IMPORT SUBSTITUTION AS AN ECONOMIC INCENTIVE MECHANISM FOR RUSSIAN COMMODITY PRODUCERS

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ABSTRACT
This article considers the definition of the economic mechanism of import substitution as one of the new directions in the theory and practice of the modern enterprise management process, the industry and the economy as a whole. The authors identify the main aspects of the concept and describe the structure of this economic mechanism. Moreover, they determine the role of the economic mechanism in the agrarian economy and the need for its improvement to solve the problems of import substitution.

Keyword: economic mechanism of import substitution, management, agriculture, agricultural sector, food imports, food exports.
1. INTRODUCTION

Due to the aggravation of the foreign policy situation caused by the changed foreign economic and geopolitical realities, Russia is forced to adopt the import substitution paradigm in all sectors to support the sustainable operation of the national economy mechanism. The term "import substitution" in Russia refers to the type of economic strategy aimed at protection of domestic producers by replacing imported goods and technologies with domestic products [Amirova, & Sadykova]. These products are sold to increase the competitiveness of the national economy, incite the modernization, and economic efficiency of production. At the same time, import substitution is defined as total industrialization of the economy, which will contribute to the creation of large-scale high-tech industries and the reduction of the national unemployment rate.

Our country depends on imports, and the problem of replacing foreign goods with domestic ones existed historically [Amirova, & Zakirova]. However, the 2014 sanctions imposed by Western countries forced the government to pay deliberate attention to the problem. Thus, by the end of 2014, a large-scale import substitution program, covering a significant number of industries, had been approved. In the context of the emerging need for import substitution, the problem of the need to improve the economic mechanism of import substitution in enterprises and in the sectors of the agro-industrial complex has become acute. In this regard, the assessment of potential and the systematization of the mechanisms and instruments of import substitution policy in Russia have become particularly important.

2. DATA AND METHODS

The economic mechanism of import substitution is directly related to various economic management methods. The gradual improvement of the economic mechanism, the set of economic instruments for incitement of production and management is an important criterion for a successful transition to economic management methods.

The most important methodological, methodical and practical condition for implementation of the import substitution strategy is the elaboration of its development stages. According to the studies carried on in each industry, they must be special, therefore import substitution programs must be developed individually, in relation to each industry, production, but they also have much in common. Both general scientific research methods – dialectical, induction and deduction, analogy and modeling, analysis of factual and historical data, and methodological principles for analyzing economic phenomena – classification and comparison, as well as concrete scientific methods – comparative analysis, monographic, statistical-economic, graphical research methods, are used herein.

3. RESULTS

The problem of import substitution is extremely relevant to Russia's economy in the international political environment. The structure of Russian imports accounts for more than 80% of the manufacturing industry output. As a result, it is necessary to develop a phased import substitution strategy, and the economic mechanism of import substitution should
primarily incite Russian producers to highly efficient production. At the first stage of this strategy implementation, it is important to constantly monitor the imported goods and services, examine their quality, production conditions, advantages and disadvantages, as well as the technological requirements. The fact that imported goods do not always meet the quality standards should also be taken into consideration. Quite often, imported products cannot be effectively used due to inconsistencies with local technologies, consumer preferences, lack of appropriate professional training, and differences in natural and climatic conditions. It is necessary to identify those products that cannot be replaced due to the lack of necessary natural and climatic conditions (such as citrus fruits, special types of fruits, types of mineral water, certain vegetables). At the same time, there are many products that do not need to be imported. For example, agriculture of the Republic of Tatarstan does not need to import most types of grain, sugar, potatoes, all types of animal products – milk, meat, eggs, etc. They can be successfully produced in sufficient quantities under existing conditions [Ziyadin, Khamitova, Khassenova, Suieubayeva, & Agumbayeva].

Particular attention should be paid to the study of foreign production technologies, the means to improve product quality and employee competencies, inter-sectoral relations, methods of capital intensity and reduce production costs. These factors can be used to organize domestic production and create new industries. At the second stage of import substitution strategy implementation it is important to establish the import of equipment, spare parts, raw materials, inputs, and then reproduce them in mechanical engineering based on domestic R & D base, to train relevant specialists and to form creative teams. In an open economy, it is required not only to use advanced technologies, machinery and equipment, new plant varieties and animal breeds but also to create one's own advanced reproduction, otherwise international competitors will always keep their market and become more competitive. The result of this stage of import substitution strategy implementation is the formation of a national version of the production of import-substituting goods. At this stage, it is essential to monitor the emerging inter-industry relations, their role in the production of import-substituting products, the possibility of providing new production with raw materials and labor force on the scale of demand.

The development of import-substituting production involves the development of the concept of the domestic product and the organization of its experimental production at the third stage. The fourth stage in implementing the concept of import-substituting production involves bringing it to the state of global competitiveness in terms of quality and sales prices. It is important to check these products in the domestic market, as well as the availability of raw materials, spare parts, containers, and logistics. After that, it can be expected that the new products produced will meet international standards and can be exported to many countries and markets.

