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What prospects does implementation of Global Value Chain in automotive industry has for the macroeconomic future and stability of Kazakhstan: the case of Kostanay region

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Abstract

The main purpose of this research paper is to explore Kazakhstan's automotive market, compare the situation in neighboring countries and analyze the impact of the industry's further development on the Kostanay region - mainly, what macroeconomic effects we will observe in the future if the region's biggest manufacturer (the SaryarkaAvtoProm plant) will start cooperating with local manufacturers. Based on the findings, We will provide further recommendations for Kazakhstan's automotive industry.

The main contribution of this study is to provide a detailed overview of Kazakhstan's automotive exports, reviewing the literature on firm and product heterogeneity. For this purpose, We used secondary data and distinguished between other CIS countries' plants and domestic plants. The objective of this work is to present a framework for estimating production processes for the Kazakhstan automotive industry.

For this research paper, We included companies that are members of the automobile industry association. The results point to possible future research directions in production that could be beneficial to the automotive industry and the development of predictive business models in this field.

Introduction

The effects of the global pandemic have drastically decreased sales and profits in almost all spheres of global and local economy. It affected all businesses - big and small as well as hundreds of industries all over the world. However, at the same time, the automobile industry in Kazakhstan showed significant increase in production and sales. What could be the reasons for such a phenomenon? The National Automobile Sales Association discovered that, in the middle of 2020, there was a global decline in the industry in 96 leading countries. Only 4 countries managed to show positive results and Kazakhstan was one of them.

The opening of the “Asia Auto” car assembly plant in Ust-Kamenogorsk started the history of Kazakhstan’s automotive industry. One of the first car brands assembled in Kazakhstan was the Russian AutoVAZ, in particular the Niva SUV, which gained popularity at the time.

2011 was a breakthrough year for the country’s automotive industry. Two new automobile enterprises were launched in Kazakhstan: the Kostanay region SaryarkaAvtoProm plant for assembling South Korean SsangYong vehicles (modern-day Ravon, JAC, Peugeot, and Iveco are assembled there) and the Almaty Hyundai Trans Auto for the assembly of Korean buses and other special equipment (Informburo, 2017). Kazakhstan followed China, Uzbekistan and other countries that did not have local car brands and involved foreign manufacturers to develop their own car industry.

In the year 2020, local annual production volumes in the industry reached 77,471 units of equipment, which is almost twice as much compared to the previous year (50,541 units). To be more precise, there was a particular increase in the production of trucks and buses. In total, domestic factories produced more than 5,000 pieces of equipment, resulting in about 40% increase in growth (Incomeinbiz, 2020).

Because of the automobile industry, Kazakh economy has experienced a significant boost. It should be noted that over the past year, SaryarkaAvtoProm produced more than 51% of all equipment within the

country. Having released 40,050 units of transport, the manufacturer brought its indicators up to the 100,000 mark, while applying welding and painting operations. In the year 2021, the plant plans some major investments in the installation of several new product lines in the amount of around 8.4 billion tenge. Moreover, it also plans to expand its logistics capabilities.

After a few months, the Hyundai factory was opened in Almaty. The operations for welding and painting the car body were mastered and a number of agreements on the production of components were signed. In the year 2020, Kazakhstani consumers showed particular loyalty to the Hyundai brand, which gained popularity over the years. The total investment into the brand amounted to 28 billion tenge.

Generally speaking, in the year 2020, the launch of new plants and production facilities in Kazakhstan should be considered one of the main events. In March, the production of Chevrolet cars was launched at the SaryarkaAvtoProm. Within less than a year, these domestic cars have become the fastest growing brands in the country, entering the top of the most popular ones in Kazakhstan in the year 2020. During this time period, the plant has produced more than 15,000 units of this brand.

Kazakhstan Market Analysis

Over the last 10 years of car production in Kazakhstan, the industry has managed to survive the crisis and recover. A rapid drop in oil prices in 2014 has significantly affected Russian and Kazakh currencies, where the Russian ruble has surpassed Kazakh tenge by almost twice as much. We assume that such drop of Russian ruble should have forced an overall sale of cars in Kazakhstan to increase dramatically, as people in Post-Soviet countries tend to invest more into real estate and material goods rather than financial instruments. As a consequence, even if total car manufacturing has reached its 5-year peak in 2014 of nearly 40,8 thousand models, sales were 4 time higher, 160 thousand (*"Автопром Казахстана: как менялся рынок за 10 лет"*, <https://lsm.kz/avtoprom-kazahstana-ot-a-do-ya-kak-menyalsya-rynok-za-poslednie-10-let>). As a result of greater supply of foreign cheaper car models, demand had decreased in the following 2015-2016 years, badly affecting manufacturing companies and their sales. This enforced government to intervene into the industry to protect domestic producers. There was also a big shrinkage in the auto-retail industry within Kazakhstan. A new term - "grey cars" has appeared, which meant cars imported from Russia and Belarus from private individuals after the abolishment of VAT. In the year 2015 more than 50% of cars in Kazakhstan were "grey cars" (PwC, 2015).

In the year 2018, the car industry experienced a so-called "auto-boom" where the production of cars in Kazakhstan has increased by over 80% (MachExpo, 2018). In the year 2019 KazAvtoProm (the Kazakh automobile industry union), has published results from the local automakers from January to November. They found that around 45,000 vehicles (including buses, trucks, cars, and other specialized vehicles) with a total value of 312.5 billion tenge (\$813.8 million) were produced in the country (The Astana Times, 2019).

