The Russian Automobile Industry (in 3 Acts)

John Branch, Ph.D.
Director of Part-Time MBA Programs and Lecturer of Marketing at the Ross School of Business
Faculty Associate at the Center for Russian, East European, & Eurasian Studies
Welcome

• Different kind of beast:
  – Stumbled into Eastern Europe
  – Kyrghyzstan
  – Practitioner versus theoretician

• 3 broad phases of economic development of Russia
  • Historical sketch
  • Some implications for the Russian automotive industry
Act 1. The Great Experiment

- Russian Revolution October 1917:
  - Agrarian economy… peasants ~90% population
- Centrally-planned economy (*The Commanding Heights*)
  - GOSPLAN (1928-1991 five year plans)
  - GOST (from Ventspils to Vladivostok)
- Economic development:
  - Until 1960s, at pace with U.S.A. (Red Utopia)
  - 1964-1982 Brezhnev era (corruption, stagnation, inefficiencies)
  - 1990 agriculture, industry, and military (services 0.82% of GDP) mostly domestic production and resource exports
• Russian automobile industry:
  • Centrally-planned (early 1930s First Five Year Plan of Industrialisation)
  • Imported machinery and technology (FORD and FIAT)
  • Utilitarian, lack of branding
  • Ownership prestige (not about self identity)
  • Poor quality
  • Standardisation of models
  • Self-maintenance and tinkerer mentality
Act 2. Chaos and ‘The Lost Decade’

- Land grab, free-for-all. . . ‘Oligarchs’
- Foreign brand invasion
- Shuttered factories
- ‘West is Best’ mentality
- Pensioners/salaries… haves and have nots
- Devaluation of currency
- Denis versus Boris
- Brain drain
- Basic entrepreneurship in trading
• Russian automobile industry:
  • Foreign direct investment
  • Foreign brands arrival
  • Imported vehicles (Western Europe and Japan)
  • Used car markets
  • Prestige through brand
  • Self-expression
  • No services
  • Flea-markets for parts
  • Private/public transportation
Act 3. Capitalism. . . More or Less

- Export-oriented, resource-based
- Corporate governance and corruption ‘issues’
- Challenging business environment
- Low international competitiveness
- Short-termism
- ‘Firm hand’
- Huge amounts of wealth, but economic disparities
- Consumption-oriented and consumerist population
- Environmental issues
Russian automobile industry:
- Very large (4.8% of GDP, 1% of labour)
- Domestic focus/few exports
- Localisation of design
- Large market (overtook Germany)
- Regulated (import tariffs, recycling fees, duty knock-down fees, luxury taxes on HP)
- Joint ventures common
- Country of origin effect
- Brand-oriented
- Income/geographic differences—brand preferences
Questions
Thanks and Goodbyes

John Branch, Ph.D.
E-Mail: jdbranch@umich.edu
Telephone: 1.734.647.5301