ICM 2023
15-16th June

DOI: 10.17512/CUT/9788371939563/36

ANALYTICAL APPROACHES FOR ASSESSING BUSINESS PERSPECTIVES IN THE AUTOMOTIVE INDUSTRY OF UKRAINE

Nina Poyda-Nosyk, Robert Bacho
Ferenc Rakoczi II Transcarpathian Hungarian College of Higher Education

Abstract: The study examines the state and development trends of the automotive industry of Ukraine for the period 2016-2021. The trends of the labor market in Ukraine have been identified, the state of migration processes, the level of unemployment in the regions of Ukraine have been assessed. The results of a comparative analysis of the level of the minimum wage in Ukraine in terms of regions, categories and positions are presented. The standard salary of back-office workers and management in the automotive sector was studied. The evolution of the regulatory and legal provision of state regulation of the development of the automobile industry in Ukraine is traced. Radical changes in the state policy of the development of the automotive industry of Ukraine were revealed: from constant support of car manufacturers and stimulation of car production to bureaucratic barriers, obstacles and existing risks and threats. It is stated that since 2014, Russia's armed aggression against Ukraine has led to a significant decline in the car industry. Proximity to the border with the EU, cheap labor and sufficient raw materials make the western oblasts of Ukraine especially attractive for partnership with European auto giants.

Key words: automotive industry, development trends, dynamics of car manufacturing, the state support policy, labor market.

Introduction

The automotive industry of Ukraine is a term that covers a wide range of companies and organizations involved in the design, development, manufacture, marketing and sale of cars, commercial vehicles, trucks and buses, trailers, motorcycles, mopeds, special and military vehicles, machinery, spare parts and components for motorcycles and mopeds. The automotive industry was a rapidly evolving field in Ukraine, and there could be further developments if not the war. Since 2014, Russia's armed aggression against Ukraine has led to a significant decline in the car industry. The military conflict between Ukraine and Russia has led to the severance of economic ties with the countries, and as a result, the cessation of car production. The current war as unprovoked and unjustified military aggression of Russia against Ukraine started in February 2022. This not only negatively affected the domestic automotive industry, but also negatively affected the forecasts of the world production of passenger cars (Wayland M., 2022).

Development of the Ukrainian automotive industry and its state support in the historical context, the problems of optimizing the activities of automotive enterprises using modern technologies and assessing the level of their competitiveness were the subject of study in the works of many Ukrainian scientists. Among prior studies, which emphasize the importance of the current study, are works of M. Dmytrychenko, M. Kyzym, O. Kryvokon, M. Mishchenko, G. Pasov, A. Redzyuk, V. Chupryna, I. Shevchenko, and O. Yazvinska. Particularly, in the monograph (I.Shevchenko, 2019), the author proposed a systemic view on progress of the automobile industry as well as developed a methodology for assessing competitiveness and a concept of the state program for the growth of industry until 2025. The issues of transformation of Ukrainian Automotive Industry based on introduction of electric vehicle production were considered among priorities (Y. Savelyev, V. Kuryliak, K. Darvidou, M. Lyzun, I. Lishchynskyy, 2021). However, the rapid change in business conditions and global challenges affects the development trends of the automotive industry not only in Ukraine, but also throughout the world, which requires updating such research.

Ministry of Education and Science Republic of Poland
Doskonała Nauka
POLI TECH NIKA Czestochowa University of Technology
Faculty of Management
KSSiZZL Department of Applied Sociology and Human Resource Management

Research Results

The given study is focused on three main aspects in the automotive industry of Ukraine, namely on labor market, development tendencies and state regulation procedures during 2016-2021. A characteristic feature of the labor market is the presence of disparities between supply and demand, which are expressed in professional qualifications, gender, age, industry and territorial (regional) aspects. These imbalances in practice lead to a significant outflow of labor abroad. The main reason for the labor migration of Ukrainians abroad is the difficulty in finding decently paid work at home. Over the past five years, the economic factors of migration have intensified politically and security-wise, leading to a rapid increase in migration sentiment and the intensity of migration.

