. There are also hopes that the government will take steps aimed not at the final strangulation, but at the revival and development of industry, first of all, its basis - mechanical engineering. If this does not happen, mechanical engineering, including such a highly technical industry as the automotive industry, which, despite everything, still has quite a powerful potential, will wither along with all its multi-industry co-operators.

The majority of enterprises have already analyzed their capabilities and ways to restore the previous output volumes and preserve jobs in the new, extremely unfavorable conditions. And I did it expertly. This is guaranteed by the management's experience and knowledge accumulated over decades of working in the most difficult conditions, without any concessions or benefits in terms of financing, logistics, remuneration, etc.

After all, it is impossible not to recognize that the factories are still functioning precisely because of the Director's corps, acting contrary to the gloomy forecasts of economists, who are threatening mass unemployment for the fourth year and probably do not realize the social consequences of this dangerous propaganda campaign for an impoverished society.

However, it is impossible not to see that changes in the management of automobile plants have already begun, which are far from positive and reduce the level of their competence. According to some sources, the Director's corps, if we take it as a whole, is still quite able to raise the load, including the most important: restore the labor skills lost by teams over the years of vacillation.

However, even the most experienced managers will have to (and should)
review many of your usual ideas. In particular, we should refuse to do this: high serialization is a purely positive organizational and production factor, because it allows us to equip production with highly specialized automated equipment, to ensure high unification of products and their structural durability. Now we need a different view: such equipment is technologically conservative and does not allow us to take into account the dynamics of competitors ' development, which is deadly

in the market conditions. Although, of course, there may be exceptions caused by specific conditions. However, most enterprises themselves will have to develop ideas and methods, find resources to restore and increase production volumes, and create prerequisites for the development of products required by the market.

The directions of application of efforts can be as follows. First, partial modernization of products. It, in principle, requires relatively small amounts of changes and costs. However, the nature of the changes should be sufficient to ensure a sustainable product market, and generally cost-effective.

In this case, the manufacturer and suppliers remain unchanged most of the fixed assets, reduce the time and volume of production preparation, remains a clientele accustomed to the product, and so on. Modernization requires high qualification, first of all, designers, because if you limit yourself only to improving technical characteristics with subtle changes in design and decor, then in the end you can get a new high price with the old external forms. Detected defects and market statistics can serve as a signal to switch to an upgraded product.

Secondly, radical modernization of products and design of new models based on existing ones in order to reduce the cost of research (in fact, their updating). It uses the technological capabilities of the manufacturer and co - operating suppliers, but, as a rule, requires significant retrofitting of production. At the same time, it is advisable to organize the production of new units (most often in a smaller series) with the help of existing aggregate or special equipment, processing centers, etc. But, of course, using a new snap-in.

The most interesting results, for example, were once obtained on a Vase. There, when creating the VAZ-2121 "Niva" car, its design included more than 90 % of the most capital-intensive mechanical elements of production cars. And with a new body, also unified in a number of expensive interior elements with serial models. As a result, with a relatively small modernization of production, VAZ began to produce, in fact, a car that had no analogues in the world at that time. Therefore, in Western markets, it was out of competition, enjoyed a large and increasing demand: dealers ' demands to increase supplies were continuous. Its export was limited by the fear of the then monopolist - "Autoexport" to raise the planned output for subsequent years due to the fact that suddenly there will be competitors or for some other reason, sales will be reduced, and with it - and bonuses. However, competitors

"Niva" appeared only after two or three years. So, in a commercial sense, it can be called a car of missed opportunities.

Third, the so-called special production facilities, which are quite powerful in terms of equipment, space, and number of employees, are a serious reserve for restoring and increasing the volume of output at a number of plants. But when using such a unique intellectual and production potential, it is necessary that the new product has a certain ideological and technological continuity with the previously produced one. This means that we also need measures to improve the latter in accordance with new tactical and technical requirements, as well as a specially organized system for "pushing" a new production facility to foreign markets. The creation of such" special products " that, with a certain number of alterations, can become machines for civil purposes, both for the external and internal markets, for individual enterprises will be the most correct way out of the situation. Why-it is clear: the competitiveness of Russian wheeled special equipment and individual developments is not in doubt.

Of course, the freedom to choose an object in special production should be complete since the previous principle (assigning types of equipment to industries) is contraindicated in market conditions.

