Import Substitution as a Strategy for the New Industrialization of the Russian Agricultural Sector in the Eurasian Economic Union

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Abstract — The paper analyzes the mechanism for implementing the policy of import substitution, as one of the instruments of the strategy of the new industrialization of the agro-industrial complex of Russia, through the prism of the conflict of national trade interests in the agrarian market of the Eurasian economic union (EAEU). The paper presents possible scenarios for the implementation of the policy of import substitution in the agro-industrial complex of Russia at the national and regional levels, attempts to explain the mechanism of the current scenario, which is a symbiosis of the national and regional levels of the implementation of the new industrialization in the agricultural sector. Attention is paid to the theoretical understanding of the customs effects arising in the process of implementation at the national level of the trade and customs policy of the embargo of food products in the absence of support for the embargo from countries, Russian partners in the EAEU. An assessment is made of the impact of these customs effects on the efficiency of import substitution and new industrialization in the Russian agro-industrial complex, taking into account the factor of re-export of sanctioned agricultural products to Russia from other EAEU countries.

Keywords — Eurasian economic union, agricultural sector, sanctions, import substitution, new industrialization.

I. INTRODUCTION

The study of the causes of the crisis state of the Russian economy and its basic industries, including the agro-industrial sector and its leading component, agriculture, as well as the possibilities of reaching a technologically new level of development based on neo-industrial modernization is highly relevant in the modern conditions of economic and political instability in the world. In the theoretical aspect, the application of the modern theory of neoindustrialization to the Russian agro-industrial production, as a strategic direction in the economy, ensuring the country's food and national security, is relevant.

A wide discussion is now unfolding in scientific circles about the need and possibilities for implementation, the peculiarities of the development of new industrialization in the agro-industrial sector of Russia. Industrialization processes are now viewed as a complex task, and we share this point of view, as applied to the problem of implementing multifactor modernization, in a combination of its main areas: institutional, economic, social, technological in all sectors of the economy.

It is absolutely obvious that it is necessary to search for new qualitative ways of entering the path of economic growth, on the basis of creating a material and technical base of production adequate to the new technological revolution. This concerns, first of all, the revival and development of high-tech production in the agro-industrial complex, which are the basis for overcoming and transition to the innovation-investment model of development. In the conditions of increasing competition in the world in various sectors of the economy, including agriculture, the implementation of a new industrialization strategy in the agro-industrial complex is an important, urgent and timely government task.

In Russia the solution of this task is complicated by the influence of a whole range of factors of Eurasian economic integration, especially during the transition to deeper stages - a customs union, a single economic space and an economic union. The unity of trade and customs policy pursued by the participants of the EAEU is fraught with serious barriers, exemptions and restrictions in force in the markets of the Union. At the same time, the implementation of a coherent policy in different sectors of the economy in accordance with the Treaty on the EAEU, is faced with a large number of challenges that afflict partners and do not give full implementation of these initiatives. One of such complex objects of management for the EAEU is the agricultural sector, for which Russia has been pursuing an import substitution policy over the past few years, actively modernizing this sector in an attempt to make it more competitive in the international market, while our country
faces a conflict of trading interests of other EAEU states in the common agricultural market, which impede effective import substitution in domestic agriculture. The article is devoted to the study of this problem.

In the paper it is used such general scientific research methods as a systems approach, analysis and synthesis, an abstract-logical comparative method, a graphic method.

II. ROLE OF IMPORT SUBSTITUTION IN THE POLICY OF NEW INDUSTRIALIZATION

The concept of new industrialization is in the focus of attention of the world community and is one of the most relevant and debatable topics of modern research on economic development. As noted in the UNIDO panel discussion, “Industry 4.0 is one of the drivers of the Fourth Industrial Revolution” [6].

The interest in studying the problems of new industrialization is due to the growing contradictions and crisis phenomena in the world economy, as well as the actualization of issues related to the revision of the priorities of socio-economic policy and the fundamental provisions of industrial policy in both developed and developing countries.

Russian economic science has not developed a common understanding of the term “new industrialization”; according to Kuił'kov (2014; 2015), rather, we can talk about an integral definition of the concept, which includes the terms “re-industrialization”; “neo-industrialization”; “super-industrialization”; “advanced development” [14],[15]. The essential basis of new industrialization, according to Romanova (2017) is “the process of spreading breakthrough technologies, covering the formation of new industries and industrial sectors, as well as their distribution in traditional industries” [20].

Sharing the opinion of Bodrunov (2016), who defines new industrialization as “intensive growth of the potential of industrial development on the basis of knowledge-intensive production” [3].

