

Import Substitution as a Strategic Means for Ensuring the Sustainability and Competitiveness of the Russian Companies



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Abstract: *In terms of the modern geopolitical and economic realia, import substitution is one of the strategic means for ensuring sustainability and competitiveness of Russian companies. Import substitution is a state program, and a special government commission is responsible for the monitoring of its implementation. However, the results of this program that are currently obtained do not provide an insight into its potential. This research aims to devise recommendations for improving the import substitution program as a strategic means for ensuring the sustainability and competitiveness of Russian companies. In this research, we have used the systematic approach, statistical analysis, and the dialectical method of cognition. The article provides a complex analysis of statistical data on the results of the import substitution program implementation in the Russian Federation on the example of the Volgograd region. Consequently, this analysis has enabled us to devise suggestions on how to increase the efficiency of the aforementioned program in order to ensure the sustainable and competitive development of Russian companies. We have come a conclusion that it is crucial to reach a balance between import substitution and export-orientation since it will help eliminate some disadvantages of import substitution and, consequently, help overcome the limitations of the domestic market, create new production facilities, optimize business processes, and decrease the volume of monopoly and corruption.*

Keywords: *import substitution, company, sustainability, competitiveness, export-orientation.*

I. INTRODUCTION

These days, import substitution is one of the strategic focuses of the state policy in the Russian Federation with its aim to ensure the sustainability and competitiveness of Russian companies. According to the President's Message of 4th December 2014, import substitution is a long-term priority that should help create a massive layer of production facilities irrespective of the external conditions.

A special state commission is responsible for monitoring the implementation of the aforementioned program. This commission is created to provide conditions for the domestic production in those sectors of the national economy that preserve a high import dependency level.

In the times of crisis, the Ministry of Economic Development analyzed on the consumption pattern and range of the imported equipment and products necessary for ensuring stable performance of the economic sectors as well as the analysis of the production and technical and technological, "demographic and psychological indicators of households"[1], constraints of the development of the sectors. As a result, they defined the crucial types of products and priority sectors for import substitution. Thus, they concluded that the top ten the most developed sectors for import substitution in Russia are

- farming and production;
- chemical industry;
- soft-ware industry;
- transport production;
- medical industry;
- oil and gas production;
- tourism services;
- fish production;
- textiles;
- machinery.

Devising a set of measures aimed to accelerate the import substitution processes is a crucial direction in the state policy not only at the federal level but also at the regional level. Meanwhile, an important aim here is to find the balance between, on the one hand, import substitution as a sanctions overcoming program and state economy diversification, and, on the other hand, large-scale state policy that reflects Russia's long-term interest for the development as a country aiming to obtain a leading position in the world arena. These days, the regions are developing systems of priorities for import substitution which will complement the federal policy according to the region's production and technological, institutional, social, and economic peculiarities as well as its development potential. One of the regions actively involved in import substitution program implementation is the Volgograd region. The peculiarity of its industrial development is the great share of manufacturing production (more than 85%) including oil refining, chemical, metallurgical, and machine-building production [2].

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In the Volgograd region, there is an approved framework for import substitution for 2015-2020 and a plan of actions to support the process. Also, to ensure the transparency of the implemented import substitution measures, an expert council to the Governor of the Volgograd region was created. The region aims to increase the import-substituting production, and the priority sectors are machine-building, chemical, metallurgical sectors, defense and agro-industrial complexes, as well as light industry [3].

In 2017, 53 region's companies produced 75 import-substituting product types worth over 52,1 bln rub. Compared to 2016, the output growth was 16,7%. In 2018, 58 region's companies produced 80 import-substituting product types worth over 57 bln rub. The output growth was 9,3%. The completion of investment projects on sites modernization and creation of new lines as well as federal and regional support measures have contributed greatly to reaching these rates. In some cases with the import substitution strategies, in spite of the obtained results, some companies in the region (as other companies in the Russian Federation) have to deal with the lack of capital, technology, labor force, and core funds. Consequently, it is crucial to eliminate the aforementioned constraints and create the necessary conditions for output growth. Thus, nowadays, there is an urgent need to devise a set of measures to improve the import substitution program that will ensure the sustainable and competitive development of Russian companies.

The analysis of this field's development points to the lack of the unified approach to creating and implementing an import substitution program under current conditions in which Russian companies have to exist. Such a situation cannot support their performance and, as a consequence, does not help unleash the potential of the Russian regions and country as a whole.

