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IMPORT SUBSTITUTION IN THE AGRARIAN SPHERE OF THE RUSSIAN FEDERATION¹

Annotation. Import substitution in the agrarian sector of Russia starting from 2014 to the present day is analyzed. Various problems in import substitution in the Russian Federation are revealed, as well as its consequences and further prospects of using this policy through the prism of financing in the agrarian sphere. Financing of the agrarian sector is considered.

Keywords: import substitution, agro-industrial complex, agrarian sector, financing of agriculture, state programs of support for farmers.

ИМПОРТОЗАМЕЩЕНИЕ В АГРАРНОЙ СФЕРЕ РФ

Аннотация. Проведен анализ импортозамещения в аграрной сфере в России, начиная с 2014 года до наших дней. Выявлены различные проблемы в импортозамещении в РФ, а также его последствия и дальнейшие перспективы использования данной политики через призму финансирования в аграрной сфере. Рассмотрено финансирование аграрной сферы.

Ключевые слова: импортозамещение, агропромышленный комплекс, аграрная сфера, финансирование сельского хозяйства, госпрограммы поддержки аграриев

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The import substitution in the Russian Federation began on August 6, 2014 and beneficially affected Russian industrial equipment (the Decree on the application of certain special measures to ensure the security of the Russian Federation). Three years ago, as a response to Western sanctions against Russian companies and officials, in our country were imposed the restrictions on the supply of food from the EU, the G-7, the partner countries of the USA. The main measure in these counter-sanctions was the Russian food embargo: the import of products from countries that had imposed sanctions against Russia was forbidden, that was a significant incentive and favorable condition for Russian agriculture. Cattle meat, fish processing, cheeses, poultry products and horticultural produce fell under the reciprocal sanctions. The import of food to Russia in 2014 was \$ 43 billion per year. This protectionist measure made it easier for Russian producers to get to the consumers, and allowed to expect receiving an extra income as a rent from using the land by purpose [7].

Further tendencies in this policy also suggest that, with the appropriate level of state support, import substitution will become an incentive for the development and protection of national agro-industrial production. In other words, import substitution should be given a manageable character, which first of all consists in choosing its most priority directions in accordance with the national economic strategy. In the conditions of reduction of the federal budget funds allocated for financing of agriculture, the search for sources of solution to the import substitution problem should be searched within the agricultural sector, and, first of all, in the innovative development of the agricultural sector of the country's economy.

Political and macroeconomical events in 2014, the conflict with Western countries, the subsequent imposition of the food embargo and the devaluation of the ruble, in general, create additional problems for the country's economy, at the same time they have a favorable effect for the industry and make it expedient from the economic point of view to develop import-substituting productions. Extreme rising in prices of imports as well as a decrease in the cost of resources compared to other countries increase the competitiveness of domestic farmers in comparison with

foreign farmers, which increases export potential [4].

However, it should be noted that the reduction of import substitution should not constitute a desire for its complete disappearance. Import substitution should not lead to autarky, its goal is to reduce the risks of integration into the global economy, in other words, to ensure entry into the world market on its terms.

According to the State program of the development of agriculture and regulation of markets of agricultural products, raw materials and food for 2002-2012 and 2013-2020 import substitution and increasing the export potential of agriculture were proclaimed as priority development goals of the agro-industrial complex [1].

According to some scientists for several years there has been a steady decline in the agricultural sector, despite the fact that the indices of production remain positive [6]. What are the reasons for this situation? Among the main ones are the following:

- reduction by 1/3 of the land resources used for agricultural production (40 million hectares of acreage were abandoned);
- latifundization of lands;
- low profitability of the majority of agricultural producers;
- limited material and financial resources;
- low labor productivity;
- reduction of the investment in the industry.

Especially, investment hunger should be noticed.

However, despite all measures undertaken by the state, the volume of investment lending continues to decline. So, since the implementation of the first State Program (2008-2012), they have been growing for 3 years, and 5 years have been decreasing, and as a result they are now lower than in 2007 by almost 20% (19.4). Only in the last 2 years, the drop in investment in the industry was over 15%. At the same time, the growth rate of new equipment remains negative, which undoubtedly affects the cost of production and the non-competitiveness of Russian

producers. Extremely slow updating of technology is most connected with the state of domestic agricultural machinery [2].