Nevertheless, as Rodrik (2008) notes in his study of the Normalizing Industrial Policy, the governments of many countries of the world are experiencing difficulties with the implementation of industrial policy, which necessitates institutional reforms [19].

Issues of institutional constraints and the need for institutional transformations are considered as priorities of state policy by representatives of the Russian economic science. According to Bodrunov (2016), carrying out the policy of new industrialization “requires a change in attitudes, government decisions in the field of the economy, state programs, the reorganization of relevant institutions, etc.” [3]. According to Romanova (2017), the main task of the state in implementing the policy of new industrialization becomes “the creation of an ecosystem, that is, a certain environment for the development of innovations, which will ensure the effective collaboration of the participants in the innovation process based on the harmonization of the interests” [20].

Institutional reforms are being carried out in order to implement the new industrialization policy in the Russian economy in the face of growing geopolitical risks and challenges. The strategy of import substitution, which presupposes the independence of development in key industries in terms of technological progress, is becoming a priority direction of Russia's industrial policy. The phenomenon of import substitution is not new both for the world economy and for the Russian Federation and other countries of the Eurasian Economic Union (EAEU).


Thus, according to the authors of this paper, import substitution should be understood as a type of economic strategy of the state and regions, focused on replacing imported goods with goods of national/regional production (including through attracting foreign capital) and protecting domestic/regional producers, which results in an increase of the country's (or regional) competitiveness, as well as products.

According to the classification of import substitution strategies in relation to the regions, three types of it are distinguished in the scientific literature (Ushakova (2015) [24], Levenko & Ivanova (2016) [16]):

1) the strategy of intra-oriented import substitution (classical import substitution) - development and increasing the share of the presence of domestic enterprises in the domestic markets; carried out in order to develop exclusively the domestic market of a country / region (for example, Brazil, Argentina, Mexico, Chile, Paraguay, Uruguay, etc.);

2) the strategy of foreign-oriented import substitution (export expansion) - the course of promoting domestic products on the world market; development of the production of national goods (including by attracting foreign capital) in a sufficiently capacious domestic market with their subsequent promotion to the world market (for example, Taiwan, South Korea, Malaysia, Thailand, the Philippines, etc.);

3) the strategy of mixed import substitution is a strategy for the presence of domestic products in the domestic and
foreign markets in various proportional ratios; priority areas for the subsequent development of foreign markets are determined depending on the resources available to the economy (for example, India, Egypt, etc.).

Sharing the point of view of Ushakova (2015) [24], we can say that the quantity and quality of import-substituting products and target markets to which import-substituting products will be directed are factors (parameters) that influence the determination of the key direction of import substitution in a country or region.

The most important condition for the success of any import substitution programs is the systematic and long-term use of incentives, which allows achieving economies of scale and having time to correct the shortcomings of first-generation products and move on to the implementation of an improved version of a product or service. In addition, truly successful import substitution most often means creating a product with export potential, and this should be actively pursued, helping manufacturers to hold a share in the global market [8].

However, the solution of these issues is complicated by the need to agree on the principal provisions of the concept of new industrialization at the level of the EAEU and requires the coordination of all the structural elements of industrial policy at the level of an integration association. In addition, the implementation of the new industrialization policy takes place under external constraints, which causes the inevitable contradictions at the level of individual elements of the industrial policy (agro-industrial, trade, customs, etc.) of the EAEU countries.

III. CONFLICT OF TRADE INTERESTS IN THE AGRARIAN MARKET OF THE EAEU AND THEIR INFLUENCE ON THE POLICY OF IMPORT SUBSTITUTION IN THE RUSSIAN AGRICULTURAL SECTOR

Integration processes that have been gaining momentum in recent years and related to the active phase of the Eurasian integration project implementation should certainly not be left without our attention, as they affect the national and collective interests of countries participating in Eurasian economic integration, they affect trade and investment interests of national business, for which the unity of the customs territory within the framework of the Eurasian integration creates additional opportunities, but at the same time may generate some threats and challenges. In 2018, the Eurasian integration project turns 25 years old. During these years of implementation, the Eurasian integration project went through four stages: 1) free trade zone (1993-2010), 2) customs union (2010-2011), 3) common economic space (2012-2014), 4) economic union (2015 - present tense). It is necessary to emphasize in particular that the last three stages of integration of the project took place for five years, which certainly indicates an extremely high rate of implementation of integration processes. It is worth noting that speed does not always ensure the implementation of such initiatives of appropriate quality, since each subsequent stage of regional economic integration requires states to take an increasingly responsible approach to harmonizing and harmonizing their individual interests within the framework of an integration association, gradually transforming this approach to defending collective Integration Interests in the System of International Economic Relations.