Авторынок Казахстана в 1 полугодии 2019 года

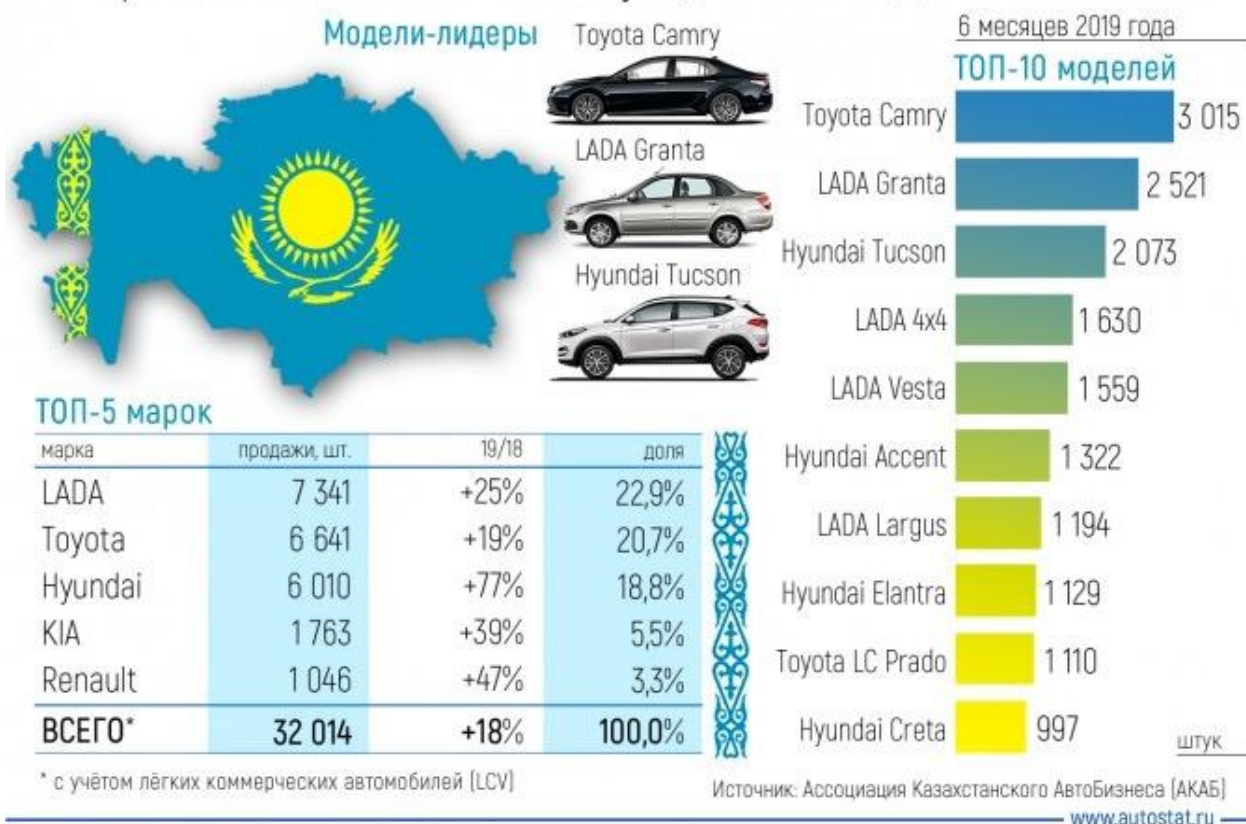


Figure 1: Segmentation of Kazakhstani car sales and major models 1.

Among some of the most popular local brands of passenger cars purchased in 2019 were Toyota Camri, Lada, Hyundai, KIA, and Renault (Figure 1). Some of the brands offered by Kazakhstani enterprises also included Skoda, Chevrolet, UAZ, and Peugeot (The Astana Times, 2019).

In January 2020, according to the KazAvtoProm union, Kazakhstanis bought more than 5000 cars, compared to a year ago. In January 2020, the growth of the Kazakh economy became a favorable background for the further development of the car market. Car sales increased as well. Most of the visitors to car dealerships choose offers from domestic manufacturers: the share of KazAvtoProm accounted for more than 60% of sales in January 2020. At the same time, the basis of demand is made up of models worth up to 5 million tenge (Ishekenova, 2020).

In 2021, two thirds of all automotive equipment in Kazakhstan was produced in the SaryarkaAvtoProm plant in the Kostanay region. The SaryarkaAvtoProm plant is the largest car manufacturer in Kazakhstan. It is also one of the first car manufacturers that meets the requirements of the industrial assembly. Moreover, the SaryarkaAvtoProm is the only plant that produces all types of vehicles and its dealer centers are represented in all regions of the country.

According to the Association of Kazakhstan AutoBusiness (AKAB), equipment with a total value of 193.9 billion tenge was produced over five months of 2020, and more than half of these indicators belong to the SaryarkaAvtoProm plant. The results of three months of 2021 show that the SaryarkaAvtoProm plant produced more than a quarter units of equipment than in the same period last year.

In 2020, the plant managed to achieve a record level of productivity - around 50% of all equipment in the country. This year, it plans to surpass these indicators, relying not only on the high demand of the existing brands JAC, Chevrolet, UAZ and MAN, but also on the launch of work with new ones. So, in 2021, the plant announced the start of production of KIA cars. In the same month, a partnership agreement between SaryarkaAvtoProm and AvtoVAZ was signed in Kostanay. The planned volumes of the largest car plant in Kazakhstan this year will allow domestic producers to reach the mark of 100,000 units. equipment per year.

АВТОПРОМ КАЗАХСТАНА

ЯНВАРЬ-МАЙ 2020

193,9 млрд

По предварительным данным за пять месяцев 2020 года на территории Казахстана было произведено 27 335 ед. техники общей стоимостью 193.9 млрд тенге, на 64,5% больше, чем за январь-май 2019 года.

ТОП-3 ПРОИЗВОДИТЕЛИ

САРЫАРКААВТОПРОМ	14 421	111,6 млрд
АЗИЯ АВТО	10 816	59,3 млрд
КАМАЗ-ИНЖИНИРИНГ	360	8,3 млрд
ДРУГИЕ	1 738	14,7 млрд

Источник: АКАБ, МНЭ РК



Figure 2: Major car manufacturers of Kazakhstan and intermediate production.

SaryarkaAvtoProm is the sole exporter of passenger cars. In May 2017, a supply agreement was signed between Holding Asia Group Tajikistan and SaryarkaAvtoProm, under which the SaryarkaAvtoProm plant carried out the first export of cars to Tajikistan in June. Deliveries began with the first batch of 55 JAC S3 vehicles worth thousands of dollars. The export delivery was supported by a subsidiary of the Baiterek Holding, KazakhExport (Forbes, 2017). In June 2020, SaryarkaAvtoProm exported 816 Hyundai, Chevrolet and JAC cars to the EAEU countries and neighboring countries for a total of 5.6 billion tenge. This is every third car produced at the enterprise or every sixth in Kazakhstan. (SAP, n.d).

Based on the indicators above, we can see that the SaryarkaAvtoProm plant's financial situation is relatively stable and has good prospects for growth. The automotive plant places at #38 in Forbes ratings and is among the 50 largest private companies of the Republic of Kazakhstan as of 2018. The company's revenue equals around 65.18 billion tenge. The main sales markets are the EAEU and Tajikistan (Forbes, 2018). Unfortunately, there is very little to no data available on later years to give a fuller outlook on the company's financial situation, but, generally speaking, the SaryarkaAvtoProm plant is in good prospects.

