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Role of the Industry Import Substitution Strategy in the Country Economy

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Abstract — **This study examines the import substitution strategy, a government strategy, focused on replacing agricultural or industrial imports to encourage local production. Import substitution is intended to create jobs, reduce demand for foreign currency, stimulate innovation, and ensure the country's independence in such areas as food, defence, industry and advanced technologies.**

The issue of import substitution policy related to an attempt to revive, modernize or create the missing elements of production in the economy continues to remain debatable. The article substantiates the idea that in the absence of close work with horizontal measures such as the development of certain technologies, the formation of new areas of knowledge, the filling of missing scientific competencies, such a policy will have a limited period of use with an emphasis primarily on price competitiveness. The study reveals the processes that rise economic expansion and are sensitive to currency fluctuations. It is necessary for an active import substitution policy linked to new emerging markets. This problem is underexplored and requires further research.

Keywords: high price, low quality, low competitiveness, competition, foreign products, import substitution strategy

I. Introduction

The authors consider the implementation of a large-scale import substitution policy of the country as an example of a structural approach. The pioneer of import substitution was Argentina which successfully implemented a policy in this area in the 1940s. Initially, the authorities promoted import substitution mainly in the consumer sectors, which did not require significant investments: textiles, light and food industries. Subsequently, capital-intensive and knowledge-intensive industries and sectors received support for import substitution. In addition to the implementation of various preferential and protectionist measures, the governments of some countries have made considerable efforts to attract foreign investment. Large international companies and transnational corporations were actively involved in long-term large-scale investment projects, including localization of production and technology transfer.

Although some measures hurt nonpriority branches and sectors, the results of the first stage of the implementation of import substitution policies in Latin America were favourable. Previous stagnation signs gave way to a notable increase; the industry share in the economies of these countries has increased; life quality has improved. India, sub-Saharan Africa, China applied the experience of Latin America in the import substitution policy in the 1960s [4], [19], [20], [21], [22]. Materials and Methods (Model)

II. Methodology

The study applied the method of theoretical analysis, comparison and classification.

III. Results and Discussion

The implementation of an import substitution strategy can often have positive effects on economically developing countries. These include the following: Creating a relaxed development environment for the growth of weak national industries. This kind of strategy and supporting policies should focus on protecting industries in countries. This type of products has a high cost, low quality and low competitiveness and difficulties to compete with similar foreign products [3], [5], [6], [7], [22]. The history of countries` economic development has fully proved that competition in an unprotected market will lead to the defeat of mature industries of developed countries. Countries implementing the import substitution strategy provide moderate space for the growth of weak industries and move the national industry from initial to mature, from weak to strong environments. In this process, the country will develop into a newly industrialized country. Improving the economic structure of developing countries and increasing the independence of economic growth. The traditional structure of the economies of developing countries is unified and deformed, based mainly on the production and export of production and products to maintain the functioning of the economy. When implementing the import substitution strategy, the traditional economic structure will have a significant improvement, as follows: an increase in the gross domestic product of the industry share, manufacturing in the processing sector, an increase in the share of heavy chemical industry and electromechanical industry in the processing industry. This growth indicated the rationalization of the industrialization process in countries, the diversification of the economic structure where a diversified economic structure freed developing countries from excessive dependence, strengthened confidence and the ability to independently develop the economy [1], [2], [22], [17], [4].

Changing the unfavourable position of countries in the international system of labour division. Various data indicate that the division system for the production and export of commodities in developing countries is unfavourable, the fulfilment of trade terms, in the long run, worsen trends. This trend is noticeable: relative prices of primary products in the international market continue to fall, and relative prices of manufactured goods continue to rise. Countries that have implemented import substitution strategies have largely eliminated this shortcoming as they have changed the traditional practice of producing and exporting primary products and importing manufactured goods, have left more primary products for themselves. Only alternative industries use to import, and most of the industrial goods needed for domestic consumption came from domestic companies and resulted in an increase in profits from processing and sales in the domestic market [9], [10], [11], [12], [13]. We need to point out policy tools for import substitution strategies. Thus, the implementation of the import substitution strategy requires several policy support measures (Table 1).

TABLE I. MEASURES TO SUPPORT THE IMPLEMENTATION OF THE IMPORT SUBSTITUTION STRATEGY

No.	Policy
1	International trade policy
2	Global financial policy
3	Domestic economic policy

Note: developed by the authors based on Internet resources

Regarding international trade policy, it is necessary to control the import of industrial goods, especially consumer goods, to establish a flexible system of differentiated tariffs: introduce high tariffs on imported substitute products, introduce import licenses, quota controls, reduce the import of raw materials and capital goods needed for import-substituting industries, tariffs or give an import policy to more relaxed industries; strict import control policies for importing luxury goods, or a ban on import.

In the global financial policy, it is necessary: implement a strict foreign exchange control policy, centrally manage foreign exchange earnings, limit the import of general goods, reduce the import cost of imported goods, protect the development of import-substituting industries [14], [15], [16], [17], [13].

The domestic economic policy requires: to formulate a preferential tax policy to stimulate the development of import-substituting industries, to provide preferential treatment. In financial subsidies, it is necessary to formulate a preferential monetary policy aimed at supporting the development of import-substituting industries, provide preferential import substitution for bank loans to ensure the flow of funds, develop a preferential price policy to stimulate the import substitution of the industry, import substitution of the product industry, developed price increases, increase their profits and acceleration of capital accumulation. The state can provide service support to the import substitution industry in the development of technologies, reduce production costs and raise the technical level [18], [19], [20], [21], [22].

In practice, there are restrictions on the implementation of import substitution strategies. The implementation of the import substitution strategy requires a trade protection policy, which mainly includes the following:

- tariff protection, that is, high tariffs on imports of end-consumer goods and low tariffs or exemptions on tariffs on means of production and intermediate goods necessary for the production of final consumption goods.

- import quotas limiting the import of various types of goods to reduce imports of non-essential goods and ensuring that state-supported industrial enterprises can receive imported capital goods and intermediate products and lower their production costs.

- appreciation of the national currency to lower the cost of goods, reduce the pressure of the deficit of foreign currency. Tariffs and quotas are important safeguards in an import substitution strategy.

IV. CONCLUSION

Thus, an important factor that prompted countries to implement import substitution was the weakening trade deficit which caused a shortage of foreign currency due to fluctuations of world commodity prices. Today, countries are deliberately in their import substitution strategies.

Moving industrial investment in countries gives the opportunity to stimulate the production of locally produced goods, reduce imports and help domestic companies master new technologies.

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