

Development Prospects of the Food Export Potential of Russia in Terms of Import Substitution

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Abstract

The article reveals methodological approaches to the assessment of import substitution in the agro-industrial complex of the country as a transition to export orientation, as well as identifies the potential niches of effective import substitution in the market of agricultural products and export orientation determinants of agricultural industries. The conclusion is drawn concerning the growth of self-sufficiency and reduction of Russia's dependence on imported food supplies. The study of the geographical structure dynamics of the food imports is carried out, as well as the study of the formation and development process of export food potential of Russia in the context of import substitution and foreign economic instability. The necessity of an integrated approach to the problem of the country's export potential formation in the conditions of import substitution is substantiated.

Keywords: Export potential; Import substitution; Food supplies; Self-sufficiency; Agricultural sector.

JEL Classification: F13, Q13, Q17, Q18



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1. Introduction

In the current context of instability of global economic processes, effective import substitution and increase in the export capacity of the country are the priorities of effective restructuring of the national economy in the course of its integration into the world economy.

Production increase and substitution of imported products by national products not only helps domestic producers to meet the demand in the domestic market, but also forms the export potential. The logical direction of economic development after increasing production, import substitution, and meeting domestic demand is the development of export potential and its implementation. However, the export potential building process is quite long. Therefore, it makes sense to carry out measures towards increasing production volumes for effective import substitution in parallel with the formation of export potential.

At the current stage, foreign economic activity plays a particularly important role in the development of the national economy. In the course of Russia's integration into the world economy, foreign economic activity becomes an increasingly important factor that determines the nature of socio-economic processes taking place on a nationwide scale.

Ensuring food security of the country and, in the future, transiting to export-oriented production of food commodities remains one of the major state tasks. The solution of set tasks depends on the growth and development of domestic agricultural production, operating in the context of WTO commitments. The successful implementation of the import substitution policy and the achievement of its goals are based on improving the efficiency of the agricultural sector.

Today, to comply with the principles of transferring foreign trade to the WTO principles and mechanisms using protectionist measures in accordance with international practice is especially important, as well as to attract and effectively use the foreign and domestic investments aimed at improving the competitiveness of export potential; to adhere with the multivector nature of foreign economic relations, and to participate in the development of international regional integration. These principles make it possible to combine elements of free trade policy and selective protectionism that corresponds to a country which solves the problems of openness of its economy.

The implementation of the goals of modern foreign economic policy predetermines the implementation of a mixed development strategy – the construction of export-oriented and import-substituting economy model, which allows preserving the national economic complex, developing the domestic market, increasing high-tech production, creating export-oriented clusters, expanding exports, rationalizing import flows, ensuring economic security, and carrying out selective and controlled entry into the world market.

2. Methods

For a comprehensive analysis of the economic content of the export food resources, its formation and development prospects in the context of global economy, the basics of system analysis are used, including reproductive, institutional, and structuralist approaches. The presented research is also based on the general principles of the modern basic theories of the regional production development, namely export base theory and the theory of consumption.

The following main methods are used in the present research:

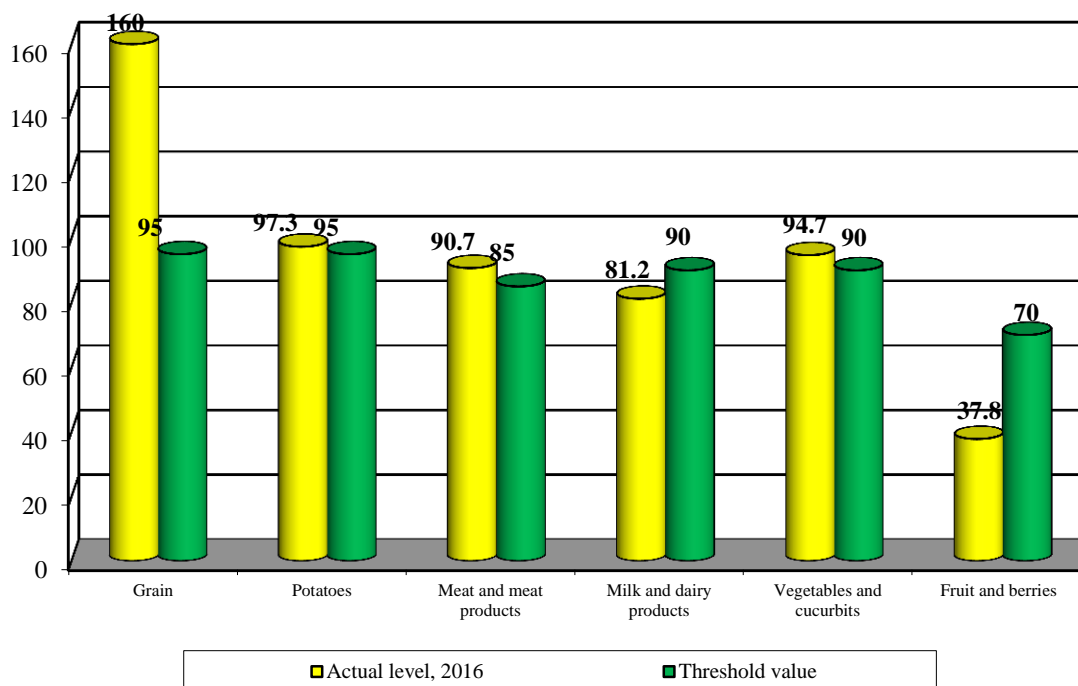
- economic and statistical methods, used to assess the dynamics of foreign trade in food supplies of the Russian Federation;
- calculation-constructive method;
- qualitative comparative analysis.

In addition to specific methods, universal and general scientific approaches to the analysis of the studied problem are used, which include dialectics, abstraction, deduction, induction, analysis, and synthesis.

3. Results

The increase in production has allowed achieving the thresholds of Russia's Food Security Doctrine for many types of food supplies. These include, for example, grain, potatoes, meat and meat products, vegetables and cucurbits (Fig. 1). When the self-sufficiency ratio exceeds 100%, it can be said that there is a possibility of developing export potential. Thus, at the national level, sustainable production of grain and potatoes creates possibility of selling these products abroad.

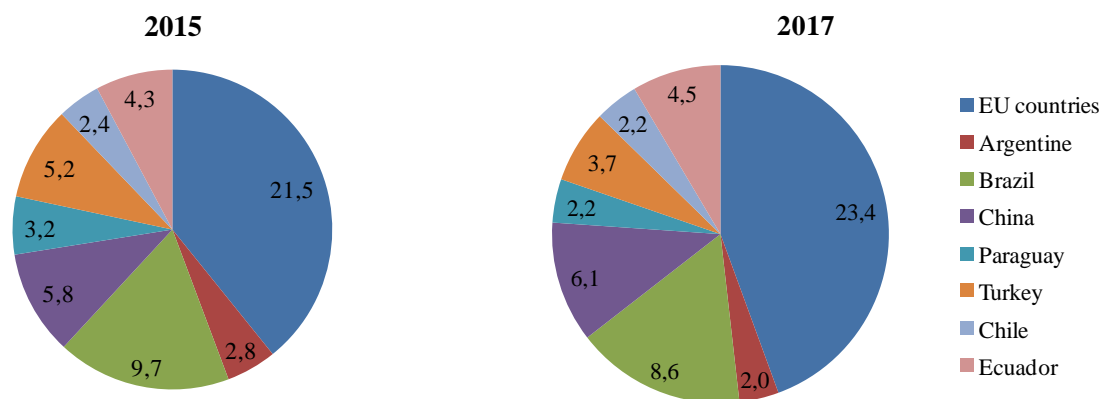
Figure-1. Achieved food sovereignty indicators (the Federal State Statistics Service).



