PRODUCTIVITY AND FUTURE PROSPECTS OF AUTOMOTIVE MANUFACTURE IN CIS COUNTRIES

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Мақолада МДҲ мамлакатларида автомобиль саноатининг ҳолати ва самарадорлиги матбуотда эълон қилинган мақолалар асосида ўрганиб чиқилган ва унинг келгусидаги истиқболлари ҳақида фикр юритилган.

В статье рассмотрено состояние и эффективность автомобильной промышленности и её дальнейшие перспективы развития на основе опубликованных материалов.

Manufacturing efficiency in automotive sector has been widely researched by both academics and industry analysts. The issues in the centre of attention have been lean production, automation, labour motivation, customisation, market expansion etc. The purpose of our research is to analyse current situation of automotive manufacturing in CIS [1] countries, to assess productivity in automobile production and to evaluate future prospects of auto industry in this part of the world.

After collapse of the USSR, CIS countries went into transition from planned economy to market system. Government policies were set to restructuring national economies through economic reforms, which have not left auto industry intact. Open doors for imports created business opportunity for international traders to import cars (both new and second hand) and high quality automobiles of foreign brands with competitive prices quickly gained customer preferences, which can be evidenced by quick rise in imports[2]. At the same time, governments had to take care of domestic manufacturers inherited from industrial system of planned economy. Other aspects of economic reforms were, and continue to be, attraction of foreign investment and technology transfer. These factors led the government policies to build strict barriers (in average 35% import duty) for automobile imports, serving to defend domestic automobile manufacturers and to encourage investments for establishment of production suites locally through FDI. Example for evidence can be Russia's Government Regulation #413 dated April 23, 1998 "About additional measures to attract investments for further development of national automotive industry" allowing duty free imports of automotive components[3].

[1] Commonwealth of Independent States

[2] See "Analytical review of Russian Automobile market" by Institute for Complex Strategic Research, Moscow for exact figures

[3] This regulation has been replaced by the Regulation on the "Regime of industrial assembly" on April 15, 2005.

Demand for automobiles in CIS countries has been growing with high rates, in the last ten years. As an example, we would like to emphasize some facts and forecasts about Russian automobile market, which is the biggest and fastest growing one in the region.

According to statistics of the Russian Chamber of Trade and Industry, 2007 was expected to end with total of 2.7 million automobiles sold[1], which should make a 28% increase with relation to 2006. Out of them, 1.2 million are going to be produced in Russia: 800 thousand traditional Russian brands (7.2 % increase relatively to 2006), and 400 thousand "Russian foreign brands"[2] (58% increase).

Import of new cars will make 1.1 million (50% increase). Moreover, by the end of 2007, 400 thousand second-hand cars are expected to be imported.

Even in such an attractive situation, total manufacturing capacity of Russian auto industry (operating under the category of "industrial assembly") is estimated to be 1.7 million vehicles a year by 2010, while total demand is forecasted to increase up to 3.2 million[3], which means that, let alone exports, Russian auto industry will not be able to satisfy its domestic demand. According to the estimates of Russian Academy of Science, unavailability of sufficient automobile manufacturing capacity in Russia costs up to 10% loss from its GDP.

Basing on above mentioned facts and figures, we can expect Russian and other CIS countries' economic policies to continue their efforts to encourage intensifying automotive manufacture in the region. Moreover, we expect manufactures to go further than CKD assembly, and set up manufactures in the modular basis[4].

It is obvious that expansion of automotive manufacture in CIS countries is more demand driven than cost efficiency driven. However, attractiveness of CIS as a manufacturing site may fade when current stiff tariff barriers will have to be removed[5]. Pressure of import will make plant level productivity much more important factor than demand.

A number of factors (like organizational structure, managerial staff, ownership structure, cost localization, financial constraints etc.), specific to CIS countries, make region's automotive industry "unusual" in western benchmarks.

Hare et. al. (2004) provide a discussion of industrial structure in Russia, and give a relevant example, comparing structures of Russian Avtovaz versus General Motors, mentioning that Russia's largest automobile manufacturer employs about 100 000 people and manufactures about 750 000 vehicles annually, mostly in one location and under one brand, while GM employs about 350 000 people, manufacturing 10 times as many vehicles as Avtovaz makes and under several brands. Moreover, according to Hare et.al. (2004) Russia inherited too many huge companies with vertically integrated organizational structure (in which output of one division of the company is an input for another).

Basing on our experience we hypothesize that such vertical integration has two aspects weakening productivity of automotive manufacturers:

First is that, if vertically integrated, an automotive component manufacturing division is an exclusive supplier to the vehicle assembling division. Such process excludes (omits) a very important determinant of productivity –

competition among component suppliers which, in the West and the East, has a strong pressure to increase productivity and cost efficiency for component manufacturing process.

Second aspect is that the production volume that would provide scale economies for automotive component manufacturing is usually much higher than the volume of a single automobile manufacturing plant. Actually, this is the reason why efficient automotive

[1] Actual figures were not yet available at the time of publication of this article

[2] With "Russian foreign brands" we refer to the models of foreign manufacturers produced/assembled in Russia.

[3] Estimates of the Russian Chamber of Trade and Industry.

[4] Example of modular manufacturing strategy can be seen in manufacturing plants of Hyundai-KIA group in Czechia and Slovakia. Two plants, with 300 thousand annual manufacturing capacities each, are located 140 km away from each other. A set of component suppliers for 600 thousand vehicle capacity, are located in the close locations. Unification rate of Hyundai-KIA models makes 50-60%.

[5] For example, as a result of joining WTO.

component makers supply to several automobile manufacturers simultaneously. Therefore, automobile manufacturers could spend less through component outsourcing, rather than investing for inefficient component production.

To conclude, this article is designed as a research proposal for wide research umder the above heading. Further research will contribute to the discussions of the world automotive industry relating to automotive manufacture in developing countries remarkably. The results will allow us to make assessment of productivity of automotive manufacturing in CIS countries, which is valuable both for world automobile manufacturers interested in **CIS** market and the governments of CIS countries, who are interested in **FDI** inflow.

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