Продажи автопроизводителей РК, 2018 год

№	Производитель	Продажи, ед	Доля, %	Динамика, % 2018/2017
1	АО «АЗИЯ АВТО»	17 132	57,2	34,6
2	ТОО «СарыаркаАвтоПром»	11 221	37,5	146,6
3	АО «КАМАЗ-Инжиниринг»	587	2,0	-12
4	ТОО «СемАЗ»	584	2,0	6,6
5	ТОО «Hyundai Trans Auto»	252	0,8	-40,6
6	ТОО «Daewoo Bus Kazakhstan»	155	0,5	76,1
	ИТОГО	29 931		57,5%

Figure 3: Overall sales by main manufacturers in Kazakhstan, 2018.

Comparative Analysis between Russia and Uzbekistan

The export of cars and spare parts is a profitable activity, therefore the states are investing in this industry. The countries of the former Soviet Union are investing their resources in this, in order to improve the level of the economy. Countries like Russia and Uzbekistan show excellent results in this area of development. In this section, for comparison, We took two countries. Those are - Russia, one of the largest suppliers and Uzbekistan, a country where the development of exports of cars and spare parts grew dramatically over a short amount of time.

Russia

Numerous hundred factories opened in Russia in the early 2000s, manufacturing famous models from Volkswagen, Skoda, Kia, BMW, Ford, Renault, Toyota, and Nissan (Retrieved from “*Russia's car sector stalls, but foreigners still investing*”, https://www.rbth.com/articles/2010/06/05/car_sector_stalls_foreigners_still_investing.html). As a result, the presence of foreign manufacturers had a beneficial effect on the Russian automobile industry, and new models from Russian brands modeled themselves like foreign models (Retrieved from *Krkoska, Libor; Spencer, Alan (2008), "Automotive Industry in Russia: Impact of foreign investments in car assembly plants on suppliers' entry"*, <http://www.ebrd.com/downloads/research/economics/auto.pdf>).

The total export of products of the Russian automotive industry (cars, assembly kits, components) grew in 2019 by 17% to \$ 4 billion, according to an EY study. The growth of foreign supplies has been observed for the third year in a row. The result exceeded the government's expectations. In the long-term strategy for the development of the automotive industry, approved in the spring of 2018, it was assumed that in 2019, exports in the baseline scenario will reach \$ 2.9 billion, and in the optimistic scenario - \$ 3.4 billion.

The situation was similar in 2018. Then exports amounted to \$ 3.4 billion. billion, and the target level of the strategy, depending on the scenario, is \$ 2.5–2.8 billion.

Russia provided 4.5 billion roubles (\$62.8 million) in state funding for automotive exports through the logistics subsidy in 2019. The government uses this money to cover up to 80% of the costs of delivering finished vehicles and car components to international markets. The logistics subsidies were intended only for deliveries across the Russian border until 2016, when they were extended to include the entire supply chain.

According to Russian experts, the Russian automotive industry's most pressing challenge right now is to diversify its export supplies.

The rise in Russian-made vehicle exports in 2019 can be attributed to industry recovery in Belarus and Kazakhstan. While the Belarus market appears to have reached a temporary high point, demand in Kazakhstan remains strong and is expected to become the primary driver of Russian vehicle export growth. However, according to Kuchko- Russian market analyst at IHS Automotive, even so, because Kazakhstan's government has encouraged local production, Russian exporters have shifted away from ready-to-assemble vehicles toward assembly kits. The normalization of relations with Ukraine could improve exports of Russian-built vehicles in the long run. This market used to be the primary destination for Russian exports, but it is now closed.

According to Dmitry Babanskiy, an analyst at the Moscow-based think tank SBS Consulting, Russia has certain advantages as a manufacturing facility, including a cheap yet experienced labor force, a raw material base, and supportive government policy. Given the industry's trend toward localization, it's possible that Russian automobile industry exports will expand faster.

In 2019 Russia's slow economic growth resulted in a 2.3 percent decrease in new passenger car and light commercial vehicle sales. Both segments experienced a similar degree of decline. Stagnant economic growth, lower oil prices, and the depreciation of the Russian ruble all contributed to a reduction in consumer spending.

The decrease in sales in 2019 was partially due to higher sales in 2018, as customers expected price increases in 2019 as a result of the VAT increase. In *Table. 4* we can observe data on sales of passenger cars and LCV's.

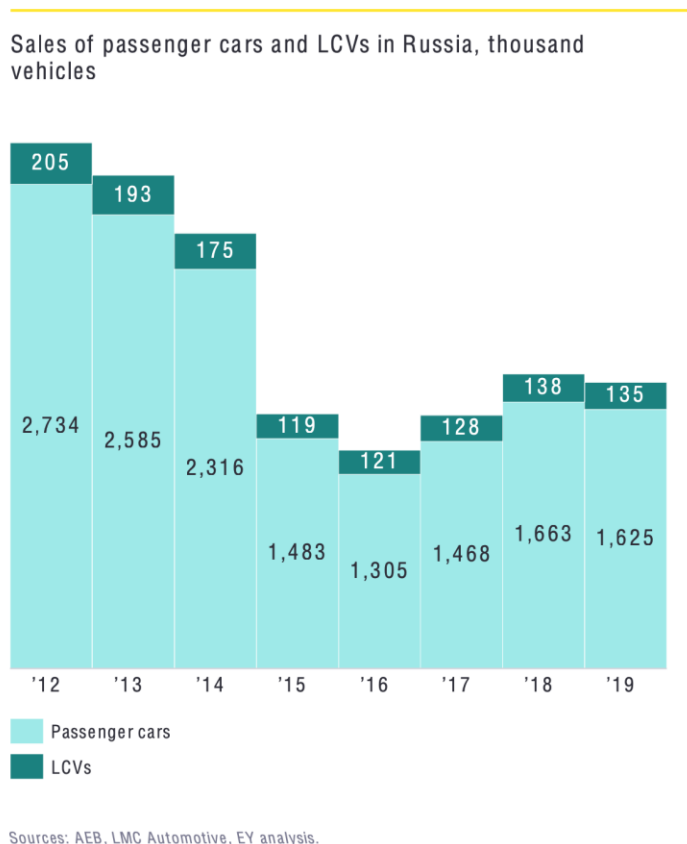


Figure 4: Russian volume of car sales (2012-2019).

However, according to the *Figure 5* we can observe statistical data since 2014 presented by EY auditing company on the fact that in the medium term, Russia's economy is expected to develop decently. Thus, the forecast for further development and profitability of the industry of exports in automotive and its parts is going to increase.

