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Organizational and Economic Features of Import Substitution Formation and Realization in the Conditions of Spatial Restrictions

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Abstract: The relevance of the research topic is determined by the fact that import substitution issues are currently the focus of attention in the Russian Federation. The unfavorable external political and economic situation has led to a sharp drop in the Russian national currency, as a result of which a considerable part of imported goods and components has become significantly more expensive for domestic consumers and producers. The issues of organizational and economic technologies for import substitution can be considered as a forced response to unfriendly actions of a number of Western countries connected with the introduction of economic sanctions against the Russian Federation, which forced the country's leadership to think about internal food and economic security issues. Also, due to the weakening of the national currency, domestic products are becoming more price-competitive with their imported counterparts. Accordingly, the import substitution program, which according to the idea of the country's leadership should promote the growth of production of domestic goods, has the opportunity to be realized because of the high probability of a market for new Russian goods. Given the fact that the regions of the Russian Federation have different infrastructures, and also differ in the level of development of these or those industrial sectors, it seems important and urgent to conduct an information analysis of organizational and economic technologies for the implementation of import substitution in the industry in the regions of the Russian Federation.

Keywords: import substitution, implementation technologies, management impacts, resource base, political and economic background

JEL Classification: R11, R13, R28

INTRODUCTION

In 2010, the Russian Federation developed a modernization strategy and selected seven strategic sectors: energy, space, information technology, defense, communications, transport, and nanotechnology, where the maximum efforts to implement the modernization process were concentrated. Of course, such concentration of efforts is an important step, but in addition, the state should develop the country's industry as a whole, since modernization of only a few sectors can not rectify the overall situation in the economy.

This will only lead to an increase in the gap between the level of development of industries, which is still quite large. In today's situation, it will be more expedient to start by creating comfortable conditions for entrepreneurship and fair competition, which in turn will contribute to the growth of innovative initiative and modernization.

It should be noted that the creation of a favorable economic environment is one of the key tasks of the state, and its implementation is achieved in various ways, one of which will be described in this article, namely the strategy of import substitution.

However, undoubtedly, "import substitution" is a type of economic strategy and industrial policy of the state, aimed at protecting the domestic producer by replacing imported industrial goods with goods of national production.

Import substitution should result in an increase in the competitiveness of domestic products by stimulating technological modernization of production, increasing its efficiency and developing new competitive products with relatively high added value.

It is important to note that the strategy of import substitution presupposes a gradual transition from the production of simple goods to science-intensive and high-tech products by raising the level of development of production and technology, and the formation of broad sections of the population.

The import substitution strategy itself is based on the development of the entire production, improving the quality of the goods produced, the technologies used at enterprises, and the development of innovations. And this is especially true for the country, the level of industrial sectors of which lags behind the level of the states with which it interacts.

The phased formation and implementation of the strategy of import substitution leads to the following positive social and economic results:

- growth in employment, and as a result, a reduction in unemployment and an increase in the standard of living;
- increase in the level of scientific and technological progress and as a consequence of the level of education;
- strengthening the country's economic and food security;
- growth in demand for domestic goods, which in turn stimulates the development of the country's economy, expansion of production capacities;
- the preservation of foreign exchange earnings within the country and, as a consequence, the growth of foreign exchange reserves and the improvement of the country's trade balance.

The policy of import substitution is based on creating an enabling environment for the growth of the national industry. Supporters of this concept argue that sustainable economic development of the state is possible only in the event of a significant increase in the level of industrial self-sufficiency, an increase in the volume of output within the country.

Laying stress on self-sufficiency is a consequence of the instability of processes occurring in the world economy, a wary attitude toward foreign capital. But here it should be recalled that the main source of funds for giving the economy an initial impetus in the implementation of import substitution, will be the income from the export sector.