According to the UNHCR data, as of 15 November 2022, 7.6 million Ukrainian citizens remained abroad because of the war. That said, around 3 million people stayed in russia and belarus, including due to their forced deportation to russia (Tucha O., Spivak I., Bondarenko O., Pogarska O., 2022, p.2). Therefore, approximately 4.5 million Ukrainians stayed in other European countries, including 1.6 million are in Poland as of May 22, 2023.

Considering the level of employment, unemployment and its dynamics, it should be noted that there was a slight increase in the employment rate, but in totally due to the unstable political situation and the conflict in the East the number of economically active population was constantly declining and the unemployment rate was rising, especially in the eastern regions of Ukraine. Thus, the biggest increase in load of registered unemployed per vacancy by regions were in Zaporizhya, Donetsk and Luhansk Oblasts.

Considering the salary proposals for different categories of employees offered by different employment sites, we observe significant differences and fluctuations. Thus, the average salary of a production line operator fluctuated on average at $ 400-450. The highest average salaries were offered in Zaporizhia, Poltava, Lviv and Dnipropetrovsk regions, amounting to $500-560 in 2020-2021 (Fig.1). Kyiv City has the highest size of average wage for positions of sales manager, accountant and chief accountant. The lowest indicators in four positions of six are in Luhansk Oblast. It means that Kyiv as the capital is the place with the highest concentration of officially registered offices with a special need in personal, concentration of capital etc.

Moreover, the structure of employment has changed due to quarantine, the corresponding economic downturn and at last the war. Although companies abstained from layoffs during the 2020 pandemic, declining economic activity has led to staff reductions.

In recent years, with the exception of the pandemic period, the "lack of qualified personnel" factor has been steadily gaining weight in business surveys as one of the reasons for holding back corporate profits. During the corona crisis, the impact of this factor decreased due to reduced economic activity. However, since the beginning of 2021, the shortage of quality staff has increased again, which has affected the growth of wages.

Due to the war an increase in labor force and Ukrainian migrants' spending abroad are positive for the economies of host countries, although a large wave of migration created a number of challenges, including for state finances. At the same time, the net fiscal effect will be positive for Europe in the long run, as Ukrainians are actively integrating into the European labor market and are paying taxes. According to calculations of NBU Ukrainians' expenses abroad more than tripled in 2022 compared to the previous year, reaching USD 2 billion per month. Spending on Ukrainian migrants also spurs government consumption, particularly on housing infrastructure, healthcare, and education (taking into account the large percentage of children, which ranges from 28% to 44% in various countries).

When analyzing development industry trends we focused on two aspects - trade and manufacturing infrastructures. Starting from 2016, there is a growing trend in the number of new cars sold in Ukraine. The increase in market capacity was due to actions that facilitated the preferential import of cars to the secondary market, namely a special law came into force that introduced a reduction in the excise tax rate on the import of used vehicles. Since 2017 the import and registration of used cars in Ukraine has intensified and their market share has increased from 24% in 2016 to 81% in 2020. Simultaneously, the share of imported new cars decreased by market from 71% to 18% in 2020.