In addition, the macroeconomic situation in the country does not contribute the development of agriculture: due to the reduction in real disposable income of the population by 4%, while the consumer prices have increased by 15.5%, consumer demand has decreased by 10% [2].

A lot of errors are linked with the theme of import substitution in the agricultural sector, which we try to figure out.

The table that gives you the opportunity to compare the myths and realities of import substitution in the agricultural sector in Russia is presented down below (see Table 1).

Table 1 - The comparison of myths and realities of import substitution in the agriculture of Russia

| Myth | Reality |
|---|---|
| 1.Import substitution of everything | 1.The authorities note that the absolute substitution leads to a decrease in the competitiveness of enterprises and decline in the quality of goods, and therefore it is harmful. No more than a third of Russian imports can be substituted effectively |
| 2.Non-attracting of foreign manufacturers | 2.Attracting investment of foreign manufacturers for the purposes of localization remains the most important element of the course of the Russian authorities. The initiative of foreign investors is still welcomed |
| 3.Import substitution is always accompanied by protectionism | 3.In Russia import substitution is accompanied by trade liberalization |
| 4.Import substitution “kills” competition | 4.During import substitution, the competition will increase, thereby a new production will be created, part of the intellectual resources will remain in Russia, there will be new players without administrative or displacement limitations in the market, the variety of products will also increase |
| 5.Import substitution is a way to impose the goods of bad quality to consumers | 5.In the Soviet times domestic products, especially consumer goods, were much worse quality than the imported ones. Nowadays Russian products are available at a very good level of quality, especially in highly competitive markets |
| 6. Export market entry is impossible even by implementing import substitution project | 6. An increasing number of Russian goods and services, successfully competing with imports within the country, enters the international market |

Source: compiled by the authors

The program of import substitution in Russia puts the Russian manufacturers a problem to create such high-quality products that would not only replace imports, but

also would be attractive abroad and increase Russian exports. Positive and negative consequences of import substitution in the agricultural sector of the Russian Federation are presented down below (see Table 2).

Table 2 - Positive and negative consequences of import substitution in the agricultural sector of the Russian Federation

| Positive consequences | Negative consequences |
|--|--|
| 1. A powerful push to the development of business | 1. The relative decline in income of the population |
| 2. The creation of new jobs | 2. Further nationalization of the economy |
| 3. The increase in revenues of regional business | 3. Strengthening the bargaining power of the regional monopolies and state monopolies |
| 4. The improvement in credit conditions on state programs of development | 4. Low competitiveness of domestic products |
| 5. Raising startup capital starting a business | 5. The increase in opportunities for abuse under the budget allocation for project financing |
| 6. The improvement in conditions of implementation of local products | 6. The increase in corruption |
| 7. Opportunities of preparing the business for the open competitive market | 7. The increase in spending on defence and security of the country |
| 8. The search of new external business partners | 8. The resistance of the participants of the development programs to exit out of the protectionism |
| 9. A temporary increase in competitiveness | 9. Painful overall yield out of the environment of protectionism |

Source: compiled by the authors, based on data from [5]

And no less important is that the agricultural sanctions imposed by the Kremlin on Europe have had the most notable effect on consumption patterns. The share of imports in private food consumption declined noticeably from 36 percent in 2014 to 21 percent in the second quarter of 2017, the IIF study found, while non-food imports, which are largely unsanctioned, have been much more stable.

Speaking about agricultural production, a gradual increase in volumes of production of main agricultural products should be noted.

At a present the dependence of the Russian agrarian sector on imported technologies is quite high [9].

In comparison to 2010, production has been increased, except the production of milk and cattle meat. The reduction of competition has led to a substantial increase in prices in 2015-2016, and for milk and dairy products, import dependence is still quite high (1002,6 kt). In agriculture, import fell to \$25 billion in 2016 (42%) and the

growth of agricultural production in the country during the period was 11% [3]. Exports amounted to \$17 billion, and for January-May 2017 it also has grown by 17% over the same period of 2016.

This illustrates the complexity facing the import-substitution campaign. On the one hand, there is the danger that protecting too many infant industries for too long will turn them into state pensioners with no more ability to compete than they began with. On the other hand, there can be circumstances in which productivity gains may come only if there is a lengthy, assured period of protection [10].

In General, Russian agriculture shows steady growth, and the evidences are: rich harvest of 2016, the saturation of the domestic market of the Russian food supply and the growth of agricultural exports (1.8 times in comparison to 2013).