At present, the Eurasian project is at one of the highest stages of its implementation – the stage of formation and development of an economic union. The main objectives of the EAEU, in accordance with the agreement on its creation, is the desire to form a single market for goods, services, capital and labor resources within the union, as well as comprehensive modernization, cooperation and competitiveness of national economies in the global economy. And if to ensure the so-called “four freedoms” - the free movement of goods, services, capital and labor, the EAEU countries have taken a very serious step forward, the work of the comprehensive modernization and cooperation mechanism continues to provoke numerous discussions. In this regard, the situation with the agro-industrial complex of Russia, which has great potential for new industrialization, is very indicative, because the scenarios for the implementation of this industrialization of the agro-industrial complex, in conditions of economic integration, may vary (Fig. 1).

All of these scenarios affect the relationship between industrial policy and trade policy. If we talk about the use of trade policy in the interests of industrial modernization at the national level, we will see the first scenario, due to which a country can carry out structural transformations much faster, for example, in the agro-industrial sector, relying on trade restrictions (embargo) caused by counter-sanctions against its trading partners, than in an open foreign market. It is this scenario of the new industrialization of the agricultural sector that could be seen in Russia, but today we are participating in the work of the EAEU, which makes us think about the regional level of realization of our national industrial interests. Thus, the second scenario of the new industrialization of the agro-industrial complex, arising from the regional interaction of countries within the EAEU, seems obvious, especially since on May 29, 2013, the Presidents of Belarus, Kazakhstan and Russia approved the Concept of a coordinated (coordinated) agro-industrial policy of the Member States of the Customs Union and the economic space (later the EAEU) and this concept was the first in the history of the economic union a comprehensive sectoral document on the issues of integration interaction. However, the practice of interstate cooperation in the EAEU was far from theoretical, manifesting itself in the implementation of the third (current) scenario of the new industrialization of the Russian agricultural sector under the protection of trade policy instruments. This scenario, in its essence, is a symbiosis of the first variant (completely national level) and the second variant (completely regional level) of the policy of import substitution in the agro-industrial complex of Russia. The current scenario is implemented primarily through the prism of the conflict of national trade interests of the EAEU countries in the agricultural market, which makes it impossible to fully use the regional level for the new industrialization of the agricultural sector. Let us consider this situation in more detail.

The policy of import substitution in Russia faces a conflict of national interests of partners in the EAEU in the implementation of trade policy, and then its derivative component and the most important element - customs policy. In the past few years, Belarus has become the main
beneficiary of the Russian embargo on the supply of agricultural products, raw materials and food from individual countries and regions of the world. One of the reasons for the current situation is the customs effect associated with the implementation of the sanctions policy by Russia at the national level in conditions when customs borders between countries participating in Eurasian integration are conditional and there are no customs controls at the internal borders of the Eurasian project. This situation significantly complicates the mechanism for implementing the policy of import substitution in the Russian agricultural sector, taking into account the significant volumes of food products and agricultural raw materials re-exported from Belarus and some other EAEU members to the market of the Russian Federation.

Until 2014, the problems associated with customs policy and its impact on the national interests of the countries of the EurAsEC Customs Union in the field of agriculture, really was not very much, and if these problems were felt, they were primarily technical, rather than systemic. When the first Resolution of the Government of the Russian Federation of August 7, 2014 No. 778, which became the starting point in a protracted conflict of interests in the EAEU agrarian market between Russia and Belarus, appeared, the Eurasian integration project went through several stages, including the formation of a single customs territory, the emergence of a single customs tariff and a single commodity nomenclature of foreign economic activity.

This decree of the Government of the Russian Federation established new rules of the game when importing food products and was the answer of Russia to unfriendly steps towards our country by Western partners. This document provided for a ban on the import of agricultural products, raw materials and foodstuffs, the country of origin of which are the states included in the sanctions list. At the same time, Russia through this document separately singled out the vector to increase its own food security and the beginning of the implementation of large-scale import substitution in the field of agriculture, which was one of the most important elements of the new industrialization policy in the field of agricultural production in Russia.

Moreover, such a situation would not have become a catalyst for systemic problems in the agrarian market of the EAEU due to the use of such an instrument of trade policy as an embargo, if there were not for one very important fact. The states participating in the Eurasian integration project did not support this ambiguous decision of Russia on food sanctions, while the customs control inside the EAEU was almost completely removed.