LITERATURE REVIEW

One of the approaches considers import substitution as a time-limited and positive for the country regulated process resulting in reduction or a phased replacement of imported products by domestic counterparts. For example, according to A.N. Matantsev, import substitution is “the process of replacing imported goods with domestic products on the market” (Matantsev, 2013).

According to E.E. Rumyantseva, import substitution is “the reduction or termination of the import of a certain product through the development of national (domestic) production of the same or similar goods” (Rumyantseva, 2014).

A similar definition is formulated by a team of authors under the leadership of G.L. Azoev: “import substitution” is the reduction or termination of the import of a certain product through the production of the same or similar goods in the country (Azoev et al., 2012).

In our opinion, the following is the most concise definition: import substitution is the cessation of the importation of a given product into the country in connection with the organization of its production on the spot.

Problems of development and implementation of import substitution are analyzed in domestic works by O.V. Babich, R.Yu. Boldyreva, M.A. Borovskaya, L.V. Glukhikh, A.O. Gomaleev, K.A. Denisov, I.A. Zhukova, V.I. Kulikov, A.V. Kuyukov, V.S. Lobunets, E.N. Nazarchuk. Despite the great interest of scientists in this field, in our opinion, the problem of determining the differences between the interpretations of import substitution from all others and its implementation directly at the level of industrial enterprises, and not as a state policy on a national scale, seems underdeveloped.

On the one hand, there is an opinion that the implementation of the strategy of import substitution in industrial enterprises will provide for the return of its own market to domestic producers of products, for example, according to R.A. Burko, “by stimulating technological modernization of production, increasing its efficiency and developing new competitive products with relatively high added value” (Burko, 2013).

On the other hand, interesting is Pichurin’s position, that the strategy of import substitution is based on the belief that “consumers can not be forced or persuaded to buy domestic goods if this is unprofitable. They should see that the goods are more suitable for Russian conditions” (Pichurin & Blinov, 2014).

According to E. Sigal, when implementing the import substitution strategy for Russia, different scenarios are possible, which still require significant investments from the state, as well as the use of other non-financial instruments: from raising duties on imported goods to direct restrictions on the purchase of imported products by state corporations (Sigal, 2013).

In the studies of foreign economists, the concept of import substitution is considered in the context of the creation and development of industry - the so-called “import substitution industrialization” (Jayanthakumaran, 2000; Neumann, 2013). S. Neumann, referring to A. Hirschman’s research, postulates that the preconditions for this type of industrialization are the volatility of the balance of payments, wars, the growth of the domestic market and special policies aimed at development (Neumann, 2013). Neumann sees such industrialization as an “intraoriented state strategy of economic development” (Neumann, 2013), i.e., shares the position of most Russian scientists regarding the definition of import substitution.

K. Jayantakumaran considers import substitution and export support as trading strategies (Jayanthakumaran, 2000). E.A. Chervinsky emphasizes that import substitution is a factor in stimulating production and competitiveness of domestic products (Chervinski, 2015).

MATERIALS AND METHODS

The methodological basis of the study is the works of classical and modern economic theory, presented in the works of domestic and foreign economists. In the analysis of specific economic issues, the relevant regulatory and legal acts were used, the Decrees of the Government of the Russian Federation. As information base of the research materials of the State Statistics Committee of the Russian Federation and other sources were used.

The research is based on:

- results of the analysis of the specifics of the development of the Russian market and the domestic production sector contained in Russian scientific and professional sources;
- scientific works of domestic and foreign scientists on the patterns of development of the Russian economy as a whole, on the impact of the real exchange rate on imports and domestic production, on the role of the income effect, substitution effect and hysteresis, on the import substitution processes observed in the Russian economy in the post-crisis period.

The logical and statistical analysis is used as concrete methods of research.