Indicator	2014	2015	2016	2017	2018	2019	2020F*	2021F*	2022F*
Population, million	143.7	146.3	146.5	146.8	146.8	146.8	147.0	147.3	147.7
Real GDP growth, %	0.7%	-2.0%	0.3%	1.8%	2.5%	1.3%	1.7%	1.6%	1.6%
GDP per capita, USD	14,468	9,435	8,912	10,848	11,348	11,586	12,789	13,669	14,609
Inflation (average annual), %	7.8%	15.6%	7.1%	3.7%	2.9%	4.5%	3.7%	3.9%	4.0%
Industrial Production Index, %	2.5%	-0.8%	2.2%	2.1%	2.9%	2.4%	1.5%	1.5%	1.4%
Brent price, USD per barrel	98.9	52.7	44.1	54.5	71.2	64.2	62.4	60.8	60.8
Unemployment rate among the economically active population (annual average), %	5.2%	5.6%	5.5%	5.2%	4.8%	4.5%	4.6%	4.6%	4.7%
RUB/USD exchange rate (annual average)	38.4	60.9	66.8	58.3	62.9	64.6	64.7	65.7	65.5
RUB/EUR exchange rate (annual average)	51.0	67.5	74.1	66.0	74.1	72.4	72.2	74.7	75.5

▶ Russia's economy grew for four years in a row after the 2015 recession, but its growth pace slowed down from 2.3% in 2018 to 1.2% in 2019. This was due to the introduction of new Western sanctions and lower oil prices weakening the Russian ruble and accelerating inflation. Another factor was an increase in VAT to 20% in 2019.

▶ Agricultural output demonstrated the highest growth, jumping by 4.1% in the first 11 months of 2019 compared with the same period of the previous year. Industrial output also made a considerable contribution to Russia's GDP, rising by 2.4% in 2019 compared with the year before. Growth in freight transport and retail sales significantly slowed down to 0.6% and 1.6%, respectively, due to the ongoing devaluation of the national currency and weak consumer spending.

▶ Direct foreign investment in Russia picked up after a sharp decline in 2018. It totaled US\$ 4.7 billion in the first half of 2019, more than double the level of the same period the previous year.

▶ As oil prices may fall further, Russia's economic growth is projected to be moderate in the medium term.

Sources: BMI, Oxford Economics, EIU, Rosstat, Russia's Ministry for Economic Development, Bloomberg. EY analysis.

* The forecast does not take into account the potential impact of the coronavirus outbreak (COVID-19) and consequences of Russia's failure to reach agreement on oil production cuts with the Organization of Petroleum Exporting Countries (OPEC).

Figure 5: EY's statistical report on Russia's economy.

Renault-Nissan and other foreign investors are purchasing major stakes in Russian companies. Their joint-production vehicles, the Lada Granta, Lada Vesta, and Lada 4 4, are among Russia's best-selling automobiles. It was clear that Russian car factories alone would not be able to close the gap with the global auto industry; international auto companies needed to be involved. Ford built a car plant in Russia, Renault created a joint venture with Moscow, and GM with AvtoVAZ.

In Russia, there are 16 major manufacturing plants for the assembly of foreign car brands. Each plant, depending on its brand, is producing several specific car models and then distributes them across the country and abroad. For instance, few of the largest plants are located in St. Petersburg, belonging to such brands as Hyundai, Nissan, Toyota, GM; while Volkswagen and Renault produce their cars in Kaluga. More about car manufacturing plants and their geolocations is presented in the list below:

- i. St. Petersburg - Hyundai plant (Hyundai Solaris, Creta; Kia Rio)
- ii. St. Petersburg - Nissan plant (Nissan X-Trail, Murano, Pathfinder and Qashqai)
- iii. St. Petersburg - Toyota plant (Toyota RAV4 and Camry)

- iv. St. Petersburg - General Motors plant (Mothballed)
- v. Vsevolozhsk - Ford-Sollers (Ford Focus, Mondeo)
- vi. Kaliningrad - Avtotor (Kia cee'd, Sportage, Soul, Venga, Optima, Quoris, Prime, Mohave, Cerato, Sorento; Hyundai, i40, Elantra; BMW X3, X4, X5, X6)
- vii. Moscow - Renault (Renault Duster, Kaptur; Nissan Terrano)
- viii. Kaluga - Volkswagen (VW Polo, Tiguan, Touareg, Multivan; Skoda Rapid; Audi A6, A8)
- ix. Kaluga - Peugeot Citroen Mitsubishi Automotive (Mitsubishi Outlander; Peugeot 408; Citroen C4)
- x. Nizhny Novgorod - GAZ (Volkswagen Jetta; Skoda Octavia and Yeti)
- xi. Cherkessk - Derways (Lifan Breez, Solano, Smily; Haima 3; Geely MK, MK Cross, Emgrand; Great Wall Hover; Chery Tiggo 5 and Chery Tiggo 3)
- xii. Togliatti - AvtoVAZ (Renault Logan, Sandero; Nissan Almera)
- xiii. Naberezhnye Chelny - Ford-Sollers (Ford Fiesta, EcoSport)
- xiv. Elabuga - Ford-Sollers (Ford Kuga, Explorer, Transit)
- xv. Izhevsk - "IzhAvto" (Nissan Sentra)
- xvi. Vladivostok - Sollers (Toyota Land Cruiser Prado; Mazda6 and CX-5)

In Russian strategic planning local manufacturers will occupy 80% of the market. Already today, locally produced cars occupy a large part of the new car market, and by 2025 their share should reach 80–85%. Today the share of localized models exceeds 60%, and these are only cars with a localization level of at least 50%. At the same time, it is noted that simple assembly plants are highly dependent on imports and do not help the development of the industry, since they do not provide an opportunity to develop new technologies. Therefore, the state intends to increase the degree of localization and develop local production of components.

The average level of localization by 2025 will be increased from the current 35-50% to 70-75%, which will allow better protection against inflationary processes and fluctuations in exchange rates, and will also make the export of auto components more profitable.

Uzbekistan

The automotive industry occupies one of the leading places in the economy of Uzbekistan. This industry employs a significant number of the country's population.

Russia had promising prospects for the growth of the automotive industry at the beginning. It was the presence of a strong manufacturing base for Russia. However, there was no such opportunity for our neighboring country- Uzbekistan.

These days Uzbekistan is a country with good indicators in the export of transport and sale of spare parts. Besides this Uzbekistan has its own automobile manufacturers. They are: GM Uzbekistan, MAN Auto-Uzbekistan, SamKochAvto.

GM Uzbekistan is an automotive manufacturing strategic partnership between the Uzbek OJSC UzAvtosanoat and the American General Motors Company, based in Asaka, Uzbekistan. It was known as UzDaewoo Auto and was founded in 1996 as a joint venture between the Uzbek government and Daewoo, a South Korean automaker.

