

**L. V. Shabalina,**  
*PhD (Economics), Ass. Prof.,*  
**E. G. Karaman,**  
*Donetsk National Technical University*

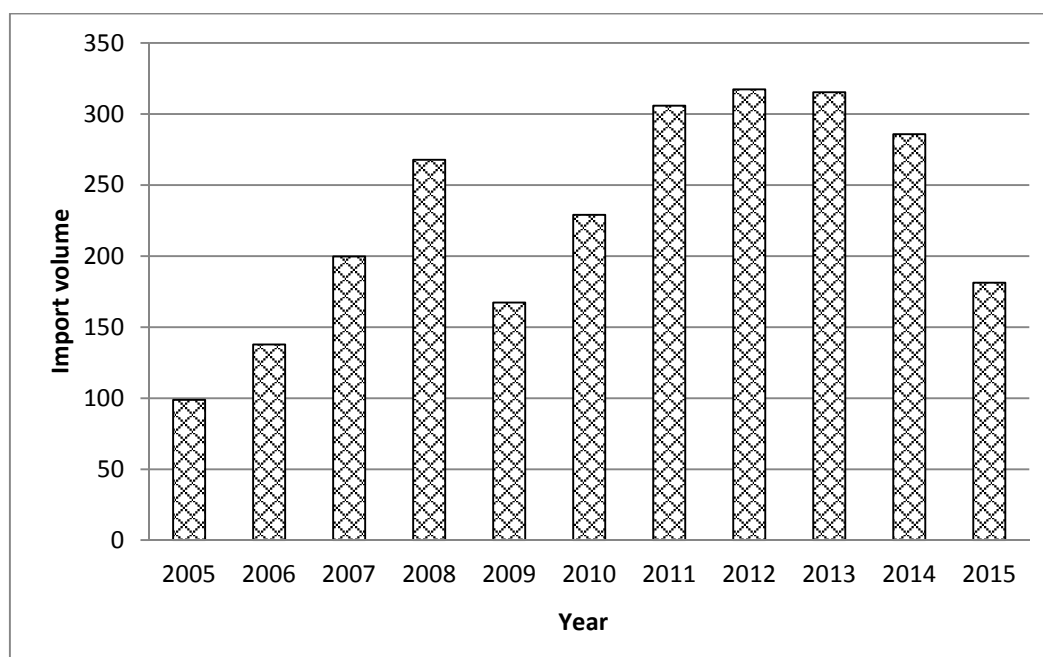
## THE WAYS OF IMPROVING THE EFFICIENCY OF THE IMPORT SUBSTITUTION STRATEGY OF RUSSIAN FEDERATION

In the current geopolitical situation, due to the economic sanctions, import substitution is regarded as one of the priority areas for development of the Russian economy. Import substitution strategy is intended for the long term and should ensure the achievement of the objectives of the capacity and structure of domestic production while reducing the consumption of imported goods [1]. Consequently, there is a need to develop a system of measures, which will allow implementing the strategy of import substitution effectively and increasing the competitiveness of the national economy. Thus, one of the most promising directions of the import substitution policy is an innovative way of development, which will reinforce country's economic security, activate scientific and technical progress, as well as raise the

level of education, increase the demand for domestic goods and expand production capacity.

The place and role of import substitution policy in the framework of the theory of the economic development of the countries examined A. Hirshman, K. Polani, A.N. Makarov, A.N. Ryakhovskaya, D.I. Ryakhovskiy, K.A. Gulin, E.A. Mazilov, A.P. Yermolov, A.G. Zhakovich, N.A. Kudrova, as well as other foreign and native researchers.

Import substitution is a strategy for the development of domestic production of goods, which will replace the currently existing import. However, the modern economy doesn't allow countries to develop effectively, relying solely on their own resources, completely abandoning import. Thus, I would like to note the importance of import to the Russian Federation.



**Fig. 1. The dynamics of import volume in the Russian Federation, US \$ billion [2]**

It is evident that import was increasing annually except 2009 which was caused by the financial crisis that led to a decline in industrial activity worldwide. This indicates that the level of development of the Russian production is far behind the world therefore it is cheaper and more profitable to import goods from abroad.