Practical Significance and Introduction of Research Results. The assessment of the organizational and economic specifics of the formation and implementation of import substitution in conditions of spatial restrictions to Russian producers can be used in solving urgent issues of state industrial policy and policy in the field of food security, as well as assessing the state and prospects for the development of the domestic production sector on the part of both industry representatives and public authorities (Vertakova et al., 2016). The results of the research work can be used by Russian manufacturers in marketing analysis and strategic planning in order to increase their own competitiveness and strengthen the social orientation of business.

DISCUSSION

It is important to note that the goods created at import substituting enterprises should be oriented not only to the domestic market but also to the external one, since only in this case the level of product competitiveness will be acceptable and the resulting successes will not be ingloriously lost when returning to the usual course for the country. That is, it is necessary to develop not only the production of certain industries

within the country but also to increase the level of development of the economy, social sphere, infrastructure, making the country itself capable of equal competition with developed industrial countries.

It should be understood that import substitution is primarily a strategy of catching up, which should not simply lead to the formation of a certain production, but the establishment of this production at a higher level than that of competitors. The development of high-tech and knowledge-intensive industries will enable us to enter the world market and reduce dependence on commodity markets.

The protection of the domestic producer should not lead to stagnation in the industry, as restricting competition from import producers may reduce the organization's desire to engage in the development of innovations, increase the competitiveness of the manufactured goods and lead to the company's complete dependence on government subsidies.

We need to understand that it is impossible to just copy the necessary industries, we also need to develop our own technologies. In modern conditions, the scientific and technical potential and ability to use it has become one of the most important indicators of the level of development of the country and its place in the world system.

But the development of production at a high level is impossible without appropriate personnel. We must strive to grow our professional cadres and perhaps for this we need to attract professionals from abroad. All this requires the development of institutions, increasing salaries, developing special programs for scientists and improving their social content. If the state is not ready to pay enough attention to this problem, the development of high-tech and knowledge-intensive industries will not be resolved.

Similarly, we should not forget about venture financing, which provides incentives for innovation. Investments are also one of the fundamental elements of the development of industrial sectors of the country. By attracting capital either directly or by creating suitable conditions for doing business, the state stimulates the development of those industries where money is channeled.

But here it is important to note that, as a rule, investors are interested in industries that provide the greatest profit and return on investment, and high technology and high-tech production is unlikely to have these parameters.

Therefore, the policy of the state is very important here, in order to create comfortable conditions that will be attractive to investors (tax preferences, exemption from customs duties, etc.).

It is also necessary to note the importance of the participation of domestic companies in the chains of transnational corporations, which makes it possible to start the development of new industries with much lower costs. The assistance of transnational corporations is expressed not only in financing but also in the development of knowledge-intensive technologies and industries that may be poorly developed in the country. Very often transnational corporations, faced with various kinds of import restrictions, and the low solvency of developing countries, are forced to replace the export of goods with the export of capital in order to establish appropriate production facilities on the spot, which leads to increased competition, the struggle to reduce production costs and, accordingly, the development of knowledge-intensive industries.

All this contributes to the growth of the country's industrialization and the growth of its competitiveness.

Since import substitution is a state strategy, it is the state that plays an important role in its implementation. For example, one of the main directions in the implementation of this strategy is the formation of domestic demand, both from the state (public procurement, state investment) and from the public.

The state can actively place state orders in the small and medium-sized sectors of the economy, establish preferences for suppliers of Russian goods when carrying out government orders. Providing state investments in the construction of infrastructure, housing, will also lead to an increase in demand. The growth of the population's solvency can be stimulated by an increase in pensions and wages.

Noting the positive aspects of import substitution, one should not forget about its shortcomings. Speaking about this strategy, it is necessary to understand that this is a certain form of neo-protectionism and it to some extent contradicts the principles of free international trade.

Protectionism as a measure of protection of the internal market and business leads to the fact that domestic enterprises, often working inefficiently, nevertheless receive profits, using their monopoly position and inflating prices. Thus, the consequences of the use of tariff mechanisms and other protectionist barriers should be weighed and carefully analyzed in order to prevent blind restriction of competition.