In 2008, the plant was renamed GM Uzbekistan to continue producing Uz-Daewoo branded vehicles following the change of ownership of Daewoo to GM Daewoo. In recent years, these models have been rebranded as Chevrolets in the United States and other foreign markets. On November 27, 2008, GM Uzbekistan began production. On a day, the first assembled car was a Chevrolet Lacetti, which was also the 1,000,000th assembled vehicle from UzAvtosanoat's production. GM Uzbekistan produces 250,000 vehicles per year. Chevrolet has been producing the Chevrolet Spark M300 in Asaka since the beginning of the third quarter. Currently, the M300 is only aimed for export. The models are currently available as assembled CKD and SKD kits. However, GM Uzbekistan intends to produce up to 50% of all necessary parts and wants to do so as quickly as possible. Another plant is making 200,000 front, back, and side windows for the Uz-DaewooAvto and Chevrolet Lacetti vehicles. In 2010, the GM Uzbekistan manufacturing facility hired about

5,000 people. In 2011, GM Uzbekistan sold 121,584 vehicles in the world, making it the eighth-largest market for Chevrolet, which produced over 225,000 vehicles. The Chevrolet Cobalt was introduced to the lineup in 2012.

In November 2011, the joint venture GM Powertrain Uzbekistan, which was established in 2008, opened an engine plant in Tashkent, 400 kilometers (248.5 miles) from GM Uzbekistan's vehicle manufacturing facility in Asaka. The Powertrain JV is 52 percent owned by GM and 48 percent owned by UzAvtosanoat. The factory is General Motors' first in Uzbekistan. More than 225,000 Ecotec 1.2L and 1.5L engines will be produced each year for use in GM small passenger cars around the world.

The next automobile manufacturer is MAN Auto-Uzbekistan. The MAN AUTO-Uzbekistan Company is a joint venture between MAN Nutzfahrzeuge AG in Germany and the Uzbek OJSC UzAvtosanoat in Uzbekistan. In August of 2009, the new partnership was formed. Following that, the MAN staff educated the workers at the plant to ensure proper vehicle assembly and to improve the workforce's theoretical skills. The vehicles were first assembled on the day the partnership contract was signed. In Samarkand, SamAuto has an assembly plant. The MAN TGA, which is shipped as a CKD kit from Germany, is one of the currently equipped versions. Another model is the MAN CLA, which is manufactured by the Indian MAN Force Trucks Pvt. Ltd. This product is also available as a CKD kit. MAN intends to build 500 to 1000 units each year, according to their plans. UzAvtosanoat had formed a separate dealer network for vehicle sales. Later on, production capacity is projected to exceed 2000 units. MAN intends to launch the MAN CLE, a new variant of the Indian CLA model designed specifically for the Central Asian market. As a result, the Uzbek produced models' target markets are the Uzbek domestic market as well as all CIS markets. The Neuhaus GmbH in Selm ships some used vehicles to Uzbekistan as a comprehensive tool for strategic business support. There are also the TGA TGM series and the obsolete versions MAN F2000, MAN M2000, and MAN F8 in addition to the TGA and CLA series available.

SamKochAvto, formerly Samarkand Automobile Factory, is a Turkish–Uzbek joint venture with Koc Holding as a major shareholder. The factory, which is located in Samarkand, Uzbekistan, produces buses and has recently added a Nissan passenger truck production line. SamKochAvto manufactures four different bus models and five different truck models, some of which are exported. "Samarkand automobile plant" for the production of medium-capacity buses, small trucks, and medium-duty trucks, established in 1996 by the Government of the Republic of Uzbekistan for the number 381 from November 5, 1996, with commercial operations beginning on March 19, 1999. Basic models in the small class SAZ NP 37 chassis Japanese Isuzu, low-floor buses in the small class SAZ LE-60, Isuzu trucks, and other special vehicles on the chassis of Isuzu are among the SamAuto lineup. In the coming years, the project "Land Rover Uzbekistan" is planned, according to which the Samarkand Automobile Plant will start producing off-road vehicles of the "Land Rover" brand.

In January-October of 2020, Uzbekistan increased the export of passenger cars by 66.8% compared to the same period last year. During this period, domestic automakers delivered 13,310 cars for \$ 127.2 million.

Matiz and Nexia with a DOHC engine were introduced in August 2001, and both changed the perception of the domestic auto industry. They were the ones who started aggressively promoting exports, conquering neighboring states' markets and, above all, Russia's. The beginning of cooperation between Uzbekistan and the American corporation General Motors was marked in 2007. Following that, the parties signed a strategic partnership agreement. This year has been particularly significant for the Uzbek automobile industry: not only have three new models, the Tacuma, Epica, and Captiva, been introduced, but the two most common models, the Nexia and Matiz, have also begun to be fitted with EURO 3 engines. The more developed and technologically advanced Spark, which became a sort of equivalent to Matiz, began serial production in August 2010. A SKD assembly of a front-wheel-drive business-class sedan with a 2.4-liter four-cylinder Malibu engine was mastered in March 2012, and a restyled version of the Captiva was born in 2011.

The automotive industry generated the most Cobalt automobiles. According to the State Statistics Committee, the automotive industry developed 12,682 Cobalt units between January and March 2021. Cars produced in January-March 2021:

- Cobalt - 12,682
- Damas - 12 051
- Lacetti-Gentra - 8 399
- "Nexia T-250" - 6 958
- "Labo" - 2 564
- "Spark" - 1 800

According to the press service of the Goskomstat, the largest number of cars was delivered to Kazakhstan - 11048. The export geography in monetary terms is as follows:

- Kazakhstan - \$ 109.8 million;
- Ukraine - \$ 6.4 million;
- Azerbaijan - \$ 6.2 million;
- Russia - \$ 2.2 million;
- Tajikistan - \$ 1.2 million;
- other countries - \$ 1.4 million.

A relatively high degree of localization of car production is one of the key achievements of the Uzbek automotive industry. The average level of localization of production of the most significant vehicles, the Matiz and Nexia, is 65 percent, while the level of localization of production of Spark and Cobalt cars is 55 percent. The government decided to put more effort and money to increase the level of exported goods in order to achieve economical benefits. In order to achieve that, in 2015, Ravon- the car brand, which is an Uzbekistan owned car brand, was created.