Nevertheless, in terms of sanctions and ban on the import of foreign products in Russia there is a significant change in the volume of import in 2014 and 2015. Thus, in 2015 imports amounted to US\$181.3 billion compared to US\$ 285.9 billion in 2014. Moreover, the highest degree of dependence on foreign manufacturers in many areas of the Russian economy has machinery, equipment and vehicles (see table 1). This makes up half

of total import, which undoubtedly causes a weakening of the economic security of the country.

The relevance of the security problem confirmed by the adoption a number of legislative acts in recent years of, such as the Presidential Decree of May 12, 2009 № 537 "On the Russian Federation National Security Strategy up to 2020," The Doctrine of the Russian

Federation Food Security (app. Presidential Decree January 30, 2010 № 12) The doctrine of information security of the Russian Federation (approved by the President of the Russian Federation dated September 9, 2000 № Pr-1895), the Federal Law of 28.12.2010 № 390-FZ "On security" and others [3].

Table 1

Commodity structure of Russian import [2]

Type of product	2000		2010		2014	
	US \$ billion	%	US \$ billion	%	US \$ billion	%
In total	33,9	100	229,1	100	285,9	100
Machinery, equipment and vehicle	10,7	31,4	102	44,4	136,2	47,6
Chemical industry products	6,1	18,0	37,0	16,1	46,4	16,2
Food commodities and agricultural raw materials	7,4	21,8	36,4	15,9	39,7	13,9
Metal and precious stones industry	2,8	8,3	16,8	7,3	19,2	6,7
Textile fabrics, textile goods and footwear	2,0	5,9	14,1	6,2	16,3	5,7
Wood, pulp and paper production	1,3	3,8	5,9	2,6	5,9	2,1
Mineral commodities	2,1	6,3	5,2	2,3	7,2	2,5
Tanning raw materials and furs	0,1	0,4	1,2	0,5	1,3	0,5
Others	1,4	4,1	10,5	4,7	12,6	4,4

Nowadays the Accounting Chamber has come to the conclusion that Russia cannot cope with the full import substitution of the products fallen under the embargo. This was stated by experts in a prepared statement Accounting Chamber "On the Federal Budget for 2015 and the planning period of 2016 and 2017". Based on the data of Rosstat, experts firstly point out the import problem of certain types of meat and dairy products. In particular, the level of spare capacity in the meat processing industry amounted to about 34%. At the same time import accounted for almost 59% of total beef consumption in the country, the share of imported from abroad reached 31% of pork, poultry meat - 13% [4].

Besides the AIC sectors essentially important import substitution is represented in such industries as machine tools, heavy machinery, including the agricultural and food industry, electronics, light industry, medicine and pharmaceuticals. Thus, there is a necessity for weakening the technological dependence of Russia by organizing the program of import substitution and concentration of R & D and other financial and human resources in areas where the critical dependence on foreign companies without which national production ceases to exist have been formed.

In the XX century to the import substitution policy have resorted Latin America, Africa and Asia. It is accepted to distinguish eleven countries that due to the implementation of such policy have achieved significant economic success and join the ranks of the industrialized countries - Brazil, Chile, China, India, Indonesia, South Korea, Malaysia, Mexico, Taiwan, Thailand and Turkey [5].

Having studied the international experience of the import substitution process, there are three main options

for the implementation of the import substitution policy as a priority of economic development at the national level.

The first option assumes relatively weak stimulation of industries which products are uncompetitive compared to imported analogues, even on the domestic market. Tools of this kind policy are import restrictions, foreign investment, restructuring of public sector enterprises and long-term investments in infrastructure and education. Example of this type of import substitution policy is the experience of Brazil, the USSR, the People's Republic of China and Latin America.

For instance, in Argentina the import substitution policy in the 1950's was carried out mainly in the oil and steel production, chemical and automotive industry. Various tools to stimulate import substitution were provided for individual industries and regions. In particular, the reduction of provision rate enabled banks to finance projects on import substitution at a much lower interest rate. In Colombia, differentiated exchange rates were introduced and non-traditional goods exporters could sell their products at free-floating exchange rate. In Pakistan high import duties were imposed on consumer products and relatively low on equipment and raw materials. In South Korea and Taiwan high import duties were imposed on products for which there was an internal analog and lower on those that didn't have local analogues.

