The Problems of Import Phase-out in the Process of Formation of a New Economic Development Policy in the Russian Regions

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Abstract

Phase-out of imports is an ambiguous phenomenon because it has its own strengths and weaknesses. Benefits include an increase of domestic products output, solving the problem of economic security comprising food and energy. However, there are a number of dangers, which include slowing of innovation processes, reducing the competitiveness of domestic enterprises, i.e. such isolation may sooner or later lead to the general backwardness of the economy of the country or region. This article attempts to analyze the problem of import phase-out in the Republic of Buryatia, to answer the question whether or not this line of economic policy in the country is successful.

Keywords: Import Phase-Out, Industrialization, Innovation Policy, Real Sector of Economy, The Republic of Buryatia

1. Introduction

Strategic development of regions is based on the formation of belief system relating to the fundamental actions of government, business and society as a whole to ensure the movement of socio-economic system of the region along a certain trajectory characterized by the parameters of economic growth and, a priori, the improvement of quality of life and living standards.

Existing strategic planning system which is introduced within the appropriate regional laws is focused on a stable economy, having some trends of development and specified operating conditions.

An analysis of the current economic situation makes it possible to talk about the increment of processes of precarity and volatility of the economy characterized by:

- High volatility of foreign exchange and commodities markets.
- Geopolitical processes of redistribution of influence on world development.
- Social processes of redistribution of incomes between segments of society accompanied by economic migration.
- Geo-climatic changes having a significant impact on the economy.
- Scientific and technical progress changing the structure of production and consumption.
- A number of other processes putting the problem of adjustment of strategic development as well.

Phase-out of imports is one of the mechanisms to stabilize the economic development of the region.

The subject of research is extremely urgent, and yet, little studied. At the moment, there is no single concept of “import phase-out”. Phase-out of imports is one of the most important conditions for achieving lost economic security, including the food one.

Import phase-out is import substitution by goods produced within the country. To substitute import by national products customs tariff (fee) and non-tariff (quotas, import licensing) regulations may be used, as well as subsidies for domestic production and direct ban on the import of certain goods from abroad.

The basic concept of import phase-out can be described as an attempt to reduce foreign dependence of the country’s economy at the expense of the local industrial production, using either national or foreign...
investment for internal or external consumption. It should be noted that the import phase-out does not mean the elimination of import: As country is industrializing, it begins to import new materials that are necessary for its industry and which it had lacked before.

1.1 Importance of the Problem

To adjust the system of strategic development of regions a new economic policy of the region is to be developed.

The basic principles of the new economic policy in the region are:
- Breakaway from the strategy of targeting the federal paternalism.
- Strengthening the role of government as a social entrepreneur.
- Raising economic activity power.
- Restructuring, re-industrialization and import phase-out processes.

Many of proposals for restructuring in the first half of the 1990s remain relevant at the present time with the only difference that individual sectors and types of production that took place at that time and were quite fit for development no longer exist. In this regard there is a problem of not just restructuring and modernization of the economy, but its full-scale resuscitation – restoration of the structure of certain types of plants, because their loss is fraught with rapid delay of further development, the emergence of the regime of industrial and technological dependence.

In Russia as a whole there is a tendency to reduce imports. The decline in imports, according to experts, is largely due to:
- Reduction of domestic investment demand.
- Weakening of the Russian ruble.
- To a lesser extent, the import phase-out process.

Deputy Director of the Center of the NRU HSE Valeriy Mironov said: “Imported goods do not strive to Russia, because the smooth devaluation of the ruble was better than any protective duties, as it causes rising of imports”.

However, it should be noted that the present fall of the ruble is not enough to activate the import phase-out process. According to experts, the effect of substitution is possible, but at the moment all economies are closely linked and up to 60-70% of trade turnover are formed at the expense of global industrial chain.

In addition, import phase-out, as a long and gradual process, especially for those sectors where the share of imports is 80% (the pharmaceutical industry), suggests a gradual shift from the production of simple goods to high technology and high-tech products.

The object of the study is managing the import phase-out process and the development of economic sectors in the Republic of Buryatia.

The subject of the study is the conditions and mechanisms of ensuring the investment development of the real sector of the region economy.

The purpose of the project is to study the problem of import phase-out and to find ways to improve the use and development of potential of the region economy real sector.

