

Chinese-Russian cooperation in the automobile field, experience and prospects 2000-2019

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The first cars in China began to be assembled in 1958 and had mainly Soviet origins, but active growth in production began only in the eighties, when occidental manufacturers were allowed into the country. At the beginning of the 21st century, the export of Chinese cars started to develop rapidly, and the Chinese government began to provide tax incentives to automakers-exporters.

At the beginning, the tactics of Chinese automakers consisted in openly copying models of world brands, and selling them at a price 2-3 times cheaper than the original. For this, global automakers began to sue them and closed the European market to the Chinese automakers.

After that, Chinese automakers (they) shifted to the markets of emerging countries, including the Russian market. Chinese automobile manufacturers entered the Russian market in the mid-2000s. In Russia, the export of new foreign cars is accompanied by commitments to localize the assembly, and in 2006-2010 Great Wall, Chery, Geely, Lifan and some other brands established large-unit assembly in Kaliningrad, Cherkessk and other cities. Gradually, Chinese automakers came to the tactics of buying a license for obsolete and discontinued models of world biggest manufacturers. Their European design, at a low cost, opened the markets of many countries for Chinese automakers.

Analyzing the activities of Chinese automakers in Russia between 2004 and 2019, it is logical to distinguish between the two periods of development of the presence of Chinese automakers in the Russian market.

Stage I : 2004-2014 : a new market and a variety of offers

Chinese cars of the first wave imported into Russia in 2005-2012 were characterized by extremely low prices. Chinese cars presented in Russia were among the cheapest on the market and suffered from a huge number of technical flaws, especially when compared with products of European and Japanese manufacturers. By early 2008, Chinese cars occupied 2.4% of the market. That year, the Russian government introduced protective duties on import of vehicle bodies for large-unit assembly. For each imported body, you needed to pay 15% of its customs

value, but not less than 5,000 euros, despite the fact that the cars themselves cost about 8,000 euros. This situation contributed to the departure of a large number of Chinese manufacturers from the market. Of the eighteen companies in the market by 2010, only Chery, Geely, Lifan and Great Wall remained. And the total losses of importers and distributors of Chinese cars, according to some estimates, exceeded \$ 300 million.

However, Chinese cars found their customer in Russia. They gained special popularity in the poor regions of the country, especially in the South and in the regions of the North Caucasus. At the same time, in Moscow and the metropolitan region, customer do not show much confidence and interest in the cars of Chinese automakers.

The pitiable position of the Russian automobile enterprises contributed to a gradual increase in the share of Chinese cars in the Russian market : in 2000-2012, cars of Russian brands can hardly be considered competitive. Low build quality, outdated technology - all this pushes consumers to search for alternatives to Russian cars. And in the case of the Chinese ones, the client is offered a car that, for the same price, is better equipped. Initially, Chinese manufacturers relied exclusively on inexpensive cars. But, over time, customer demands in China and abroad have grown and Chinese manufacturers have had to develop in order to remain competitive.

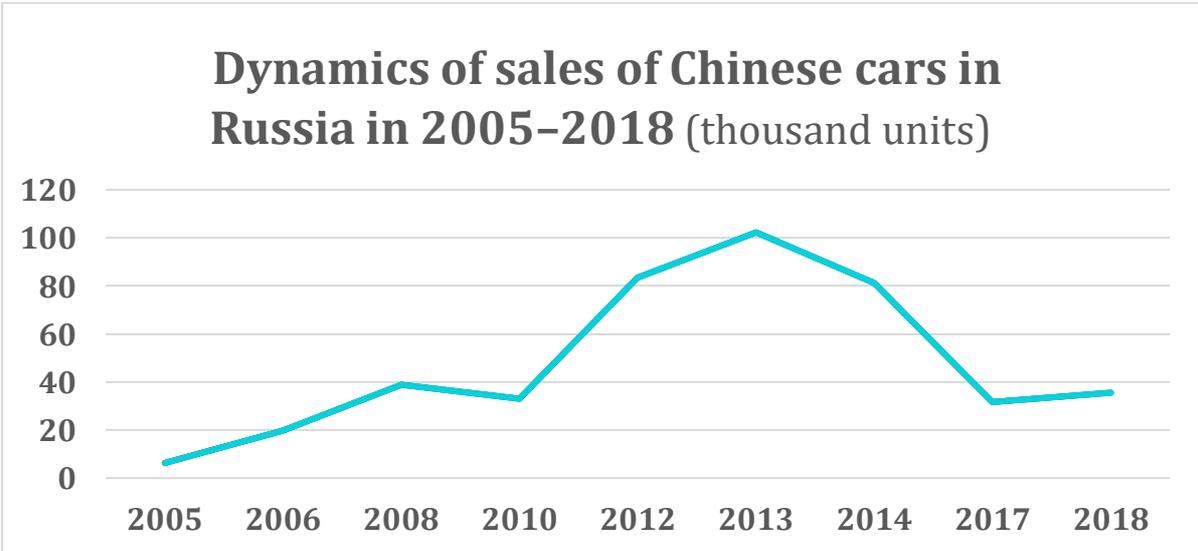
The crisis of 2008 contributed to a qualitative renewal of the Chinese automobile industry. Car factories gained access to modern platforms, hired foreign top managers and designers. The Chinese auto industry is now aiming for the segment that Korean automakers occupied in the mid-2000s. Prices have also risen. There appeared official headquarters in Russia, spare parts warehouses, modern dealerships. In the Russian market, European, Japanese and American cars are traditionally popular. But gradually, by 2010, South Korea has also became one of the leaders in car sales in Russia. Apparently, it is its experience that inspires the Chinese-one now.