In the second option the state support is directed to the new promising market segments, when the company entering this market needs preferences which will provide them a competitive advantage in the initial stage. In the future, government support is reduced and then completely cut off. Tools of this type policy are borrowing of advanced technology orientation, foreign investment

attraction, change in the structure of population savings and consumption as well as public investment in industrial infrastructure and small businesses support. By way of example, the East Asian countries have been able to organize and develop new industries from scratch, including high tech (mechanical engineering, microelectronics, etc.).

An example of this type of policy is also the experience of India, which in 1950 declared the construction of a "self-sufficient" economy. The country's priority industries have been identified, the development of which was to generate sustainable economic growth. Import substitution policy was based on the creation of a large public sector in the fields of heavy industry and indicative planning. By the end of 1960 the share of public sector in production has reached almost 25%, including in the mining industry - almost 90%, in manufacturing - over 15%. The share of state-owned enterprises accounted for 75% of steel production, 100% of the production and processing of oil, 95% of electricity and 80% of the issue of heavy engineering products.

The third option implies that the main goal of the state policy is to support competitive industries and firms that are active in export activities. Such strategy was followed by USA, Japan, Taiwan, India, China, South Malaysia, Thailand, the Philippines and others at the end of the last century. Import substitution policy instruments of this type are intensive modernization of high-tech industries, new technologies and government policy on improving product quality, export support, development of social and industrial infrastructure as well as fundamental and applied R&D.

Thus, since 2007 there has been intensification of investment activity in China and India (figure 2). De-

spite the fact that the United States is a leader in terms of innovation costs, the highest number of R & D carried out in Asia and not in North America and Europe [6]. Among industries, the computing and electronics, healthcare, and auto sectors continued to spend the most on R&D. In total, they accounted for 62 percent of innovation spending (figure 3). However, R&D spending by computing and electronics companies fell 0.7 percent in 2015, whereas R&D spending by healthcare companies rose 6.0 percent. The healthcare sector is closing in on the number one position. But the biggest movers among industries have been software and Internet companies. The industry increased R&D spending by 27.4 percent between 2014 and 2015. Software and Internet also had the largest average growth of any industry over the last 10 years – 13.2 percent – and passed industrials in 2015 to become the fourth-largest industry in terms of R&D spending [6].

At the same time, based on an analysis conducted by the Ministry of Industry in 2014, the most promising sectors in terms of import substitution in Russia are machine tools, heavy machinery, light engineering and electronics industry, the pharmaceutical and medical industry. The process of import substitution in these sectors can be started only in case of spare capacity and competitive enterprises that could offer high quality products at market price. Reduction of dependency on imported products is possible due to innovation and investment stimulation in high-tech industries and establishment of the new industries. "It is expected that by 2020 Russia will be able to count on reducing reliance on import in different sectors from almost 70-90% to 50%" [7].