In general, the strategy of import substitution can be extremely effective in certain periods of economic development, as in many cases it helps to overcome the disintegration of the national economic complex and restore the integrity of the social reproduction process.

Active import substitution can also be used as an important means of improving the balance of payments and preserving the country's currency reserves, preventing inflation, normalizing the domestic market and counteracting unemployment.

The main limitation for the policy of import substitution may be domestic solvent demand. In the case when the growth rates of the domestic market lag behind the dynamics of the global conjuncture, the policy of import substitution can negatively affect the competitiveness of import substituting industries in particular and the country as a whole. As the most successful experience of developing countries (South Korea, Thailand, Vietnam) shows, the import substitution policy can (and most likely should) be combined with the development of export industries (Westphal, 2007). In this case, there is a differentiation of risks associated with cyclical fluctuations in national production and world market conditions, and also the most likely effect of synergy.

Similarly, the policy of import substitution can lead to increased corruption, since this is a state program that is implemented through subsidizing certain areas of production, the role of the bureaucracy here is significantly increased, which leads to an increase in permissiveness. And here, the task of the state is extremely difficult, as corruption remains one of the main problems of our country and the cause of many others.

Speaking about the country's striving for import substitution, it is necessary to understand that no country in the world can completely abandon imports and create an economically efficient production in all sectors. The existing restriction on available resources makes this impossible.

Also, a certain set of high-quality and technological imported goods is simply inadvisable because of insufficient development or lack of national technologies and industries. The desire to start the production

of any product on its territory with insufficient capacities or resources can lead to even greater dependence on imports - the company begins to purchase more raw materials to produce a wider range of products needed to create a specific product.

As a result, the produced goods are unlikely to be cheaper and more competitive than imported goods. Therefore, speaking about import substitution, one should rather focus on those sectors where the country either has an industry advantage or can receive it.

It is on these advantages that the international division of labor is based, which presupposes specialization in the production of certain types of goods, the growth of labor productivity, the development of exchange, scientific and technological progress, and as a result the deepening of the process of integration into the world economy, and on this basis the improvement of the living standards (Shkurkin *et al.*, 2017) of the population.

And if the development of this industry does not give us economic benefits, and perhaps even brings losses, then it is better to reject it. And, while choosing priority directions, it is reasonable to limit oneself to several of the most significant branches, spraying on a set can significantly complicate the task.

Problems of implementation of import substitution, benefits of export orientation. Generally speaking, the policy of export orientation and the policy of import substitution are not mutually exclusive, as evidenced by approaches to understanding the types of import substitution strategies presented in Figure 1.