Opportunities for Localization in Kazakhstan

According to Artur Miskaryan, director for strategic planning of the "KazAvtoProm", the degree of localization is the only metric that accurately represents the evolution of the business and market. Today, we can speak about 30-35 percent on average in Kazakhstan's industry. This indicator rises in proportion to the size of the industry. In Kazakhstan, one and the same traditional brand can now have 30% original markets, while in Russia, it can be 60% or more. The explanation for this is due to the market's size and, as a result, the profitability of part manufacturing. From 2017, the demand has recovered; in 2019, sales surpassed 70 thousand cars, with domestic producers accounting for 60% of the total. As sales reach 100-120 thousand vehicles per year, according to industry regulations, a substantial increase in local content arises. First, we need businesses that can provide such capacity, and second, we need adequate sales opportunities. Stimulating market demand and lending to the industry for investment are two mechanisms that can help the automotive industry grow and localize, resulting in the creation of high-paying jobs and a reduction in foreign exchange reliance.

Today's domestic automakers are working on technical advancements that will improve the driving experience. The telematic protection system built by the Ust-Kamenogorsk team of engineers is an excellent example. It controls some of the functions and keeps track of the vehicle's state. This device is currently being mounted on vehicles manufactured in Kazakhstan.

The consumer is increasingly evaluating the advantages of buying localized cars; they already account for 60% of sales, although a few years ago it was 20-25%. An important advantage is the price: if a domestic car today costs an average of 6.8 million tenge, then an imported one - 10.9 million (Kapital.kz, 2020).

Moreover, the opening of a new plant for joint tire production with PJSC TATNEFT will be an important milestone for the city of Saran and the entire automotive industry. High-tech output would result in the creation of 1,100 new jobs, as well as the fulfillment of domestic market demands and the expansion of

Kazakhstan's export capacity. The plant is expected to manufacture up to 3 million passenger vehicle tires and 500,000 commercial vehicle and bus tires each year. The project received a total investment of 125 billion tenge. The localization center will provide a component base for all Kazakhstani manufacturers, allowing them to increase the proportion of domestic content in their goods.

In addition, on March 26, 2021, a localization center in Kostanay was officially opened. Low energy usage and low maintenance costs, according to technical project manager Vladimir Volovodenko, are essential features of modern equipment. He would also play with the price of manufactured goods. Agromash-Holding KZ has already begun joint work on the project with international companies such as POTTINGER, DEUTZ-FAHR, PKF Luidor, and Kostanay Tractor Plant, as well as increasing the degree of localization of its own products, such as LOVOL tractors and combines "ESSIL."

The manufacturing facilities cover a total area of over 36 thousand square meters. Plastic sections, cabins, balers, seeders, and units will all be covered by the initiative, which will completely meet the needs of agricultural machinery in terms of product localization. The facility will have office rooms, a 100-bed dormitory, and a training center where professionals can continue to develop their skills and adapt to change.

The government has a localization of parts program, which include:

- Batteries
- stamped discs
- alloy wheels
- Tires
- exhaust system
- automotive glass
- Engine
- Seats

- wire harness
- plastic parts
- mirrors

For example, cable localization. If the cable will be purchased from Pavlodar not from Russia, this will lead to more profit for Kazakhstan. In addition, the development of the cable will help to avoid political risks and restrictions. Another great example is glass for cars that is manufactured in Kyzylorda and East Kazakhstan region. Previously, it was purchased from Russian plants in Chelyabinsk, Sverdlovsk and Tolyatti. As the outcome for such actions we will be able to observe in 5-7 years from now on, when our automobile industry can compete with foreigners.

SaryarkaAvtoProm has opened a line for the production of KIA cars. The development of bumpers and plastic components for Hyundai Trans Kazakhstan is currently underway in Almaty.

Macroeconomic Effect on the Kostanay Region

As mentioned before, the Kostanay region has one of the largest car manufacturers in Kazakhstan - SaryarkaAvtoProm plant, part of the “Allur” group of companies. SaryarkaAvtoProm is the first ever plant in Kazakhstan that meets the requirements of industrial assembly, within the framework of which works on welding, painting, and assembly of bodies are carried out. In addition, the plant is the only enterprise producing all types of vehicles. The range of products manufactured on the plant today is represented by such brands as JAC, Chevrolet, KIA, LADA, UAZ, and MAN (SaryarkaAvtoProm, n.d.).

Overall, the Kostanay region, in general, has relatively steady car outputs in all the regions of the country. As of 2019, the population of the region consists of more than 872 700 people, which makes 4.8% of the total population of the country. The most densely populated cities within the region are Kostanay, Rudny and Lisakovsk. The least densely populated are the southern districts of the region, where the density ranges from 0.4 to 0.8 people per square km. The northern and central districts of the region, including the cities of Kostanay, Lisakovsk and Rudny, are inhabited mainly by the Russian-speaking population. Several projects for the development of engineering infrastructure are being implemented at the expense of transfers from the republican and regional budgets (Tengrinews, 2019). GRP growth in 2020 in the Kostanay region amounted to 3% (Alau, 2020).

Average salary in the Kostanay region as of 2019 is around 144,777 tenge (Forbes, 2019). Industry is successfully developing in the Kostanay region. Since the beginning of the year, positive results have been achieved This is evidenced by the results of the socio-economic development of the region for 9 months of 2019 (Primeminister.kz, 2019).

According to the results of the first half of 2020, there was the growth of the main macroeconomic indicators in the Kostanay region (Inform, 2020).

In case the Kostanay region starts co-working with local car manufacturers, there will most likely be the following macroeconomic effects. First of all, there will be smaller unemployment rates in the automotive industry as more of the able-bodied population will be able to find jobs in production, sales, and imports and exports. One job in the automotive industry leads to the appearance of seven-eight jobs in many of its related areas. The reality is that one of the biggest advantages of the development and improvement of engineering industries is their impactful multiplier effect. This phenomenon shows the level of influence of one particular individual industry or a sector on the development of the economy as a whole through the appearance of additional demand in other sectors and sectors of the economy, and therefore, jobs (Primeminister, 2020). Therefore, the more local car manufacturers become actively involved in the process, the more the production of various electric equipment, vehicles, and other machinery, which are related to the branches of mechanical engineering will increase. Thus, the multiplier effect will have a greater impact on other sectors of the economy by creating more jobs and decreasing the unemployment rate.

Second of all, Kazakhstan's economy will benefit from the Kostanay region and local car manufacturers' co-operation in both short and long-term. More money will be circulated within the domestic economy. This will expand the country's national capacity and directly contribute to Kazakhstan's economic growth. Moreover, in addition to keeping the money circulating within the country, shipping costs and time spent are decreased and it becomes possible to create a much quicker manufacturing process. Local manufacturing and co-operation will make it possible to address customer needs more swiftly and efficiently as well. For example, if businesses would need a particular piece of equipment manufactured and shipped by a strict deadline, the best option is to work with a local manufacturer.