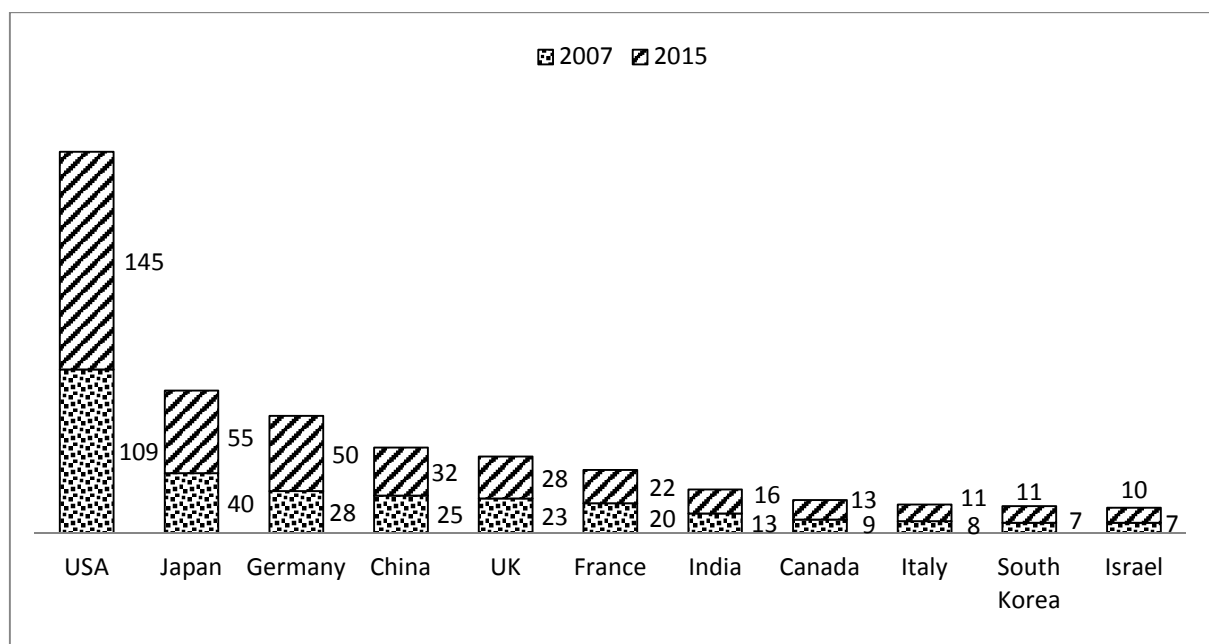
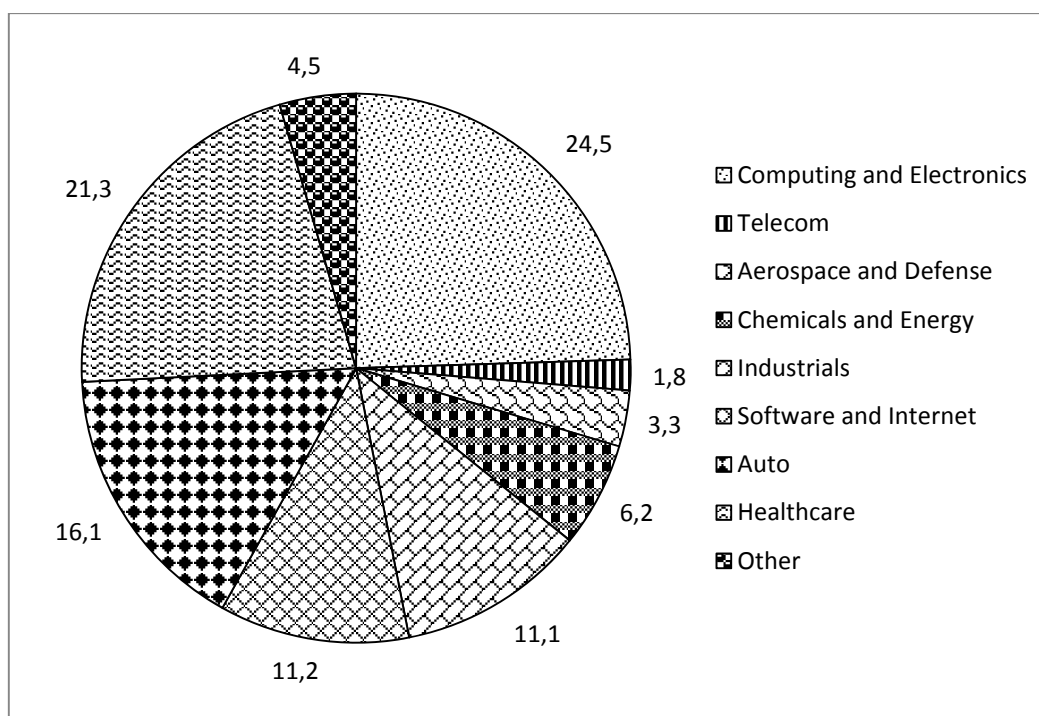


Fig. 2. The dynamics of the innovation costs, US \$ billion



**Fig. 3. Worldwide spending on innovation by industry, %**

Currently, the Ministry of Industry and Trade is actively involved in developing of incentive schemes for import substitution industries. In this regard a number of measures of state support are being considered. June 16, 2014 the Ministry of Industry and Trade had prepared a law that drastically reduced government purchase of imported goods - "By 2017, 80% of the goods, which the government and state-owned companies buy, should be domestic" [7].