According to the forecast of the Ministry of agriculture of the Russian Federation, the renewal of food embargo until 2020 will have a positive impact on the agro-industrial complex of the country. It is expected that in a few years Russia will be able to complete replacement of imported food by domestic.

Along with the increase in production, a growth in the consumption of food by households should be noted. In comparison to 2014 in 2016 the consumption of grain products increased by 4.2%, potatoes – by 1.7%, vegetables – by 7.1%, meat and meat products – by 3.5%, milk and dairy products – by 2.6%, eggs – by 6%, sugar and confectionery products – by 3.2%. The consumption of fruits and berries has decreased by 3.9%, the consumption of fish and fish products remained unchangeable [11].

The increase in agricultural production has an impact on increasing employment. In 2016 the number of people employed in agriculture increased by 39 thousand people, in fishing and fish farming - by 10 thousand people in comparison to 2014. So far, however, the personnel issue is quite acute, because it takes much time for education and training of qualified specialists. A gradual increase in domestic production will lead to higher employment and, consequently, increase in standard of living of the population.

Import substitution in agriculture has been supported by additional infusions of money from the state budget. In 2017 the amount of state support exceeded \$ 242 billion (+27% in 2014).

In agriculture, the most successful import substitution was in sales of pork and poultry, where the consumption of overseas meat decreased by 3 and 2.5 times, appropriately. Imports of vegetables fell by half. The Minister of agriculture of Russia Tkachev A. N. said: "It is important to continue the reduction of the amount of state support for maintaining the momentum for development. This is the main incentive for investment in the agricultural sector."

The program of import substitution in Russia puts the Russian manufacturers a problem to create such high-quality products that would not only replace imports, but also would be attractive abroad and would increase Russian exports. In other words, the Russian goods and services must be competitive on the world stage.

"Russia can export not only oil, but also become the world's leading agricultural power, it opens great opportunities for dynamic development of economy in whole", – the Minister expressed his hopes on export growth. By 2020, the export of agricultural products should reach \$21 billion per year.

After analyzing the results of economic activity in the context of the policy of import substitution for previous years, the Ministry of Agriculture of the Russian Federation proposed to reduce the cost of state programs for the development of agriculture by 1.7 times in 2018-2020 - up to 586.074 billion rubles in total. The law on the federal budget for the planning period 2018-2019 assumes the allocation of 392.014 billion rubles to the state program of the development of the agroindustrial complex.

Financing of the subprogram of managing the implementation of the state program of the development of the agro-industrial complex in 2017-2020 is proposed to be reduced by 22% - up to 94.096 billion rubles, the program for the development of rural areas - by 35.4%, up to 63.417 billion rubles, the program of the development of melioration - by 32.4%, up to 37,487 billion rubles.

The program of renovation of equipment will lose almost all the funds. It is proposed to spend only 363.3 million rubles for it in four years instead of the previously expected 17.159 billion.

To the subprogram of the development of the branches of agroindustrial complex which accumulates the activities of the canceled eight sectoral subprograms, it is planned to allocate 157.844 billion rubles in 2018-2020.

Funding of the provision of general conditions of the functioning of the agricultural sectors in 2018 will be 10.845 billion, in 2019 and in 2020 - 10.628 billion rubles each.

Stimulation of investment activities in the agro-industrial complex will cost the budget 252.793 billion rubles: in 2018 - 85.659 billion, in 2019 - 83.566 billion, in 2020 - 83.568 billion rubles [12].

In this way, despite the fact the state declares the import substitution, we can observe a tendency of reducing the financing. Such inconsistency in the actions may lead the Russian agrarian sector to the decline that will adversely affect the state of the economy as a whole.

As a result of researching the policy of import substitution in the agricultural sector, we found out that, despite various problems, a gradual increase in the quality of output is observed in agriculture. The embargo with Western countries, as well as various conditions and state support, allow Russian entrepreneurs to compete on an equal quality level with foreign goods in the agro-market. Besides, producers have shown sufficient flexibility in adapting to the changed demand structure in the local and international market so that the production of important food categories increased. At the same time, expenditure on imported food rose in roubles, but import volumes decreased [8]. The state policy of import substitution in Russia is aimed both at creating the most favorable conditions for the development of domestic production, including the effective functioning of small businesses through targeted programs, and on the innovative development of Russia's agro economy.

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