

HYUNDAI PONDERING A FACTORY IN RUSSIA

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The South Korean car giant and its dealers ponder a \$4 billion investment project despite that the crisis is mounting.

The South Korean consortium signed a letter of intent to set up a factory to assemble car body parts, mufflers, seats and air conditioners in the Kamenka industrial zone (St. Petersburg region).

Scheduled to become operational in 2010, the plant will produce 150,000 units per year with plans to increase the capacity to 400,000 units.

The plant, if goes through (so far, only a memorandum of mutual understanding has been signed, which is a non-binding document), is expected to have the following impacts:

- St. Petersburg region will enjoy a full-fledged foreign car production complex (including car and car parts manufactures).
- Construction of such a large facility can drive other carmakers to build plants in the region with KIA being the first. KIA produces cars at the Izh-Auto plant, but will perhaps close its production there as AutoVAZ plans to buy the Izhevsk-based factory.
- This large-scale project will help boost local production for foreign brands and, consequently, foreign technology transfer as well as reduce car imports.

Foreign carmakers that already operate in Russia (two of them being based in the St. Petersburg region) can become the Korean manufacturer's customers, therefore the car part plant may be built earlier than the Hyundai plant. However, the consortium can witness the same challenges as the Bor glass factory that was forced to halt production as was not paid for supplied goods. AutoVAZ and GAZ cannot afford to pay for glass they already received.