The major problem is the necessity of defining the import criteria. It should depend on the developing of new technologies. The national payment system, the national software platform, the national operating system should be created, as well as large state-owned investment and development bank should be established, which not only will give out loans at significantly below market rates, but also provide consulting support to borrowers on economic and technological development.

Greater attention should also be paid to an innovative policy of the state. After all, the innovative orientation allows accelerating the development of the state economy. Despite the fact that in recent years the investment process becomes slightly more active, there is a rather low level of innovative orientation. As confirmed by the World Bank's data according to which the index of development of innovative economy (knowledge economy) shows that Russia ranks 55th place out of 146 countries surveyed [8].

Figure 4 shows the rate of innovation activity in the most promising industries for import substitution. The

dynamics of this indicator cannot be considered satisfactory – there wasn't any visible growth in virtually all sectors (except for the production of pharmaceutical products and electrical equipment).

New innovative technologies are to be mastered which is essential to provide competitive production/industry as the main condition for replacing imported goods and services with domestic and leading it out onto the global market.

Thus, state support of innovative business, research works and analyses can foster innovation. Within the framework of Federal Target Programs a number of colleges and scientific research institutes received fund for modernization of the main assets. However, this group of financial support mechanisms and stimulation of import substitution ought to be amplified with tools for investment efficacy assessment and expenditure control of public funds appropriated in the context of FTP.

At the same time one of the effective mechanisms of cooperation between state and regional authorities, research and educational structures, business are cluster forms of organization which enable to simultaneously create new working places, develop and produce competitive production, thereby solving the task of sustainable development of regions.

At present, according to data of the year 2014, on the territory of Russia there are located 200 development institutes, among which industrial and scientific techno parks prevail (figure 5) on which the development of cluster approach in state and regional economies is relied.

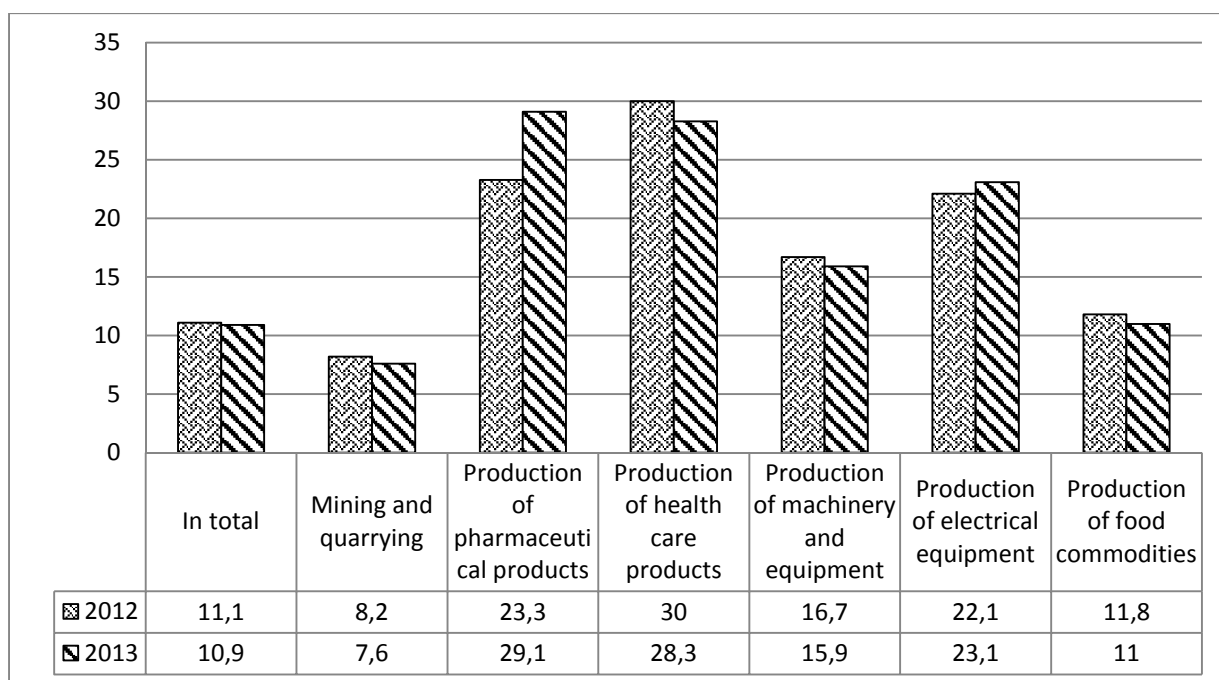


Fig. 4. The total rate of innovation activity of organizations by economic activity, % [9]

