

Harnessing the Potential of Localized Infrastructure Systems to Economic Management Based on Targeted Regional Programs

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Abstract—The article studies the management of imports dependence impeding the economic growth of territories and the ways to mitigate the negative effects of imports dependence on the balanced functioning and development of the regions in the Russian Federation. The sustainability of economic functioning and development of the territories is quite amenable to limitation, regulation and reduction within the framework of safe and innovatively open operation based on targeted regional programs which involve all the subjects and beneficiaries of the regional economic activities in the corresponding long-term total-system process. Since import dependence causes significant limitations of the current regional economic activities, there arises a need for scientific research into regional instruments for managing the dynamics of import dependence and their improvement. These goals can be achieved by increasing the level of stability and autonomy of local economic systems and the economic capacity of the main regional beneficiaries as well as by targeted, systemic and complex measures taken for problem areas. As the existing international experience of accelerated territorial development shows, the factors of “the new economic geography” of the second order base on the independent territorial strategy are the key to the solution of the problem.

Keywords—import dependence, import substitution, potential, self-sufficiency, localized infrastructure systems, targeted regional programs.

I. INTRODUCTION

In the context of increased geopolitical tension and confrontations between TNCs and individual states, the growing influence of non-resident institutions on the national economies along with the accelerated economic globalization, allows external threats to penetrate the economic systems of countries deeper and deeper. It was the use of economic levers as a political tool that renewed the need for import substitution in the neo-modern era and again made self-sufficiency one of the main advantages on the world stage.

The growing frequency between emerging crises and shocks has also become one of the aspects that force the developed countries to again adjust the vector of their development towards self-sufficiency, rather than the country

diversification. The logic of these aspirations is quite clear and obvious: those countries that mainly import products are dependent on the exporting countries and in case of even a slight increase in the cost or a change in the volume of production of the imported goods, the economy of the importing country will be seriously affected.

As practice shows, import dependence is aggravated by such economic phenomena as: the lack of own production capabilities for the production of the necessary commodities or analogue goods; the underdeveloped processing industries; high wear and tear; the low level of technology. As a result of import substitution under the indicated conditions, the importing state could manage to reduce the share of imports in the domestic market, however, the domestic products are unlikely to withstand the competition, which will only lead to a decrease in the quality of life of the population, due to the low physical and economic availability of goods or their low quality. However, in this forecast, it is necessary to take into account the fact that the right to choose the final product remains with the consumer, which with the growth in the number of e stores and the increasing possibility of purchasing goods online directly from overseas retailers minimizes the efficiency and relevance of the conventional tool – the policy of protectionism. It is the growth of economic globalization through digitalization processes that force the catching-up economies to change the development vector to the planned switch to self-sufficiency.

For the Russian Federation, the consequences of geopolitical tensions, namely the imposed sanctions and the counter-sanctions, determined the strategy of socio-economic development based on self-sufficiency to be achieved by aggregate measures in terms of the policy of import substitution and stimulation of small and medium-sized businesses.

II. METHODS

In April 2014, the Government approved a new version of the state program of the Russian Federation “Development of Industry and Increasing its Competitiveness” (Resolution No.

328 dated April 15, 2014), one of the main tasks of which was to reduce the share of imported products by 2020.

In August 2014, a ban was imposed on the import into the Russian Federation of agricultural products, raw materials and foodstuffs, the country of origin of which is the United States of America, the countries of the European Union, Canada, Australia, the Kingdom of Norway, Ukraine, the Republic of Albania, Montenegro, the Republic of Iceland and Principality of Liechtenstein [1]. The following categories of goods were banned: meat and by-products, fish, milk and dairy products, fruit and vegetables. Until 2019, the list was annually revised.