In the framework of the study the following tasks were set:
- To reveal the economic content and essence of the import phase-out strategy in the industry in terms of economic sanctions.
- To make an analysis of the industrial potential of the real sector of economy of the Republic of Buryatia, Russian Federation.
- To analyze the features of the economic structure of the region.
- To assess the effectiveness and development of the industrial sector of the economy of the Republic of Buryatia.

1.2 Relevant Scholarship

According to the Dictionary of Economics, import phase-out is a trade and economic policy that supports the substitution of imports with domestic products.

Import phase-out is based on the premise that the state should seek to reduce foreign dependence through local industrial producers. This concept primarily belongs to the economic development policy of the 20th century, although it was made in the 18th century by such economists as Friedrich List, who put forward the thesis of “industrial education of the nation”, argued that competition with economically powerful countries can bring irreparable damage to the industry of the period of “infancy” and “childhood” even if a developing country has greater competitive advantages. Consequently, the industry is to be “educated” to temporarily protect it from the outside danger and thereby giving the opportunity to realize their benefits.

The Economics School of mercantilism supported the rise and increase in domestic production and import phase-out. In Hamilton's economic program, particularly in the main work by Alexander Hamilton “Report on
industrial goods” it is stated that the United States should become self-sufficient in the production of goods. This formed the basis of the American school in the economy which had a significant impact in the United States during the time of industrialization.

In his famous report on industrial products on December 5, 1791 the Minister of Finance Alexander Hamilton proposed to establish import tariffs, intended mainly to protect the young US industry; he was convinced that “the American empire” would achieve strength and prosperity rather as an industrial than agricultural economic system.

Werner Baer argues that all countries that passed through the process of industrialization, after the United Kingdom, also passed the import phase-out stage, in which most of the investments in the industry were focused on import phase-out.

Werner Baer says that while the import phase-out policy can create jobs in the short term because domestic manufacturers replace foreign producers, economic theory shows that in the long-term the production and growth will be lower than it would be otherwise. This is because import phase-out deprives the country of the benefits to be gained from specialization and foreign imports. The law of comparative advantage shows how a country can benefit from trade. Moreover, protectionism leads to dynamic inefficiency, domestic producers are not stimulated by foreign competitors to cut costs or to improve the quality of their products. Import phase-out may impede the growth through poor distribution of resources, and its impact on the exchange rate interferes with exports.

According to, despite some obvious benefits, phase-out of imports is “unstable over time and requires high economic and social costs”. Import phase-out dependence on the developed and isolated markets in Latin America was based on the growth of the market limited in size.

In most cases, the lack of experience in manufacturing, as well as the lack of competition led to lower efficiency and the use of innovation, which in turn reduced the quality of goods produced in Latin America, while the protectionist policy keeps prices high.

Despite its intentions, import phase-out aggravated inequality in Latin America.

With poverty rates exceeding 30%, domestic demand, being the basis of import phase-out, is not suitable.

The policy of protectionism and state property reduces the incentives for business risk, which leads to a decrease in efficiency. Large deficits and debts arising from an import phase-out policy was largely the cause of the Latin American crisis of the 1980s.

2. Method

The base line for the study is grounded on statistics and analysis of the Territorial Department of the Federal State Statistics Service of the Republic of Buryatia, the data of the State Customs statistics, the Ministry of Agriculture of the Russian Federation, the Ministry of Economic Development and Trade of the Russian Federation, the Ministry of Economy of the Republic of Buryatia, the Ministry of Industry and Trade of the Republic of Buryatia, the Ministry of Agriculture and Food of the Republic of Buryatia, materials of conferences and round tables, Internet information resources. The legal base of the research is presented by legislative, regulatory documents and legislative acts of Russian Federation, Republic of Buryatia.

In the process of study the following methods were used: Abstraction and generalization, analogy, comparison, situational and systemic analysis, expert assessments of causal analysis and synthesis, economic statistics.

3. Results

Industry of the Republic of Buryatia, as in other regions of the Russian Federation is in need of technical and technological rearmament. Most indicators of the real sector of the economy of the republic remained at a low level.

Industrial production complex is a basic sector of the economy of the region. The share of industry in the gross regional product in 2014 is 27%, tax revenues to the consolidated budget of the republic constitute 30%.