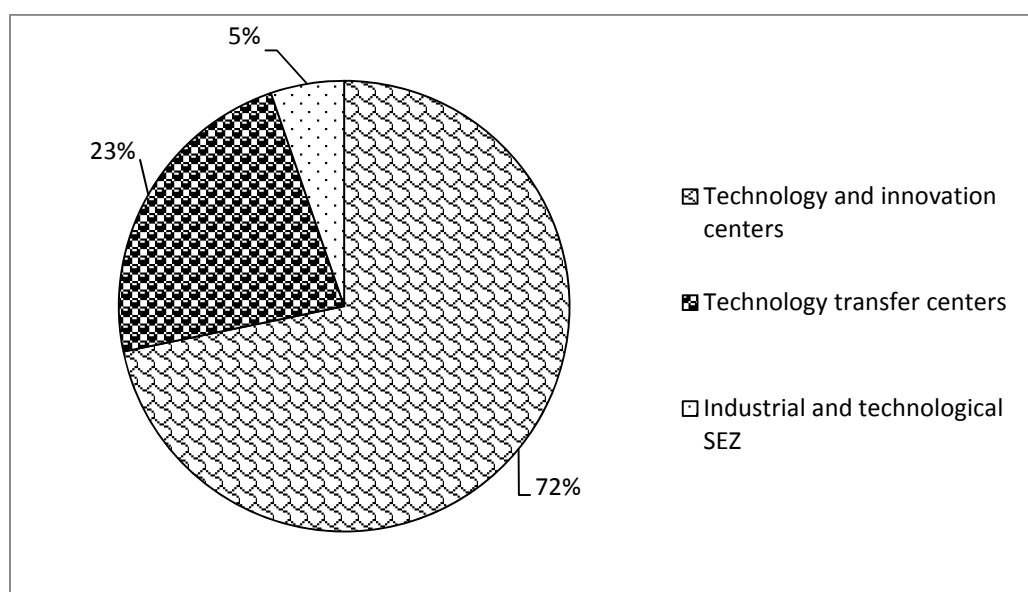


Fig. 5. Russian innovation infrastructure

From long-term initiatives of innovative cluster development and corresponding infrastructure the global federal project “Strategy of innovative development of Russian Federation for the period up to 2020” is realized. It is a multipronged program the aim of which is a “change-over of economy of Russia by the year 2020 into the innovative way of development”. It requires 2 stages. During the 1st stage the creation of profitable and inviting conditions for accumulation of private sector investments is predicted; during the second stage – the increase of budget and private investments into the innovative domains, re-equipment of the main innovative