The import substitution measures were called forth by the reduction of certain types of imports, such as:

- manufacturing goods (foundry equipment, metal-working centres, lathes, etc.) [2];
- machinery and vehicles (fire engines, ambulances and medical complexes, vehicles for servicing oil and gas wells and for transporting oil products, trucks, etc.) [3];
- consumer goods (leather clothing, overalls, fire-resistant protective clothing, technical textiles, footwear, etc.) [4];
- medical devices (gamma cameras, ultrasound scanners, inhalation anesthesia devices, artificial lung ventilation devices and consumables for them, endoprostheses for limb joints, devices for blood transfusion and containers for blood and plasma transportation and storage, consumables for heart-lung machines, etc.) [5].

In the pharmaceutical industry, in accordance with Order № 656 of the Ministry of Industry and Trade of the Russian Federation of March 31, 2015 “On Approval of the Sectoral Action Plan for Import Substitution in the Pharmaceutical Industry of the Russian Federation by 2020”, a full or partial replacement of 602 imported pharmaceutical products was made. 81 items from the list shall be completely substituted by domestic products. For the other 173 items, the share of imports shall be reduced from 100% to 10 %, and for the next 82 pharmaceutical products with an import share of 50-99 % , the import shall decrease to 10 % [6].

In October 2014, a program was adopted to support investment projects implemented in Russia on the basis of project financing (Resolution № 1044 of the Government of the Russian Federation of October 11, 2014). This program was designed to increase the volume of providing loans on easy terms for businesses and was aimed at developing the following sectors: agriculture; manufacturing industry; chemical industry; mechanical engineering; housing construction; transport; communications and telecommunications; the power system.

The Government also took significant measures to finance the import substitution program. In particular, one of the measures of financial support for import substitution was the allocation by the government, at the expense of the federal budget, of targeted loans to enterprises implementing import substitution projects. The Industrial Development Fund has been operating since August 2014, whose tasks include financing projects at the pre-production stage. State support for business entities was aimed at reducing import dependence through the development of domestic enterprises. However, financial support is given to investment projects which are

worth from 1 billion to 20 billion rubles, and 20 % of the cost must be paid by the business entity. The proposed conditions discriminated many projects with a lower cost. On the other hand, the high cost of the entry border (of 1 billion) against the background of the decrease in investment activities significantly increased the overall payback period and thereby reduced the investment attractiveness of the project for investors. As a result, the vast majority of projects launched under this program were of social nature and did not actually allow the implementation of the import substitution policy.

The analysis of the interim results of the import substitution policy in 2018 showed the weak points, and there were launched a number of programs and national projects aimed at the development of small and medium-sized businesses. In particular, these programs included the national project “Small and Medium Enterprises and Support for Individual Entrepreneurial Initiatives”, the creation of the “My Business” platform, and the provision of property support, concessional lending and subsidies. Thus, since 2018, the Business Development Fund and the Industrial Development Fund have been providing small and medium-sized enterprises (SMEs) with targeted loans at 5-9 % per annum for amounts from 1 million to 5 million rubles for all entities that meet the requirements and loans from 5 million to 30 million rubles for representatives of the industrial sector of the economy.

The stimulation of SMEs led to an increase in competitiveness of domestic goods and services, which had a positive effect on the current import substitution policy. However, target programs do not affect all sectors of the economy that are of national economic importance. Besides, these programs are not fully implemented in a number of regions of the country which significantly reduces the existing potential of the import substitution policy. It is also necessary to take into account the fact that, despite the significant quality of goods and services provided by representatives of small and medium-sized businesses, it is not possible at the moment to compete with imported TNC products in the price range in the regional markets.

The conducted research was based on the system and synergetic approach to the processes and objects under study. In the course of research we used the system analysis method, methods of economic statistics and the experimental method. The application of each method was conditioned by its functional capacity which ensured the validity of the results obtained.