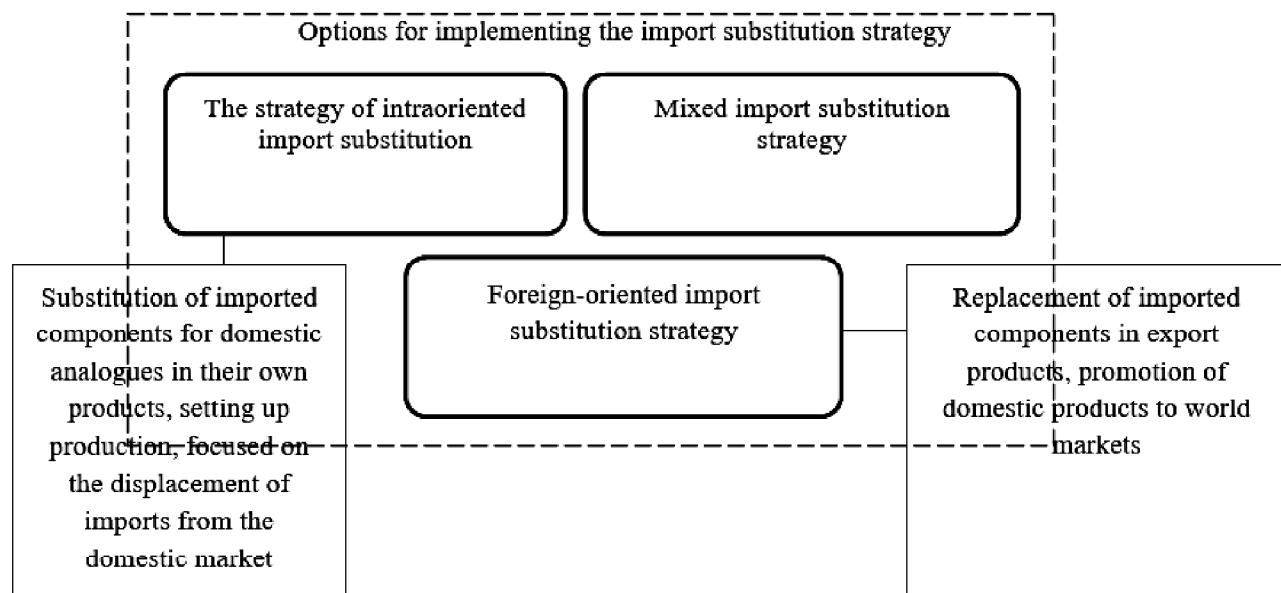


Figure 1: Types of strategies for import substitution

However, a reasonable combination of both approaches can have a significant synergistic effect, especially in terms of improving the country's balance of payments. Nevertheless, the World Bank and a number of other international economic institutions contrast export orientation with import substitution as a policy more favorable to economic growth (Rodrick 2003).

In particular, Ejaz Ghani and Carl Jayarajah in their work (2005) conducted studies using panel data on developing countries and revealed a positive relationship between productivity and openness of the economy. The following explanations can be given to this fact (Rodrick, 2003):

- import substitution leads to inefficient allocation of resources (in terms of deviation from the theory of comparative advantages);
- import substitution slows down the process of innovative development;
- export-oriented economies are more tolerant of negative external shocks;
- in closed economies, a phenomenon like rent-seeking behavior is more common.

Let us consider each of the given explanations in detail.

Inefficient allocation of resources. It is believed that import substitution stimulates the development of high-cost industries, and does not lead to increased productivity over time. As a result, the country's emerging specialization begins to differ sharply with the specialization that would result from the realization of natural comparative advantages. Inefficient from the economic point of view, the redistribution of resources, in turn, entails a reduction in production in export-oriented industries, a decline in agriculture, a decrease in the incomes of the population (a fall in the equilibrium wage), the emergence of entry barriers in industries (Rodrick, 2003).

Scientific and technological development, innovative growth. It is believed that the import substitution policy develops the country's technological potential and thereby stimulates long-term economic growth. Practice, however, suggests the opposite: the countries following the import substitution policy show the worst indicators of innovation activity (and economic development) than countries oriented to the external market (Krueger & Tuncer, 1982).

At the industry and enterprise level, pluses of the import substitution policy are evidenced by the infant industry argument. From the standpoint of the theory, this argument is very logical. In the simplest form, it claims that:

- Some newly formed enterprises (industries) initially have higher costs than existing foreign competitors, and they need time to achieve the same level of competitiveness;
- in a free trade, no entrepreneur may want to invest in the newly created industry;
- However, if after a while the industry will provide a good income, then the entrepreneur can change their mind;
- but this may require the introduction of protective barriers to stimulate investments in the industry at the stage of its inception.

Empirical studies, however, do not support these assumptions. A study was conducted on the data of the Turkish industry for the period 1963-1976. The argument of the developing industry suggests that over time, unit costs in protected industries (i.e. infant industries) should decline at a faster pace than the average for the economy (Novikova *et al.*, 2016). Empirically, this assumption was not confirmed. Nevertheless, the argument of the developing industry should not be completely rejected, since data from one country can not be representative. However, it can be concluded that tariff protection measures are not always effective in achieving this goal.