The Republic of Buryatia is engaged in production of industrial products by 1,700 organizations providing jobs for more than 52 thousand people.
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and others.

In the structure of the manufacturing sector the largest specific weight in the production of vehicles is 62.7%, the specific weight of steel production is 4.7%, manufacture of electrical equipment – 2%, production of rubber and plastic goods – 0.5% (Figure 1).

Table 1. Production index for the manufacturing industry

|          | 2005 | 2010 | 2011 | 2012 | 2013 |
|----------|------|------|------|------|------|
| Russian Federation | 107.6 | 110.6 | 108.0 | 105.1 | 100.5 |
| Siberian Federal District | 107.6 | 110.6 | 108.0 | 105.1 | 100.5 |
| Altai Republic | 104.2 | 108.5 | 105.0 | 103.0 | 103.1 |
| The Republic of Buryatia | 106.3 | 100.1 | 106.0 | 107.2 | 104.7 |
| Tyva Republic | 109.4 | 129.7 | 116.6 | 104.0 | 118.4 |
| The Republic of Khakassia | 125.7 | 98.2 | 95.9 | 113.6 | 107.0 |
| Altai region | 125.9 | 106.3 | 100.3 | 104.4 | 92.6 |
| Transbaikal region | 96.3 | 125.8 | 106.1 | 103.7 | 101.5 |
| Krasnoyarsk region | 108.6 | 94.5 | 92.8 | 100.8 | 105.0 |
| Irkutsk region | 99.6 | 102.9 | 102.1 | 101.5 | 103.2 |
| Kemerovo region | 111.3 | 108.0 | 99.6 | 101.0 | 102.8 |
| Novosibirsk region | 102.8 | 114.9 | 111.6 | 98.6 | 97.7 |
| Omsk region | 103.2 | 110.1 | 107.8 | 110.2 | 100.7 |
| Tomsk region | 113.5 | 107.0 | 107.2 | 103.7 | 104.7 |

Analysis of the production index of Manufacturing Economic Activities allows confirming that there is an ambiguous dynamics of this indicator in the Republic of Buryatia. Thus, a sharp decrease was observed in 2010 (from 106.3 to 100.1) and in 2013 (from 107.2 to 104.7).

The dynamics of this indicator in the Siberian Federal District and in the Russian Federation as a whole is the same, and gradually reduced from 2010 onwards. This is due to the cyclical nature of the economy, the economic situation, and the saturation of the market as well. A more detailed picture can be seen in Table 1.

According to the report of the Minister of Economy of the Republic of Buryatia Dumnova Tatiana, now Republic provides itself with meat by 51%, milk by 68%, vegetables –80%, fish – 46%, eggs by 36%. The missing amounts of food are imported to the Republic from other regions and from abroad.

Table 2. Foreign trade in the Republic of Buryatia, mln USD

|          | 2013 | 2014 | Growth Rate, in % 2013 |
|----------|------|------|-----------------------|
| Foreign trade turnover | | | |
| Foreign countries | 1,395.5 | 1,356.7 | 97.2 |
| CIS | 1,316.0 | 1,273.2 | 96.7 |
| Export | 79.5 | 83.5 | 105.0 |
| Foreign countries | 1,247.6 | 1,217.2 | 97.6 |
| CIS | 1,246.3 | 1,215.7 | 97.5 |
| Import | 1.3 | 1.5 | 115.4 |
| Foreign countries | 147.9 | 139.5 | 94.3 |
| CIS | 69.7 | 57.5 | 82.5 |
| Balance | 78.2 | 82.0 | 104.9 |

According to preliminary data of the Buryat Customs the volume of foreign trade turnover of the Republic of Buryatia in January-December 2014 decreased by 2.8% (up to USD 1356.7 mln) due to a decrease in exports and imports (Table 2).
The trade balance showed a surplus at the expense of trade with foreign countries.

Imports decreased by 4.0%, reaching USD 139.5 million. Reduction of imports is due to reduction of imports of foodstuffs and agricultural raw materials by 10.0% (USD 2.5 million), engineering products by 2.0% (USD 2.3 million).

4. Discussion

Because of the reduction of imports into the region, sanctions, and all-Russian program of import phase-out the Action Plan (“roadmap”) to Increase the Production of Import Phase-Out Products was adopted in the Republic based on the analysis of imported products and the structure of imports. A particular attention is given to measures to improve self-sufficiency in agricultural products of the Republic.