III. RESULTS

The current policy of import substitution has led to a decrease in import volumes (Fig. 1) both in the country as a whole by 45.35 % and in certain regions (in particular, in the regions of the Southern Federal District by 41.89 % and the Krasnodar Territory by 40.72 %) [7]

According to the Ministry of Agriculture of the Russian Federation, the results of food import substitution are considered successful. Thus, from 2013 to 2018, food imports decreased to USD 29.8 billion, or by 31.2 %, and therefore the share of domestic products in the domestic market exceeded the planned indicators for many key food products. In particular, by the end of 2018, the share of domestic grain, sugar, butter, meat and meat products increased to 80-99 % [8].

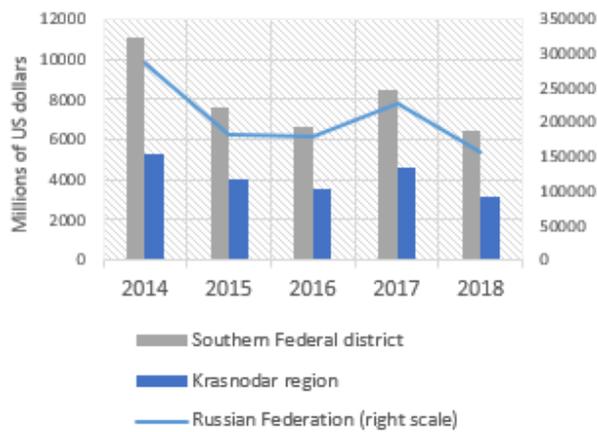


Fig. 1. Dynamics of import indicators for 2014-2018

However, as part of a study by the Russian Academy of National Economy and Public Administration (RANEPA), the level of import substitution of 15 food product groups was assessed, of which pork, poultry and tomatoes can be considered the only three groups of goods where import substitution took place. The growth of the domestic market for the indicated categories of goods ensured a decrease in prices to a level below the pre-sanction level. For the remaining 12 items, import substitution either did not take place due to rising prices and the decrease in consumption, or the increase in prices did not lead to a change in demand. Also, the authors of the RANEPA study stated a general negative result from counter-sanctions for the consumer, which amounted to 445 billion rubles (about \$14 billion) per year [9].

In 2013-2018, the greatest increase in prices was for such products as: butter (by 79 %), frozen fish (by 68 %) and cabbage (by 62 %). Also, an increase in prices was observed for the categories of goods that were produced in large quantities before the food embargo, namely: pasta, flour, sunflower oil (by 25-35 %). Thus, an increase in the share of domestic products in the domestic market cannot be considered a determining criterion for a successful import substitution policy, since the substitution of imported products with domestic counterparts led to a significant increase in prices, which in most cases exceeded the pre-sanction period.

The share of machinery and equipment in the commodity structure of imports remained practically unchanged: according to the Office of the Federal State Statistics Service, in 2013 it was 48.6 %, and in 2018 - 47.3 %. At the same time, according to a quarterly survey of directors of industrial enterprises conducted by the Gaidar Economic Policy Institute in 2015-2018, in fact, no more than 30% of enterprises were engaged in buying of machinery and equipment for production of imports replacing goods, and 22% of the total number of businesses were engaged in the replacement of imported raw materials and materials. However, by 2018, the share of enterprises purchasing machinery and equipment, as well as raw materials and materials from domestic producers had decreased to 8-9 % [9].

In 2016-2018, the share of enterprises purchasing imported cars increased by 5 % – from 32 % in 2016 to 38 % in 2018. In addition, every fifth domestic enterprise continued to exploit used imported machinery, equipment and transport. In other words, domestic manufacturers continue to buy imported equipment from the stock on the domestic

market or prefer second-hand imported products to domestic ones. The indicated trend against the background of physical wear and tear of equipment led to the growth of the number of industrial enterprises increasing the share of imported machinery and equipment used in their own production from 37 % in 2018 to 53 % in 2019.

The scale of import substitution in 2015-2018 was not significant, which led to the reduction of import-substitution projects. In addition, at the end of 2018, the countries of Western Europe retained their leadership as suppliers of equipment, while India and China became the main beneficiaries of the Russian import substitution policy providing alternatives to the sanctioned imports. This trend proves that the main obstacles to the successful implementation of the import substitution policy were the insufficient domestic production of necessary equipment, components and raw materials and the low quality of domestic products.