The supply chain in general will be tightened. For example, many industrial companies in North American spend more than \$1 billion annually on logistics only. Such companies ship and receive parts of equipment and other machinery products all over the continent. These expenses add up very rapidly – and when you add the fact that many of them have to be stored in warehouses until they are either shipped to the

next supplier or the customer (Bierdon, 2021). By tightening the supply chain, the SaryarkaAvtoProm plant can reduce many of these costs. And because fewer parts of their budget would go to logistics, the company would be able to either save the money, reinvest it into other areas of the automotive business, or increase their bottom line overall. The costs of fuel will be reduced as well which will lower shipment costs - international production requires international shipping and there are a variety of fees associated with it, based on an item's weight, preferred options of rail, ground, or air shipping, fuel consumption, and so forth.

The third effect on the Kostanay region will be the ability to have more control over their materials and more prospects for customization. As cheaper products are often due to big volumes - more lower skilled people of cheap labor will be working on them. Producing equipment and vehicles locally would most likely mean that the SaryarkaAvtoProm plant would work with a much more diverse and robust talent base that can handle the smaller batch work that many small businesses require (American Express, n.d.).

Research questions and results

The main research question is “How the development of export and localisation of the automotive industry affects the economic sector of the government?” To answer this question, We used secondary data and domestic articles on local export and localization.

The research objectives is to distinguish existing automotive plant in Kazakhstan and other CIS countries. The key variables are an opportunity in technical and financial terms to further develop this area and analysis of neighboring countries in which export and localization of production have passed this way and are successfully developing in it.

The study uses qualitative data from the interviews collected from individuals from economic and engineering spheres. All of them were conducted via Zoom and WhatsApp. Overall, there were five questions in the interview, excluding the introductory part.

Questions:

1. What do you think, what are the opportunities to raise the level of localization in Kazakhstan? 2. Your forecast for the market: in what time will it be possible to export our cars?
3. How do you evaluate the car market in Kazakhstan?
4. What should we aim for?
5. In cooperation with domestic producers, what impact will this solution have on the economy of Kazakhstan?

The fundamentals on which we made the questions were the following.

Firstly, we aimed to find out the subjective opinion of the people in the field of economics and engineering on the industry as well as their assessment of the possibility of producing automotive parts in Kazakhstan. The overall number of people interviewed was two. This particular part of the thesis will show their answers to the question of how people from the economic sphere assess the Kazakhstani car market and their forecasts for the future. Conclusion will be made based on findings from the interviews.

The first interviewer was Damir, 25 years old, an entrepreneur, economist, and a graduate of Business School, KBTU.

Based on his answers, we came to the following conclusions: the industry is, in fact, experiencing steady growth and development. However, the period in which Kazakhstan can increase the localization level is not less than 5-10 years, taking into account urgent lack of staff, political risks and poor state aid. That is why we have to look ahead and consider opportunities of the Green value chain, i.e. production of eco-friendly electric vehicles. Nevertheless, Kazakhstan generally has many prospects and opportunities to keep the budget in house, thereby increasing the level of employment and GRP in the Kostanay region.

The second interviewer was Shyngys, 28 years old, KBTU undergraduate and NU graduate, majoring in Engineering Management.

The second interviewer was asked the same questions as well. The conclusion based on the findings from his interview were the following. According to Shyngys, the car market is pretty competitive. There is a need to consider that the car industry is turning their eyes on alternative sources of energy and Kazakhstan would need to develop its own concept of electric cars as well - the one which would have certain effective properties and competences in the global market. As for the exports, even with an optimistic forecast, the development of car exports can only be carried out within the Commonwealth of Independent States.

Furthermore, we are currently only capable of assembling automobiles and are not yet equipped to manufacture our own vehicles. Not only due to a scarcity of skilled experts, but also due to technical limitations.

The auto industry, as previously said, is a competitive environment. It is not likely for at least ten years. Kazakhstan should also aim for business growth that is sustainable and eco-friendly. One of the methods that the interviewer finds appealing is to upgrade Kazakhstan's roads so that potential international partners can see that we are engaging in growth and making it easier for the people. So Kazakhstan's roadways are desirable for foreign investors and automobile manufacturers. Overall, we must first actively collaborate with overseas companies to demonstrate that Kazakhstan is capable of meeting international standards and that

there is a market for middle - high vehicles in Kazakhstan. We would be able to draw international investors in this process.

Looking ahead, we should discuss electric vehicles, which will have a major effect on the region's ecology. Actually encourage the entry of new car brands into our sector. Making car parts, without a doubt, necessitates a significant amount of effort.

What would our country's automobile production bring us? First, we will discuss the vision that it will project for Kazakhstan. We will reveal ourselves from the other perspective, demonstrating that we export not only raw materials but also vehicles, potentially increasing goods turnover.

Our sector, on the other hand, is not yet ready for a higher degree of localization. The key factors are technical advancements that are still in their infancy and a lack of professionals. There would undoubtedly be a favorable result if we increase the degree of localization and sell car production in Kazakhstan. Based on all of the information and responses we received from Shyngys, he assumes that if Kazakhstan invests in the growth of the automotive industry and begins to collaborate more with foreign car brands, we will be able to increase the average level of localization.

Recommendations

There are several recommendations that could be implemented in the automotive industry in Kazakhstan.

Nowadays, Kazakhstan is looking towards new technological solutions and the introduction of advanced world experience in the development of not only the economy, but also the manufacturing industry. Kazakhstani enterprises try to keep up with their closest neighbors in the development of new and environmentally friendly technologies. In 2014, the first batch of electric vehicles was produced, and 15 domestically produced electric buses were put on the routes. Back in 2016, a trial batch of electric vehicles of the Chinese brand JAC was produced at the “Allur” group factories in Kostanay: JAC E-Truck i3, JAC iEV5 and JAC iEV6S. Electric cars successfully passed road tests on Kazakhstani roads and were presented to the Prime Minister and the President. Electric vehicles were also presented at EXPO-2017 (Primeminister.kz, 2020). There are also a variety of benefits offered to the owners of electric vehicles. Today, they are exempt from paying transport tax and the size of the utilization fee when registering an electric vehicle is the smallest and amounts to 416,700 tenge. As the prospects seem good, it can be recommended to further invest into the development of the pro-green technological advancements. Within the EEC, coordinated measures are already being discussed on how to make electric vehicles an attractive and convenient mode of transport.