We have to remember that the EAEU adopted the concept of a coherent agro-industrial policy based on the decision of

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**Fig. 1.** The scenarios of the implementation of the import substitution policy in the agricultural sector

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the Supreme Eurasian Economic Council at the level of heads of state dated May 29, 2013 No. 35. This concept provides, inter alia, the following tasks in the agrarian market of the EAEU:

- balanced development of production and markets for agricultural products and foodstuffs;
- ensuring fair competition between the subjects of the countries of the Eurasian Economic Union, including equal conditions of access to the common agricultural market;
- protection of the interests of the producers of the countries of the Eurasian Economic Union in the domestic and foreign markets.

How to solve these problems, if the issue of sanctions policy is solved at the national level, and the tasks set by the concept affect the interstate level? Under these conditions, the question formulated above becomes even more complex, complex in nature and multivariate in its answers.

On the one hand, our state now needs to enhance its food security and food independence, and the initiated import substitution policy under the protection of customs instruments and trade restrictions can be implemented with maximum efficiency. Many contemporary researchers, for example, Klyukach, et al. (2015) [13], Miloserdov (2015) [18], Altukhov (2014) [1], Kibirov & Rasukhanov (2017) [9], Semin (2013) [21] and many others. On the other hand, in these conditions, the Eurasian integration project may suffer greatly, as there is a serious imbalance or even a conflict of interests between Russia and other EAEU participants in the common agricultural market.

If we are talking about the scheme of delivery of sanctions food to Russia through Belarus, then according to various sources of Russian regulatory authorities, from August 2015, when the destruction of sanction products began, until the end of 2017 more than 17 thousand tons of smuggled fruits and vegetables were detained and more 700 tons of meat and cheese. The overwhelming part of this volume of deliveries falls on the key three of legal entities located in Belarus: the Beltamozhservis Republican Unitary Enterprise (RUP), Gaz Venchure LLC and Globalkastom LLC. These companies cooperate with about 30 Russian active participants in foreign economic activity, specializing in the import into Belarus of products that are prohibited in Russia.

It must be emphasized that for a long time the Russian side tried to reach an agreement with the Belarusian authorities on the introduction of additional measures that could reduce the number of illegal shipments. Rosselkhoznadzor to ensure transparency of supply of plant products has repeatedly offered the Belarusian side to use Argus-Phyto, an electronic system developed by the department (which allows, among other things, creating a single database on the movement of quarantine goods and issuing accompanying documents). But the Belarusian colleagues refused this, insisting that they are taking all possible measures to combat sanctions goods. Nevertheless, there was no decline in the supply of banned plant products through Belarus, on the contrary, the volumes have increased significantly, which indicates a significant increase in the agricultural export potential of Russia's partner in the EAEU, while this potential is largely due to the technological capabilities of re-exporting sanctions products in the context of the unity of the customs territory, when customs control between the borders of the EAEU member countries is absent or minimized. Belarus also refused the offer to temporarily exercise joint control at the external border of the EAEU.

Considered conflict of trade interests in the agrarian market of the EAEU under the conditions of unity of the customs territory and the absence of customs control at the internal borders of the countries (Russia, Belarus, Kazakhstan, Kyrgyzstan) belonging to this economic union forms a very serious problem: the implementation of import substitution policies in the agricultural sector at the national level complicated by problems of interstate interaction. The imbalance in trade and customs cooperation of the states participating in the Eurasian integration project generates negative customs effects slowing down the process of reindustrialization of Russian agriculture under within embargo protection, effects leading to additional and very serious transactional costs of implementing import substitution policies in conditions of the lack of customs borders between EAEU-members (Kovalev, et al. (2018) [11], Kovalev, et al. (2017) [12]).

IV. CONCLUSION

Studies have shown that the policy of new industrialization remains the subject of numerous discussions and, in the context of an integrated association of the EAEU, forms a variety of scenarios for its implementation, which requires serious efforts to harmonize the national and collective interests of the EAEU member countries.

The paper proposed a graphical scheme describing scenarios for the implementation of import substitution policies in the agricultural sector of Russia and the EAEU, taking into account the possible conflict of national interests of the trade policies of the participating countries.

It was concluded that the conflict of trade interests in the agrarian market of the EAEU, in the context of the implementation of import substitution policies at the national level, slows down the processes of new industrialization of the agricultural sector of the Russian Federation under the influence of customs effects of re-exporting agricultural products from Belarus to the Russian Federation.

Today, the contours of global competition are largely determined not by the economic interaction of individual states, but by the interaction of various integration associations operating in the global economy. That is why the most important feature of any such association, which ultimately determines its competitiveness in the global economy, is the internal core, based on a combination and harmonization of the interests of the participants in this association. At the same time, the harmonization of interests of states is closely connected with the effective work of economic integration institutions.

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