According to the Center for Macroeconomic Analysis and Short-Term Forecasting, a significant import substitution took place exclusively in the production of meat and meat products (where the share of imports in added value decreased by 15.4 %), in pharmaceutical products (decreased by 10.3 %), as well as in metallurgical engineering (by 8.8 %). To an insignificant extent, the share of imports in added value declined in crop production, dairy production, agrochemistry and the production of equipment for construction and mining, the decline was 1-3 %. In some areas, import dependence, on the contrary, tended to increase: in the processing of fruit and vegetables by 12 % and in the production of general-purpose equipment by 11.2 % [10].

According to the Decree of the Government of the Russian Federation of February 5, 2015, a ban was introduced on the import of 608 drugs, of which only 282 were produced in Russia, and restrictions were imposed on the import of 602 medical drugs in accordance with Order № 656 of the Ministry of Industry and Trade of the Russian Federation of March 31, 2015. In the period from 2015 to 2016, about 75 import-substituting medical products were introduced to the domestic market, 36 of which had not been previously produced in the Russian Federation. However, the narrowing of the market for potential suppliers of pharmaceutical goods and medical devices has led to an increase in crime, namely the collusion among the manufacturers, suppliers and customers. So, in 2017, the Federal Antimonopoly Service announced a 50 % share of purchases in which there was collusion, and in April 2019 the collusion was revealed among 11 companies supplying pharmaceutical goods [11].

Due to the change in the legislation on public procurement, it became unprofitable for a significant number of foreign manufactures to supply products to the Russian market, since the final cost exceeded the maximum purchase price of the product, formed by medical institutions in their procurement documentation. Thus, some medical products that were not included in the list of replaceable ones and did not have domestic analogues were no longer supplied to the country.

For example, antibiotics Fortum and Tienam (the producing countries are Great Britain and the United States), which formed the basis of treatment for such a hereditary disease as cystic fibrosis, have completely disappeared from the Russian market: in Russia, more than three thousand people, mostly children, suffer from this disease. It should be

noted that it is not possible to radically change the situation in the short term, since the production of medicines is an investment-intensive process and is often not investment-attractive for private investments. The long payback period and high risks of projects in the field of medicine coupled with the narrowing of investment flows to Russia and against the background of investment differentiation (every fifth ruble is invested in Moscow), has an extremely negative effect on the prospects for real import substitution.

Based on the results of the import substitution policy, we may conclude that the qualitative component was not taken into account in the formation of the policy, and it is also quite obvious that the policy itself was effective since it was aimed at reducing imports but not at creating domestic competitive analogues.

III. DISCUSSION

Obviously, in pursuing the import substitution policy the subjects coordinating its implementation were regional authorities. It was at the level of each region that the regional infrastructure of the import substitution policy was to be built, taking into account the potential, industry specialization and competitive advantages of the region.

It should also be emphasized that regional economic import dependence as a total-system phenomenon is an anomaly in terms of autonomous and sustainable territorial economic functioning and development. It is quite amenable to limitation, regulation and reduction to the framework of safe and innovatively open functioning of the regional economic system (Fig. 2).