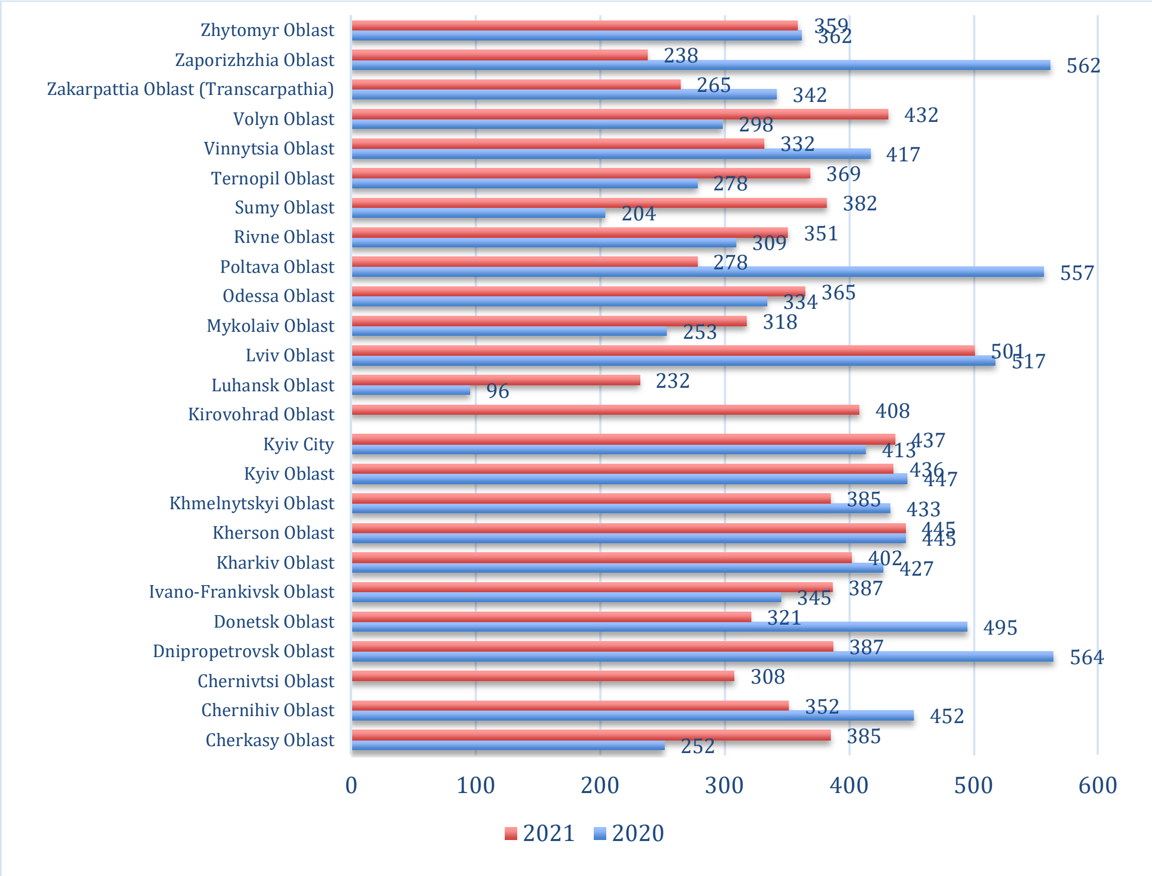

Figure 1. The average amount of the offered salary to the production line operators by regions of Ukraine for 2020-2021, USD

Source*:* calculated by the authors based on International Organization of Motor Vehicle Manufacturers [5].

In 2021, the total number of new cars sold on the Ukrainian market amounted to 103,650 units, which is 22% more than in 2020. This is the highest figure since 2013, although a record for the last 8 years, is small compared to EU countries. For example, in Poland in 2021 new cars were sold four times more.

Ukraine has been a member of the WTO since 2008 and has an expanded free trade area with the EU, Canada and a number of other countries. With the acquisition of full membership in the WTO, Ukraine has received additional rights to use a set of measures to protect the internal market. However, these rights have not been fully exercised in relation to the national automotive industry. On the contrary, by signing the Agreement on Accession to the World Trade Organization (WTO), Ukraine reduced the import duty on imports of cars by 2.5 times, which negatively affected the domestic automotive industry and fully opened the market for imports of foreign cars to Ukraine. And for the period 2008-2012, the vehicle market has halved, and the share of foreign cars has increased from 50 to 89%. Production of Ukrainian cars and buses decreased 5.5 times.