Reaction to external shocks. A serious argument in favor of openness of the economy is the fact that export-oriented countries adapt more quickly to external shocks than closed economies. The fact that open economies are less exposed to demand shocks, as external demand is diversified (for example, geographically), in contrast to domestic demand, also speaks in favor of the policy of export orientation.

Institutional effects: the pursuit of rent. Finally, the last argument in favor of export orientation (openness of the economy) is that the policy of import substitution often entails distortions in incentives and an inefficient allocation of resources due to a phenomenon called rent-seeking. Inefficiency can manifest itself in various forms: the costs of lobbying tariff protection for uncompetitive industries and agency costs for obtaining licenses from government agencies; The emergence of excess capacity in the event that licenses are issued in proportion to the already introduced capacity; Smuggling, various frauds with the import of goods and so on.

These arguments support the openness of the economy (export orientation). Nevertheless, we can cite a number of counter-arguments that support the policy of import substitution (Rodrick, 2003):

- competition with foreign firms does not always benefit domestic producers;
- imports may be excessive in conditions of full openness of the economy;
- foreign investment can be harmful, even in free trade;
- policies that discriminate against domestic producers can be effective. The main problem is that these four counter-arguments can be either true or false, depending on the specifics of the country. Theoretically, however, it was not possible to predict the interaction between the factors listed above in the framework of one model.

CONCLUSION

In conclusion, it seems important to formulate a set of recommendations on the formation and implementation of import substitution in conditions of spatial restrictions based on the research conducted.

In the formation and implementation of import substitution and industrial policy, it is critically important to be guided not only by quantitative indicators reflecting the volume of imports and its share in visible consumption but also by the qualitative characteristics of the level of dependence on imports. In practice, even a sufficiently high level of imports does not always serve as an indisputable evidence of high import dependence, and vice versa. Formally, a small amount of imports can be critically important for companies, in particular, if the consumed products, technologies or services do not have available analogs.

Since the main reason for using imported products, technologies and services is the lack of Russian analogues on the market – even though some respondents may simply not be aware of the existing domestic alternatives to imports – it does not seem possible to completely solve the import dependence problem by switching to Russian products, technologies and services at present.

Thus, the main emphasis in the policy of import substitution should be made not on the fastest “frontal” reduction of the share of imports in the consumption structure of Russian companies, but on the creation of new manufactures of competitive products. Therefore, it will be extremely short-sighted and even harmful to expect quick results from the policy of import substitution.

It is necessary to take into account the motives that guide companies that prefer foreign products and technologies to their domestic counterparts (of course, if any). This will determine the key “bottlenecks” of the domestic supply, which then should become the main points of application of the state’s efforts within the import substitution policy.

Different import substitution models are required for different consumption categories (and, accordingly, sectors that generate the corresponding supply). So, in the case of acquisition of the most complex products - machinery and equipment, as well as modules and units, the problem of inconsistency of the existing Russian supply with modern technological requirements comes to the fore. For this reason, import diversification becomes an effective strategy for reducing import dependence for many consumer companies.

Under the circumstances, attempts by the state to stimulate the purchase of domestic machines and units by price methods hardly have a high chance of success. It would be more expedient to concentrate efforts on supporting the development of new modern models of machinery in Russia, both created in Russia and abroad. As for the choice of enterprises in favor of technology import, the higher level of the value of Russian analogues plays an important role, which is exacerbated by the traditional for Russian developers’ problem of insufficient orientation to the needs and requirements of a specific customer, as well as a low level of companies’ awareness of available Russian technologies on the market.

In this regard, important public policy emphasis on stimulating the use of Russian technologies should be to subsidize their acquisition by industrial companies, develop the competencies of organizations in the research and development sector to interact with business, and disseminate information on advanced technological solutions to potential consumers.

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