To date, the basic elements of the economic mechanism of import substitution in the agro-industrial complex are as follows: the mechanism for agribusiness and entrepreneurship development in the agro-industrial complex; the mechanism of foreign economic relations, the functioning and creation of joint domestic enterprises with foreign companies; the mechanism for incitement and the enterprise employees motivation [Gazetdinov, Gazetdinov, & Semicheva]; the mechanism of investment activities and the investments of enterprises of the agro-industrial complex; financial and tax mechanism of establishing payments of economic entities to the state budget and centralized funds for insurance, social security and support of rural producers; the mechanism of economic contractual relations of economic partners in the regulated and free market; the mechanism for the acquisition by business entities (individuals and legal entities) of production means of products sales in the relevant market segment; a
mechanism for reforming the economic structure in rural areas and transforming public sector enterprises into the most modern market structures. All these elements are interrelated and form an organizational and economic system, which can be taken as the basis of the state’s economic policy, including in the agrarian sector. In 2017, for the first time since the beginning of the sanction wars, Russia has increased the imports of agricultural products. In total, last year, 21.5 million tons of foodstuffs and raw materials (except textile) were imported to Russia worth 28.8 billion USD. This is 6% and 15% more than in 2016, respectively. The increase in imports of agricultural products is also confirmed by the data of the Ministry of Agriculture: according to its information, in January-November 2017, Russia imported agricultural goods in the amount of 25.7 billion USD, which is almost 16% more than in the same period of the previous year.

Food imports (not only agricultural ones) are strongly influenced by two factors: household income and the dollar exchange rate. The reason is that not all Russian products are competitive in price and quality, that is why as the income grows or the ruble strengthens, the population starts buying imported goods [Kuchukova, et al.]. Several indicators can be used to characterize the growth of income. For example, the indicators of food products sales can be used instead of income index. Fig. 1 shows the dynamics of the index of the physical sales volume of food products (in comparable prices). For presentation purposes, the figure shows the ratio of purchases in each of the months in 2013-2017. In a favorable economic situation, the volume of purchases increases. The graphic shows that only from July 2017 retail food sales slowly began to grow – for the first time since August 2014. In December 2017, more products were bought than in December 2016, but less than in December 2015, 2014 and 2013.

Figure 1. Volume indices of retail sales of food products, % to the corresponding month of 2012.

The dependence of imports on the exchange rate of the national currency was observed during the 1998 crisis. A sharp drop in the exchange rate of the ruble in August 1998 affected imports. If in August 1998 a dollar was worth about 6.5 rubles, then in October of the same year it cost 15.5 rubles. This influenced the import of food and agricultural products: it decreased from 13.3 to 7.3 million USD, or by 45%.

Imports began to grow only two years after 1998, exceeding the pre-crisis level in 2004, and by 2007 it had already exceeded the level of 1997 by half. The repetition of that situation is observed now. After the devaluation, Russian agricultural producers obviously received benefits. However, if the period of special opportunities was not used for modernization purposes, increasing labor productivity and competitiveness of Russian products, imports will increase. Moreover, it will grow in those products that will never be produced in Russia due to
Import Substitution as an Economic Incentive Mechanism for Russian Commodity Producers

climatic conditions. It is not by chance that in 2017 the import of fruits and nuts increased. This group of products accounts for about 15% in the structure of imports. Russian exports are also growing. Compared to 2016, exports of food products and agricultural raw materials grew by 21.5% – to 20.3 billion USD. An important result of this year is that import growth rates are significantly lower than food export growth rates: 15% against 21.5% [Shagaida]. Therefore, successfully implemented import substitution policy contributes not only to the emergence of the national product and improvement of its quality but also to an increase in the standard of living of the population. With the development of agro-industrial production, new jobs appear, which reduces unemployment in the country. To improve the quality of products, new technologies are required [Amirova], which has a positive effect on the development of the scientific and technical complex. Better quality will attract the consumer, which will force the manufacturers to think about expanding the production capacity [13-18].

4. CONCLUSION
Thus, the structural changes in the economic mechanism of import substitution will increase the efficiency of production activities in general, which, in turn, will positively influence the solution of economic problems. All the efforts should be focused not at domestic production of the final product, but on the determining factors – high-precision machine-tool construction, seed farming, agriculture, tool industry, pharmaceuticals, and so on. That is, it is necessary to develop not only the production of certain industries within the country, but also to increase the overall level of development of economy, social sphere, infrastructure, making the state able to compete on equal terms with the developed countries.

The general business strategy also needs fundamental changes. If in the last 20 years Russian business preferred to gain momentum in the trade and financial sphere, then at the new stage, which is characterized by intense competition in the global market, it must increasingly focus on material production, including the agro-industrial complex, the creation and expansion of new material industries and productions, the growth of ready-to-consume products, the expansion of exports, often very profitable, the transition from a predominantly commercial and banking capitalism to industrial one.

REFERENCES