The relevance of the studied problem and the lack of the scientific rationale behind it defined the aim (to develop recommendations on improving the import substitution program as a strategic means for ensuring the sustainability and competitiveness of Russian companies) and objectives (to conduct analysis of the statistical data of the results of the import substitution program on the example of the Volgograd region; to suggest measures of increasing the efficiency of import substitution to ensure sustainable and competitive development of Russian companies) of our research. The structure of the paper corresponds to the aim and objectives.

II. MATERIALS AND METHODS (MODEL)

The methodological basis for the study is comprised of the theoretical and applied research of the modern authors on the import substitution issues as well as the information presented in the periodical press and the Internet. In this study, we have used a systematic approach, statistical analysis, and dialectical method of cognition applied through the general scientific methods and procedures (observation, synthesis, comparison, grouping, induction, deduction, a compilation of theoretical and practical material).

III. RESULTS AND DISCUSSION

A. Review criteria

A. The conducted analysis of the statistical data that characterize the results of the import substitution program implementation in the Volgograd region enabled us to make the following conclusions:

- companies engaged in the import substitution program belong to the following sectors: chemical, machine-building, metallurgical, shipbuilding, and timber-manufacturing complexes, medical industry, children's products, and production of building materials;

- in 2015-2017, the regional companies shipped output worth over 128 bln rub. If in 2015, the share of such output in the overall shipped output was 4,8%, then in 2017 it accounted for 7,3%. In 2018, 58 companies of the region produced 80 types of import substitution items worth over 57 bln rub, whereas, in 2017, 75 types of items were produced with 53 companies engaged [4]. Meanwhile, in 2018, the production of heating radiators doubled, the production of pipes for extracting oil and gas increased by 75,8%, the production of polyester thread increased by 32,1%. The production of ceramic tiles increased by 4,7%, the production of cotton fabric increased by 7,9%, the production of silicon carbide increased by 9,2%. On the whole, in 2018, the region entered the top ten subjects of the Russian Federation in producing import substitution goods;

- investment projects and industrial sites modernization contribute to the positive dynamics on the import substitution indicators. In recent five years, 50 new objects were opened in the region, while 163 bln rub was invested in the development of the operating objects and creation of new ones. There are positive results of the project realization with the investors' and state's support funds, i.e. at the end of 2018, the overall amount of industrial production in the region was more than 1 bln rub for the first time;

- in terms of the import substitution shipped output, the chemical industry still has the leading position in the region. According to the results of nine month of 2018, region's 16 chemical enterprises produced import substitution items (tires for farm machinery, polyester thread, plastics, insulating plastic composites, magnesium oxide and hydroxide, petroleum resin, etc.) worth over 23,6 bln rub;

- one of the aims of the region's production development is import substitution of equipment. "Volgogradneftemash" plays an important role in tackling this issue by meeting the internal market's demand for technological equipment for gas, oil, and petrochemical sectors; Kamyshincskiy Opytnyj Zavod produces oil and viscous oil bottom discharge units and railway equipment; "Neftegas mash" produces tube heaters, pistons, blowout preventers, and spare parts; the Akhtuba Metal Structures Plant produces metal structures;

- at the end of 2018, as compared to 2017, the following enterprises experienced the greatest production growth in the import substitution production: Volgograd Aluminium Smelter "RUSAL" (calcined petroleum coke, aluminium powder and adhesive, vehicles' engine parts, etc.),

“Sika” (quick-setting compounds on cement binder and anchoring compounds on cement and polymeric binder), Forte Prom (heating radiators), “Sealed Air Caustic” (multi-layer coextruded barrier foil, multi-layer polymeric package with stamp for food, medicine, household chemistry, and personal hygiene items), Volzhskiy Pipe Factory (stainless seamless pipes, pipes for gas stations, pipes for oil and gas exploitation), “EPK Volzhskiy” (large thin-walled ball bearings, roller hub bearing), “Stekloplast” (rebar for special environment).

B. Although there are positive results of the import substitution program in the Volgograd region, it should be taken into consideration that the majority of regional companies still depend heavily on foreign suppliers. In the import substitution goods production, imported technologies, software, machines, materials, components. Consequently, to increase the efficiency of the import substitution program, it is important to expand the volume of production while taking into consideration own capacity.

It is also important to mention the human resource issue. In this case, it is about the lack of professionals with the necessary qualification and outflow of the qualified personnel to companies with better payment conditions. Meanwhile, having a highly-qualified and stable workforce is only possible if the company provides high salaries, a stable social benefits package, and training.