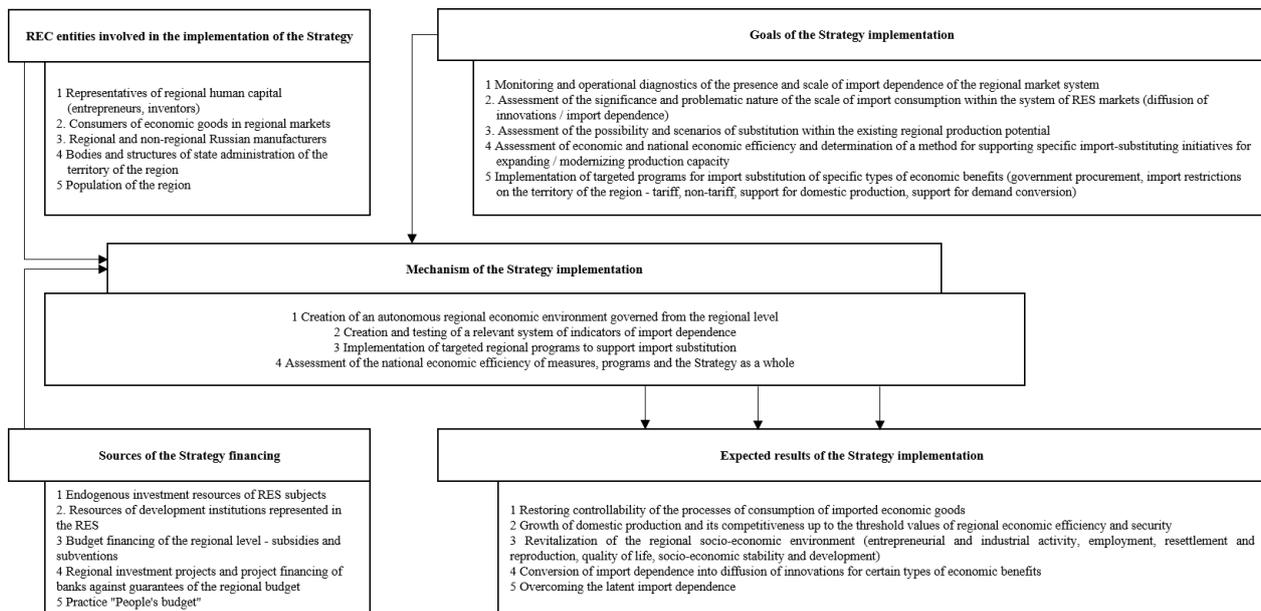


Fig. 2. Strategy of regional imports substitution (subjects, goals, mechanism and expected results), suggested by the author.

At the same time, we are supporters of a strategic approach and advocate the need to independently strategize regional import-substituting conditions with the involvement of all subjects and beneficiaries of regional economic activity in the corresponding long-term systemic process [12].

The strategic format of regional import substitution is associated with limiting the spontaneous and predatory access of participants in regional foreign economic activity to the economic environment of a particular region, approbation of the corresponding monitoring and diagnostic subsystem and regional information system, and the possibility of correcting the dependence on the basis of targeted regional programs.

Awareness and formulation of the problem of regional economic import dependence and the implementation of targeted corrective efforts make it possible [13]:

- to ensure compliance with the threshold norms for the consumption of imported economic benefits in regional / local markets, without prejudice to regional socio-economic and reproduction processes;

- to use regional foreign economic activities as an incentive, and not as a ‘phlegmatizer’ of regional economic activities and competitiveness;
- to implement the reserves of innovative development associated with the diffusion of innovations of various types and functionality into the regional economic environment based on the implementation of the principle of harmonizing the interests of all subjects and beneficiaries of the regional economic space;
- to organize the reduction of import dependence to the safe level and ensure its use as a motivation for local and regional producers;
- to prevent the formation and implementation of latent scenarios of import dependence associated with the formal localization of foreign manufacturers in the territory of certain regions on the basis of fictitious overestimation of indicators of the level of localization and the structure of owners of the respective business units and independent structural units.

IV. CONCLUSION

Thus, to provide a scientific foundation in the implementation of a specific direction of the state function of managing the development of specific territories, increasing the level of stability and autonomy of spatially localized economic systems, increasing the subjectivity of the main beneficiaries of the regional level, targeted, systemic and complex impact on problem areas which, as the existing international experience of accelerated territorial development, can and should be leveled out due to factors of "new economic geography" of the second order on the basis of an independent direction of the territorial strategy, which has an appropriate scientific justification and indicators of implementation efficiency, both from the standpoint of regional competitiveness and in the reproduction (long-term) aspect.

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