At the same time, Chinese manufacturers are not able to increase significantly their share in the Russian market. This is primarily due to the policy of the Russian government impose some protective duties on the import of foreign cars and thus encourage directs foreign investments in the Russian automobile industry. The consequence of this policy was the active modernization and development of Russian national automakers witch were reorganized et technical re-equipped with the active participation of biggest world brands. At the same time, many of them began to invest in the organization of full-scale production of their cars in Russia.

Thanks to competition, the possibilities of choice have expanded significantly. In the rapidly growing Russian car market, demand is satisfied by foreign brands well known to the Russian consumer that organized a local production and whose sales exceed sales of domestic cars.

By 2010, the assembly of cars of almost all the largest world brands was established in Russia: Ford, Renault, BMW, Chevrolet, Volkswagen, Toyota. Localization of the assembly allowed to this manufacturers to offer Russian customers modern models at affordable prices. That made it very difficult to promote Chinese brands which do not have the level of customer confidence that global automakers have. Nevertheless 2012, Russia became the largest export market for Chinese automakers : 82 thousand cars were sold. So, the Chinese automakers had a small, but stable, share in the Russian market. Cars of the Geely and Lifan brands were massively purchased by Russian taxi fleets.

In 2013-2014, four obvious leaders stand out among Chinese brands - Lifan, Geely, Chery and Great Wall. Their total sales are more than 75 thousand cars - and this is over 90% of all sales among Chinese brands. In 2013, the Chinese automobile industry has reached the current maximum share of the Russian automobile market - 3.6%. Subsequently, the sanctions in 2014 and the collapse of the national Russian currency caused the failure of the car market and a strong decline in the purchasing power of the population. Despite this, Chinese brands have demonstrated their ability to stay in the market, while simultaneously updating the lineup, improving products and working to consolidate their positions through localization.



Dynamics of sales of Chinese cars in Russia in 2005–2018									
	2005	2006	2008	2010	2012	2013	2014	2017	2018
Total	6 308	19 800	38 994	32 864	83 330	102 389	81 350	31 814	35 497
	-	1%	1,3%	1,7%	2,8%	3,7%	3,3%	2%	2%

Stage II : 2014-2019 : maintaining market share, despite the unfavorable economic situation

In 2014, a new stage begins in Russian-Chinese cooperation in the automobile sector. For a long time, the Russian authorities did not provide support to Chinese manufacturers wishing to organize large-scale production in Russia. Many viewed the Chinese automobile industry as a threat to Russian automakers, primarily AvtoVAZ. Chinese automakers did not receive tax credits as part of government support programs. Moreover, Chinese manufacturers, unlike Europeans and Koreans, were not allowed to participate in popular programs to stimulate demand for new cars among the population.

After the well-known events of 2014, With the strengthening of Russian-Chinese cooperation at the interstate level, Chinese companies have a new chance to gain a foothold in the Russian car market. After the talks between the top officials of China and Russia, the green light came on for car manufacturers from China primarily in terms of the development of their production in the Russian Federation. In 2014, the Great Wall brand began construction of a large plant in the Tula region. Looking back, we can recall that it was the Great Wall that tried in 2005 to create significant production capacities in Russia.

Chinese car market share in Russia in 2005–2018								
Year	2006	2008	2010	2012	2013	2014	2017	2018
Share	1%	1,3%	1,7%	2,8%	3,7%	3,3%	2%	2%

Great Wall announces an impressive investment in the creation of a car factory in the Uzlovaya industrial park near Tula - investments will amount to more than half a billion dollars. The planned production capacity is also impressive - 150 thousand cars per year. The plant will

be launched in 2020, the enterprise will include full-cycle production - there will be workshops for stamping, welding, painting, assembly and production of spare parts. The perception of Chinese cars is gradually changing. The new Chinese models are in terms of quality, close to their concurrents. More and more consumers are allowing the possibility of buying mid-range Chinese cars, Whereas earlier, the Chinese auto industry in Russia had a strong image of enter-level cars.

In fact, Chinese brands are developing along the same lines as Korean ones, which have gone from new and unknown brands to serious concurrents for reputable European and American brands. However, it is important to note that for Chinese automakers, the domestic market plays a huge role, and *de facto* the domestic market serves as basis for export. Unlike European, Japanese and American manufacturers, which diversify production and sales, distributing them around the world and not concentrating on the domestic market as a key.

The market share for Chinese brands in 2018 in Russia remained at the same stable level as in the previous two years : this is 2% or slightly more than 35 thousand cars, whereas the total number of new cars sold in Russia in the same year is 1.8 million vehicles. But, for example, old and reputable french brand Peugeot-Citroen sold only 9 thousand cars in 2018. And comparing these two examples, in my opinion the Chinese manufacturers have more tangible prerequisites for further development.

Conclusion

Summing up the analysis of the presence of the Chinese automobile industry in Russia, it should be noted that the 2014 crisis and the associated geopolitical and economic changes had a strong influence and served as a catalyst for the expansion of industrial implantation of Chinese automakers en Russie. In the foreseeable future, the Chinese auto industry is indeed able to increase its presence in Russia. We can probably expect an increase in the share of Chinese cars to 10%. However, this will require a lot of work to promote Chinese brands. Now the situation is complicated by the fact that at least 10 Chinese brands compete for presence in Russia. Therefore, it is possible that only a few Chinese brands will remain in the Russian market and will find a way to seduce new customers.

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