Moreover, by implementing the import substitution processes, companies show a high level of accounts receivable. So, in several cases, the portfolio consists of contracts with the future form of payment for the shipped output or the minimal pre-financing. In some contracts, for which the earmarked loan funding is attracted to purchase raw materials necessary for fulfilling the purchase orders, there is a prolongation of the delivery terms without the prolongation of loan contracts. Meanwhile, only if there is constant work on the acceleration of the receivables turnover, it is possible to release money and decrease the dependence on loans.

The aforementioned problems are common not only for companies in the Volgograd region but also for companies in other subjects of the Russian Federation which take part in the import substitution program.

C. The experience of Volgograd’s companies implies that the tax incentive plays an important role in developing import substitution production. First of all, it is about the direct investment incentive when a part of the tax base for profit tax is free from taxation if the tax base is invested into expansion or replenishment of the core funds for the production inputs. Reducing the tax pressure for profit tax provides an opportunity to concentrate funds for the renovation of production facilities and helps increase the budget revenue from the negotiated taxes, e.g. VAT. However, the current state tax policy is concentrated in its fiscal function, while the potential of the incentive function that creates conditions for investing in the development of the import substitution production is not completely fulfilled.

On the whole, import substitution should be combined with export-orientation which aims to create and develop manufactures that are world market-oriented and viable under global competition. Export-orientation can eliminate some disadvantages of import substitution (neglecting the

opportunities for the national economy to in the international division of labor and, consequently, not receiving profits of these opportunities; limiting the demand for the local products primarily by the internal market what does not allow the local producers expand their area and use the economies of scale and, consequently, their products are not competitive; degradation of market mechanisms, creating the conditions for monopolies, corruption, shade economy, and outflows [5]), it can help:

- expand small domestic markets;
- create new production facilities with the account of the comparative benefits of the international division of labor;
- optimize the production processes under the competition in the external and internal markets;
- decrease the scope of monopoly, corruption, and shade market.

In our opinion, import substitution combined with export-orientation should focus on the three main directions:

- modernization of production facilities to ensure the volume growth of the domestic products similar to the imported ones;
- creation within a short time frame the imported products which are currently not produced in Russia but import substitution in the respective area is profitable and possible due to some reasons;
- search of the indirect import substitution for the products still not produced in Russia since it is not profitable or impossible due to some reasons.

Implementation of these measures implies solving the following issues:

- conducting the analysis of the trade turnover in the region for the past years and defining crucial import products from the perspective of the particular segments of the regional economy;
- studying the production, scientific, and technological potential of the region’s companies that produce goods competing with the imported ones, assessing their capacities utilization and the consumption of fixed capital;
- developing a list of equipment and technologies necessary for the region’s companies and assessing the economic viability of production of those in the region;
- developing technical tasks for devising and producing the equipment for import substitution through an open discussion with the consumers, i.e. region’s companies;
- defining the list of products demand for which the region can meet by increasing its own production and implementing the state support program [6].

IV. CONCLUSION

A. The conducted analysis of the statistical data of the results on the import substitution program implementation in the Volgograd region helped us draw the following conclusions. First of all, the region enters the top ten subjects of the Russian Federation in producing import substitution goods. Then, in 2018, 58 companies of the region produced 80 types of import substitution items worth over 57 bln rub, whereas, in 2017, 75 types of items were produced with 53 companies engaged.

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Moreover, investment projects and industrial sites modernization contribute to the positive dynamics on the import substitution indicators.

And the chemical industry still has a leading position in the region.

B. Although there are positive results of the import substitution program in the Volgograd region, there are still normative, personnel, financial, and other problems that hinder the potential of the import substitution program.

C. Nowadays, there is an urgent need to combine import substitution with export-orientation with a focus on the three main directions: modernization of production facilities to ensure the volume growth of the domestic products similar to the imported ones; creation within a short time frame the imported products which are currently not produced in Russia but import substitution in the respective area is profitable and possible due to some reasons; search of the indirect import substitution for the products still not produced in Russia since it is not profitable or impossible due to some reasons. Implementation of these measures implies solving the following issues: conducting the analysis of the trade turnover in the region for the past years and defining crucial import products from the perspective of the particular segments of the regional economy; studying the production, scientific, and technological potential of the region's companies that produce goods competing with the imported ones, assessing their capacities utilization and the consumption of fixed capital.

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