The import phase-out program is designed for:
- Strengthening the economic and food security of the country.
- Increasing employment as well.
- Improving the living standards in Buryatia.

Implementation of the plan will allow enterprises of Buryatia to boost production of phased-out of import and export-oriented products, both on the basis of existing enterprises and through the creation of new capacities. The program is designed for the period until 2020.

The plan includes 18 investment projects aimed at increasing livestock production, vegetable production and fish farming. The project realization is expected to attract 9 billion rubles of investments from different sources and create about 1.8 thousand jobs.

Thus, in Buryatia extensive measures are taken to phase-out imports of agricultural products. Despite the difficult climatic conditions, the Republic has necessary conditions for increasing the volume of agricultural production.

According to the “road map” such large agricultural enterprises as Buyan LLC – the production of beef, Rubin LLC – dairy production, Ulan-Ude Poultry JSC – eggs production are planned to be supported. There are proposals for the construction of the greenhouse complex with area of 10 hectares in v. Ilka, Zaigraveysky district. The plan also includes projects for the production of fishery products and potatoes.

In the dairy industry the process of introduction of filling machines is going on, the technical re-equipment is undertaken by such branch leading enterprises as Milk of Buryatia JSC, Mukhorshibinsky and Bichursky creameries. Milk of Buryatia JSC realized the investment project of introducing high-tech equipment of Tetra Pak Company. The project realization aims at increasing the production capacity by 140%. Its effectiveness is to stimulate growth in production and delivery of milk for processing. Currently, the production of dairy products in the company has increased by 2.5 times.

Imported goods will be replaced in engineering as well. For example, the production of components for the Ulan-Ude aircraft plant can be taken upon itself by the instrument-making association.

For example, in recent years the Republic of Buryatia has quite broad practice of effective modernization and renewal of production. First of all, it is modernization of the production of Mi171A2 helicopter improved model at the Ulan-Ude Aviation Plant. Innovative development and modernization contributes to the production of high-tech devices and components at Ulan-Ude Industrial Instrument Association. Within the framework import phase-out it is expected to develop cooperative supplies between enterprises of the machine-building complex.

Projects of modernization of production at enterprises of Baikal Forest Company contributed to improving the efficiency and productivity of use of region forest potential. The introduction of organizing production effective methods at the Ulan-Ude locomotive repair plant contributed to the labor productivity growth.

Development of innovative construction materials in the region, based on the development of the scientific community, allows expanding the production of thermal insulation and cladding materials and other products.

Thus, the government of Buryatia has drafted proposals for inclusion of the Ulan-Ude aircraft plant, instrument-making association, LVRZ in the Russian list of priority investment projects the products of which are oriented towards import phase-out.

For such projects, enterprises can receive soft loans of 11.5% per annum through authorized banks for projects with cost more than 1 billion rubles under the state guarantees of the Russian Federation. The limit of federal guarantees for 2015 is 30 billion rubles which subsequently will be doubled.

Despite the efforts of local authorities, some businesses are experiencing difficulties with the implementation of import phase-out program, for example, Ulan-Ude Instrument-making Association JSC. The reason for
this was incorrect orders from the federal enterprises, complicated procedure for obtaining support and other bureaucratic procedures19.

5. Conclusion

Thus, the following working directions of the regional bodies of representative and executive authorities, business and public organizations can be suggested:

• The commercialization of results of fundamental and applied studies of scientific and educational organizations in the region as a basis for the creation of a domestic scientific and technical complex.
• Expanding production, focused on the use of regional preferences in the region, including the further development of the mineral resource cluster, resource and forestry cluster, agro-food cluster, tourism cluster, the cluster of social services.
• Modernization of industrial enterprises, and, above all, a machine-building complex providing production competitive on the global product market. For this purpose, the practice of concluding contracts of strategic partnership between government and business should be resumed and expanded.
• Formation of a high level of intellectual potential of the region through proactive training system of highly skilled workers and the development and transfer of intellectual production assets. To this end the creation of centers for the development of the intellectual (research and education) potential in regional economic clusters is necessary.

Though Buryatia has a fairly high industrial and innovative potential and has prospects in ensuring economic and food security, there are certain obstacles and difficulties for the successful import phase-out.

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