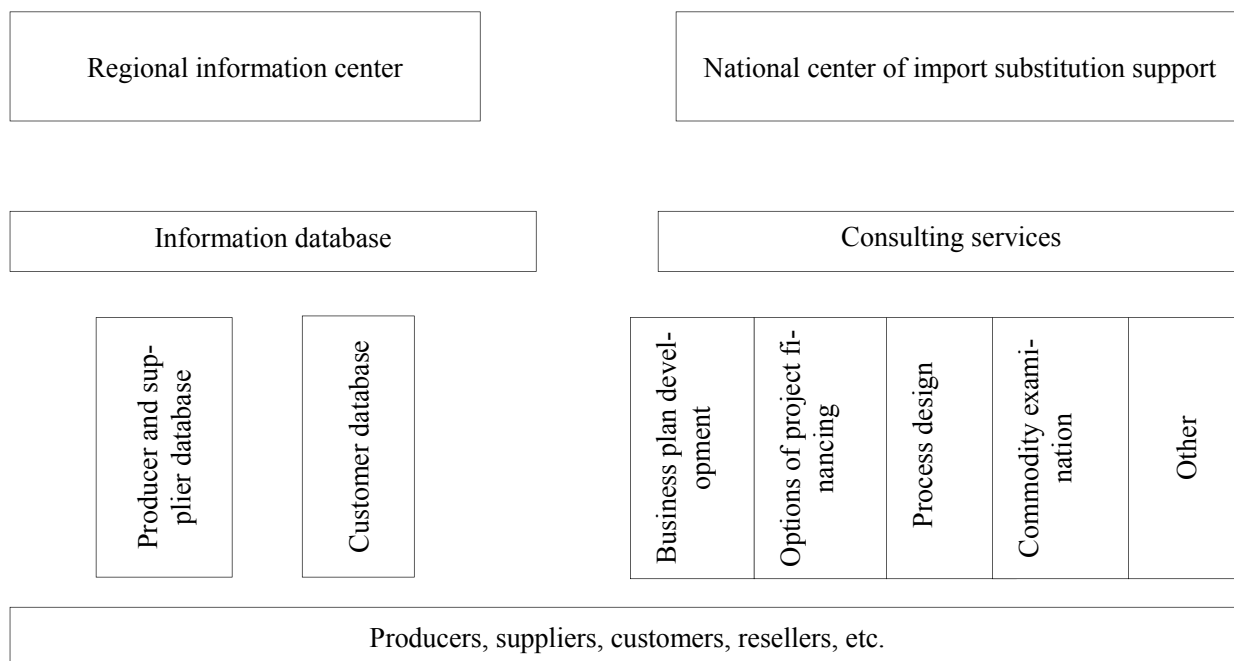
centers, launching of new major projects in perspective areas. By the year 2020 it is planned to gain the same level of budget financing of innovative branches as in the countries of OECD and a share of innovative products in exported goods is to increase to 15% of the total number [15].

Moreover, one of the most important phases of the import substitution policy ought to be the development of support infrastructure of import substitution industries and rendering of information and consulting assistance of support for import substitution industries.

At this stage the law “On the industrial policy” was passed. One of its sections is dedicated to realization of state information system of industry the part of which has become “National center of import substitution support”. Such center aims at solving the problem of informing and assisting import substitution in order to all domestic producers and suppliers of goods knew all potential customers and vice versa.

In every region it is necessary to set up such special-purpose informing centers of import substitution support, which will have at their disposal the database

of producers and suppliers (information on technological organization profile) and customers with information on specification of ordered goods, terms of delivery and other commodity positions which are to be presented by both parties. In prospect expansion of function of this system concerning help to producers and suppliers of domestic goods, pursuit of winning orders, creation of business-plans, making technological, financial and economical expertise, profitable variants of financing are possible (figure 6)



**Fig. 6. The structure of the information support of import substitution**

Thus, if we consider the import substitution not as a short-term action but as a long-term process the general purpose of which is to increase the competitiveness of local producers, promoting them as important players on the international markets, regions need to update and solve the problem associated with the development of its own scientific and technical potential of regions [16].

The policy of innovative import substitution involves the transition to the production of high-tech and science-intensive production by increasing the level of development of production, technology, education and training of citizens. The main focus should be on the organization of production of the products that is most in demand in Russia.

Successful solution of these tasks ought to be assisted with broader and more global attraction all the possible resources, involvement into the investment process not only budget but also non-budget sources. Significant role may play regional and local authorities taking part in renovation and development of corresponding industries on its territories which will enable to solve

not only economical but social problems as well: raising of employment level of population, provision with goods of one’s own making, income growth and living standard in general.

#### References

1. **Makarov A.N.** Import substitution as a tool for industrialization of the region's economy: innovative aspect / A.N. Makarov // Russian foreign trade bulletin. – 2011. – № 5. – P. 36-40.
2. **The Federal State Statistics Service** [Electronic resource]. – Available at: <http://www.gks.ru/>.
3. **Consultant Plus** [Electronic resource]. – Available at: <http://www.consultant.ru>.
4. **The Audit Chamber of the Russian Federation:** the import substitution opportunities are limited by production volumes [Electronic resource]. – Available at: <http://sitv.ru/arhiv/news/economics/72801/>.
5. **Amsden Alice H.** Escape from Empire: The Developing World's Journey through Heaven and Hell. The MIT Press, Cambridge, Massachusetts, 2007. – 209 p.
6. **Innovation’s new order** [Electronic resource]. – Available at:

<http://www.strategy-business.com/feature/00370?gko=e606a>. 7. **West is alarmed: import substitution in Russia** [Electronic resource]. – Available at: <http://nakanune.ru/articles/19204/>. 8. **Knowledge Economy Index**. Humanitarian encyclopedia [Electronic resource]. – Available at: <http://gtmarket.ru/ratings/knowledge-economy-index/knowledge-economy-index-info>. 9. **Indicators of innovative activity** [Electronic resource]. – Available at: <https://www.hse.ru/primarydata/ii2015>. 10. **Ryakhovskaya A.N.** Solving problems of import substitution in Russia in conditions of economic sanctions / A.N. Ryakhovskaya, D.I. Ryakhovskiy // MID (Modernization. Innovation. Development). – 2014. – № 4 (20). – P. 71-76. 11. **Kosov N.S.** Improving the effectiveness of state regulation of investment sector / N.S. Kosov, S.A. Lyutikov // Publisher TSTU. – 2007. – P. 96. 12. **Gulin K.A.** Import substitution as a tool for enhancing social and economic development of territories / K.A. Gulin, E.A. Mazilov, A.P. Yermolov // Problems of development of the territory. – 2015. – №3 (77). – P. 7-25. 13. **Order of January 27, 2015 №98-p** [Electronic resource]. – Available at: <http://gov.garant.ru/SESSION/PILOT/main.htm>. 14. **Russia's innovative rating** [Electronic resource]. – Available at: [i-regions.org>events/Reiting3.doc](http://i-regions.org/events/Reiting3.doc). 15. **INNOVATIVE RUSSIA 2020** (Russian Federation Innovative Development Strategy for the period up to 2020). Russian Ministry of Economic Development project [Electronic resource]. – Available at: <http://innovation.gov.ru>. 16. **Zadumkin K.A.** Scientific and technical potential of the region: state estimation and development prospects [Text]: monograph / K.A. Zadumkin, I.A. Kondakov. – Vologda: ISEDT RAS, 2010. – 205 p. 17. **Zhakevich A.G.** Import substitution: problems and prospects / A.G. Zhakevich // Bulletin of the International Institute of Economics and Law. – 2015. – Number 1, (18). – P. 36-39. 18. Kudrova N.A. Stimulation of regional development policy of modern Russia based on the concept of import substitution / N.A. Kudrova // Socio-economic phenomena and processes. – 2015. – T. 10, № 2. – P. 46-51.

**Шабаліна Л. В., Караман Е. Г. Шляхи підвищення ефективності стратегії імпортозаміщення Російської Федерації**

У статті проаналізовано динаміку та структуру імпорту Російської Федерації, у геополітичній ситуації, що склалася, вивчено зарубіжний досвід та типи здійснення політики імпортозаміщення. Запропоновано рекомендації щодо підвищення інноваційної діяльності. Обґрунтовано створення національного центру підтримки імпортозаміщення.

*Ключові слова:* імпортозаміщення, інструменти імпортозаміщення, стратегія імпортозаміщення, продовольча безпека, інвестиційна політика держави, національний центр підтримки імпортозаміщення.

**Шабаліна Л. В., Караман Е. Г. Пути повышения эффективности стратегии импортозамещения Российской Федерации**

В статье проанализирована динамика и структура импорта Российской Федерации в сложившейся геополитической ситуации. Изучен зарубежный опыт и типы осуществления политики импортозамещения. Предложены рекомендации по повышению инновационной деятельности. Обосновано создание национального центра поддержки импортозамещения.

*Ключевые слова:* импортозамещение, инструменты импортозамещения, стратегия импортозамещения, продовольственная безопасность, инвестиционная политика государства, национальный центр поддержки импортозамещения.

**Shabalina L. V., Karaman E. G. The Ways of Improving the Efficiency of the Import Substitution Strategy of Russian Federation**

The dynamics and structure of Russian Federation import in the current geopolitical situation were analyzed. The international experience and the types of import substitution policy were studied. Improvements and development of the innovative activity were proposed. The creation of national support center was grounded.

*Keywords:* import substitution, import substitution tools, import substitution strategy, food security, the investment policy of the state, national center of import substitution support.

Received by the editors: 02.11.2015  
and final form 28.12.2015