Domestic manufacturers were negatively affected by the lack of state support, as well as the presence of serious pressure from the expansion of foreign cars. In addition, the conditions caused by the signing of the Association Agreement with the EU and accession to the WTO were clearly losing to the domestic engineering industry, and as a result, preferences for domestic vehicle manufacturers were abolished. In addition, there was a lack of consistent and active government action to prevent the crisis in the automotive industry.

Given the set of factors, influencing the automotive industry of Ukraine in the study conducted a SWOT-analysis, which provided a comprehensive understanding of the processes taking place in the industry. Based on it, there have distinguished such necessary measures as attracting foreign investment in the automotive industry through the formation of a favorable investment climate; activation and stabilization of state support for the industry; improving product quality by modernizing production, as well as through the introduction of new technologies.

Summary

Investigating current state and development trends of the automotive market in Ukraine, authors highlighted the most important trends in this market for 2016-2021, assessed the state of the automotive industry in Ukraine. Proximity to the border with the EU, cheap labor and sufficient raw materials make Western oblasts of Ukraine attractive to partners of European auto giants. In Ukraine, small parts are made for almost all European cars, including premium brands. These are mostly parts that require a lot of manual work, such as laying cable networks or sewing car seats. That’s why Zakarpattia (Transcarpathia), Lviv and Volyn regions are the most attractive for production capacity placement and the volume of revenue turnover and number of employees there are bigger compare to other regions.

Although there is currently no automotive cluster in Ukraine, there are prerequisites for its creation in the Transcarpathian region on the basis of PJSC "Eurocar", which according to the integrated assessment has the highest innovation and investment potential among Ukrainian automakers.

Prospects for the creation of such a cluster in the Transcarpathian region were discussed in May 2018 at the Round Table, organized by the Federation of Employers of Ukraine and Eurocar with the assistance of the German-Ukrainian Chamber of Commerce. The participants of the meeting noted that the precondition for the cluster development in Transcarpathia could be the already formed pool of large car players - Eurocar, Jabil Circuit, Yazaki, Grocklin-Karpaty, Ungweier, Tochprilad, Flex, Fischer, Forschner, Gentherm Incorporated. Currently, a large number of companies operating in the Transcarpathian region produce products for the automotive industry. Therefore, the region in practice is a center of cluster initiative and a pioneer in the development of the cluster of the automotive industry and other high-precision industries. Thus, the further scientific investigations may focus on opportunities for creating an automotive cluster in Ukraine in collaboration with leading European partners. Taking into account the instability of oil product markets, the existence of the need to increase the level of environmental friendliness, there is a need to focus attention on the production of electric vehicles as well.

Literature

1. Shevchenko I. Yu. (2019) Rehuliuvannia rozvytku avtomobilebuduvannia Ukrainy: monohrafiia (Regulation of automobile development of Ukraine: monograph). Kharkiv: KhNADU. 556 p.
2. Savelyev Y., Kuryliak V., Darvidou K., Lyzun M., Lishchynskyy I. (2021) Transformation of Ukrainian Automotive Industry in the Context of Electromobility: Applying the Experience of Visegrad States. *IV International Scientific Congress “Society of Ambient Intelligence – 2021” (ISCSAI 2021)*. SHS Web Conf., Volume 100. https://doi.org/10.1051/shsconf/202110001018
3. Wayland M. (2022). Russia’s invasion of Ukraine will lower car production by millions of units over two years, S&P says. https://www.cnbc.com/2022/03/16/russian-ukraine-war-to-lower-car-production-by-millions-of-units.html (accessed 29.06.2023)
4. Tucha O., Spivak I., Bondarenko O., Pogarska O. (2022). Impact of Ukrainian Migrants on Economies of Recipient Countries. https://bank.gov.ua/admin_uploads/article/Migration_impact_2022-12-15_eng.pdf?v=4 (accessed 29.06.2023)
5. International Organization of Motor Vehicle Manufacturers. Production statistic. https://www.oica.net/production-statistics/ (last accessed: 26.06.2023)