As for the future prospects, taking into account the small volumes of the domestic Kazakhstani market, the long-term planning of domestic machine builders should include an increase in export volumes. In turn, domestic enterprises need to increase the number of technological operations carried out at enterprises, use local components and materials, and also enter large-scale production. Moreover, the development of an auto component base is planned in Kazakhstan.

Today, Kazakhstani manufacturers are planning to expand production and product lines, enter new export markets, as well as master the production of spare parts and components. The SaryarkaAvtoprom, in

cooperation with the Uzbek auto industry, is implementing a number of significant investment projects, such as the joint production of export-oriented cars Ravon and Chevrolet (DAMAS, LABO, Cobalt, Malibu). In order to ensure socio-economic growth in the monotown of Saran, it is planned to launch a project for the production of a new type of buses and special equipment Yutong (QazTehna LLP) (Primeminister.kz, 2020).

Conclusion

In conclusion, having carried out such a comprehensive research, I can note the fact that Kazakhstan is on the right path to the development of car exports and the sale of spare parts. By investing efforts and money in this area, the state expects good results. As an outcome, the country's economy will begin to grow, new jobs will be created and master classes will be organized to improve the qualifications of our employees. Taking an example from neighboring countries and establishing long-term relations with them, Kazakhstan will expand its capabilities.

After analyzing the information I can state that Kazakhstan has good potential for further development. The global pandemic's consequences have slashed revenue and earnings in almost every sector of the global and local economy. It had a worldwide effect on all companies, large and small, as well as hundreds of industries. At the same time, Kazakhstan's car industry saw a major increase in production and sales. According to the National Automobile Sales Association, the industry was in decline in 96 major countries by the middle of 2020. Kazakhstan was one of only four countries to achieve positive outcomes.

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Appendices

i. Automotive market in Kazakhstan in the first half of 2019



ii. Car sales in the Republic of Kazakhstan in 2018

Продажи автопроизводителей РК, 2018 год

№	Производитель	Продажи, ед	Доля, %	Динамика, % 2018/2017
1	АО «АЗИЯ АВТО»	17 132	57,2	34,6
2	ТОО «СарыаркаАвтоПром»	11 221	37,5	146,6
3	АО «КАМАЗ-Инжиниринг»	587	2,0	-12
4	ТОО «СемаЗ»	584	2,0	6,6
5	ТОО «Hyundai Trans Auto»	252	0,8	-40,6
6	ТОО «Daewoo Bus Kazakhstan»	155	0,5	76,1
	ИТОГО	29 931		57,5%

iii. Automotive industry in Kazakhstan in January-May 2020



iv. The medium run economic growth of Russia

Indicator	2014	2015	2016	2017	2018	2019	2020F*	2021F*	2022F*
Population, million	143.7	146.3	146.5	146.8	146.8	146.8	147.0	147.3	147.7
Real GDP growth, %	0.7%	-2.0%	0.3%	1.8%	2.5%	1.3%	1.7%	1.6%	1.6%
GDP per capita, USD	14,468	9,435	8,912	10,848	11,348	11,586	12,789	13,669	14,609
Inflation (average annual), %	7.8%	15.6%	7.1%	3.7%	2.9%	4.5%	3.7%	3.9%	4.0%
Industrial Production Index, %	2.5%	-0.8%	2.2%	2.1%	2.9%	2.4%	1.5%	1.5%	1.4%
Brent price, USD per barrel	98.9	52.7	44.1	54.5	71.2	64.2	62.4	60.8	60.8
Unemployment rate among the economically active population (annual average), %	5.2%	5.6%	5.5%	5.2%	4.8%	4.5%	4.6%	4.6%	4.7%
RUB/USD exchange rate (annual average)	38.4	60.9	66.8	58.3	62.9	64.6	64.7	65.7	65.5
RUB/EUR exchange rate (annual average)	51.0	67.5	74.1	66.0	74.1	72.4	72.2	74.7	75.5

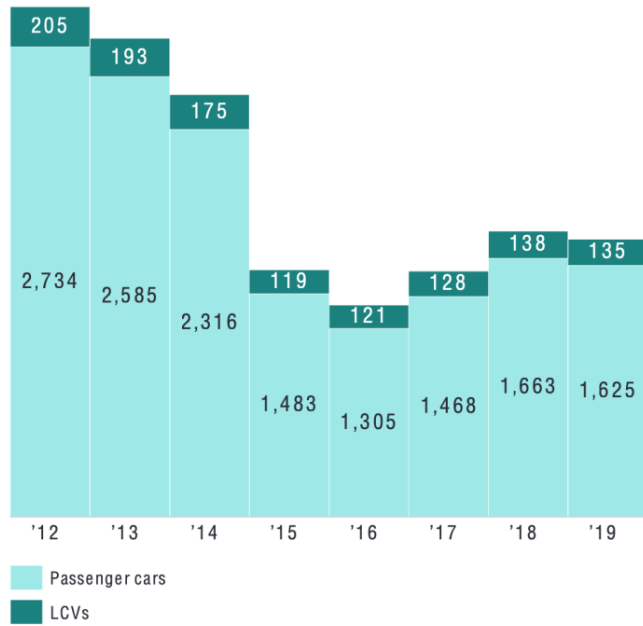
- ▶ Russia's economy grew for four years in a row after the 2015 recession, but its growth pace slowed down from 2.3% in 2018 to 1.2% in 2019. This was due to the introduction of new Western sanctions and lower oil prices weakening the Russian ruble and accelerating inflation. Another factor was an increase in VAT to 20% in 2019.
- ▶ Agricultural output demonstrated the highest growth, jumping by 4.1% in the first 11 months of 2019 compared with the same period of the previous year. Industrial output also made a considerable contribution to Russia's GDP, rising by 2.4% in 2019 compared with the year before. Growth in freight transport and retail sales significantly slowed down to 0.6% and 1.6%, respectively, due to the ongoing devaluation of the national currency and weak consumer spending.
- ▶ Direct foreign investment in Russia picked up after a sharp decline in 2018. It totaled US\$ 4.7 billion in the first half of 2019, more than double the level of the same period the previous year.
- ▶ As oil prices may fall further, Russia's economic growth is projected to be moderate in the medium term.

Sources: BMI, Oxford Economics, EIU, Rosstat, Russia's Ministry for Economic Development, Bloomberg, EY analysis.

* The forecast does not take into account the potential impact of the coronavirus outbreak (COVID-19) and consequences of Russia's failure to reach agreement on oil production cuts with the Organization of Petroleum Exporting Countries (OPEC).

v. Sales of passenger cars and LCVs in Russia, thousand vehicles

Sales of passenger cars and LCVs in Russia, thousand vehicles



Sources: AEB, LMC Automotive, EY analysis.