At the same time, it is impossible to exclude the re-profiling of many special production facilities in the industry simultaneously with engineering training and support workshops. It can exclude or at least minimize the import of many types of road construction equipment, small-scale qualified oil equipment, special machines and chassis, airfield maintenance complex, etc., i.e., it will be beneficial for the entire national economy of the country. And you will not have to open all our doors wide open, as many hotheads recommend, to import from abroad even what can be done in excess and no worse at home. (Those who make such recommendations forget that Western Europe came to unity after decades of leveling and lapping up national economies, including through the free movement of labor and capital.)

Fourth, for truck manufacturers, the way out may be the production of specialized chassis, as well as the implementation of special projects. orders, including individual ones. Fulfillment of individual orders will increase the rating of products among private cargo carriers, which will affect the demand for the company's products. The same is true for bus construction.

For passenger car manufacturers, you can expand the list of standard equipment installed to maintain demand.

Fifth, A serious opportunity to revive production and commercial activity, cooperation relations with related foreign firms or their co - operators, carried out on a commercial basis, can be an activity for manufacturers of automotive equipment. At the same time, it should be primarily about increasing its export potential, i.e., the main task of the Russian engineering industry. Moreover, it is not only not excluded, but on the contrary, it is even necessary to cooperate in the form of joint ventures. Although, as experience has shown, the calculation of foreign investment that will "rush" to us, providing an abundance of quality goods, was clearly untenable (instead of the expected, unnatural for the West, but historically characteristic of us purely Russian altruism, we encountered pragmatism, wariness, and sometimes hostility).

Probably, small domestic production divisions that have branched off from the main enterprise into independent ones (production of small series, some components, consumer goods, etc.) will receive the usual development. Moreover, the only prerequisite for their independence and long-term success can be compliance with ethical standards, that is, high-quality execution of orders, without defects, delivery on time, etc.

Naturally, the organization of production of new equipment requires new equipment, materials, trained personnel, and much more. Everyone seems to understand this, but even here the stereotype often works a new product is necessarily associated with new factory buildings; a high level of automation provided by equipment purchased from imports; "currency" materials, etc. However, with this approach, the need for currency and rubles becomes astronomical. Naturally, it is impossible to satisfy it in the current conditions. Equipment ages always and everywhere, for example, in the US, the aging of the Park, the equipment was suspended (not stopped, but suspended!) only in the late 1970s. And they were in no hurry to introduce the latest equipment, complex technological lines, especially expensive flexible ones.

The measures discussed above, of course, do not exhaust all possible ones. But they are certainly among those that will allow us to raise production volumes, load our staff, and create certain prerequisites for further growth. However, they will not provide the required pace of motorization of the country. This requires innovative and large-scale measures. They are unavoidable if we want to take our rightful place among the developed countries.

At this stage of development, it will be necessary to master new generations of equipment in the capital-intensive mass and mass production typical of the automotive industry. And when it lacks or has limited innovative capabilities. And this is where it will be really difficult to solve this problem without large-scale external assistance. But the main thing-without active state policy (Dobrinsky P. 2-4).

## 3 General trends in the Russian automotive industry

Data on the country's car fleet reflects the total number of cars in the hands of car owners, as well as its structure, dynamics of changes, age data of cars, etc. Evaluating the country's fleet, you can judge the degree of development of the country, region, and standard of living.

Russia has turned from an exporter of cars to an importer of them.

Thanks to the reorientation of the domestic passenger car industry to domestic consumption and the opening of the national market in Russia, the number of privately owned passenger cars has increased many times.

The number of Russian families with a car has increased the

level of motorization in Russia has exceeded the global average (83 cars per thousand inhabitants), mainly due to the Far East, the Kaliningrad enclave, and the Khanty–Mansi Autonomous Okrug (Kanunnikov, P.10).

Today in Russia there is a rapid growth in the number of cars purchased.

The demand structure is changing in favor of foreign cars. There are several reasons for this.

1. Some foreign manufacturers have opened their own or joint car Assembly enterprises in Russia, mainly for non-expensive cars, while curtailing the production of low-profit domestic manufacturers.
2. The Deterioration of the competitive position of traditional Russian cars is reflected in the gradual convergence of their prices with the prices of foreign analogues. The difference in price is sometimes hundreds of dollars, while the level of comfort and quality of foreign cars is naturally higher.
3. 3. the structure of demand is also changing as the population's income increases. Customers are becoming more demanding. There is a natural desire to have a more prestigious and reliable car, this applies not only to new, but also used foreign cars. Today's middle class is more focused on

foreign-made cars in the segment of 10-15 thousand dollars.

4. Growth of consumer lending.

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