Import substitution has become a challenging and costly problem for the state. Currently, the issue of "assortment-based" import substitution remains rather complicated. While in general the food sovereignty indicators for commodity groups such as vegetables and cucurbits, meat and meat products have been achieved, the situation with the provision of population with certain types of vegetables and meat remains very challenging. For example, for beef, the threshold value of the Doctrine is set at 80%, while the level of self-sufficiency in 2017 was just 69%. A similar situation is observed in vegetable farming, where gross production is formed by the least labor-intensive and most productive crops (cabbage, onions, carrots, and beets). It is unlikely that these cultures will have the same considerable demand in the world market as tomatoes, cucumbers, eggplants, and bell peppers. In this regard, the formation of the export potential of Russia should be based on the diversification of production and reorientation to demanded products with high consumer properties (modified, packaged, and labeled in accordance with the standards of a particular country).

Despite the ban on the import of important food supplies from Western countries, non-CIS countries continue to play the main role in the trade of food supplies and agricultural raw materials. In 2015-2017, there was an increase in the proportion of EU countries in total imports of food supplies and agricultural raw materials (Fig. 2).

Figure-2. Proportion of non-CIS countries in total imports, % (Federal State Statistics Service)

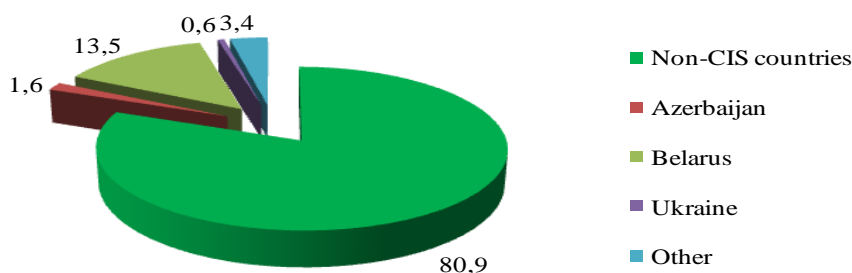


The imposition of sanctions and embargoes resulted in forced diversification of foreign economic relations and reorientation towards large suppliers from Latin America, i.e. import substitution was carried out. In 2015, the total proportion of Argentina, Brazil, Paraguay, Chile, and Ecuador amounted to 22.4 %.

At a later stage, the proportion of food imports from Latin America decreased, including due to the growth of supplies from neighboring CIS countries. Thus, the proportion of CIS countries increased by 2.9 percentage points, which corresponded to the total reduction in the proportion of Argentina, Brazil, Paraguay, Chile and Ecuador.

Belarus remains one of the main suppliers of the Russian Federation with the percentage share of 13.5% in 2017. This is the second place in the imports structure of food commodities and agricultural raw materials. It is well known that Belarus is one of the main suppliers of milk and dairy products, cheeses, as well as certain types of fresh and canned vegetables. In 2017, the value of imports reached 57.8 % of EU supplies, while in 2015 this figure was 55.4% (Fig. 6).

Figure-3. The proportion of CIS countries in total imports in 2017, % . (Federal State Statistics Service).



The decline in dependence on imports of food and agricultural commodities, as well as resources, is directly linked to the development of domestic production. In future, to overcome the limitations of the domestic market, it is necessary to move to a new stage of development – export orientation, combined with accelerated import substitution in the domestic market. Thus, a comprehensive strategy will be implemented that allows not only increasing production volumes on national technical and technological base, but also benefiting from the expansion of the range and increase in the export volume of agricultural products.

The transition to export-oriented production should be based on the principles of differentiation of food commodities and agricultural raw materials depending on self-sufficiency and prospects of its growth. In this context, all food commodities can be divided into four groups (Table 1).

Table-1. Grouping of food commodities by the level of self-sufficiency

Product groups	Characteristic	Goods
1	Sustainable production within the framework of the parameters of the Russia's Food Security Doctrine	grain sugar vegetable oil bread and flour products potatoes egg fish poultry meat pork field vegetables
2	Achieving food security in the medium term	vegetables under glass milk
3	Achieving food security in the long term	dairy products beef
4	Types of food supplies not produced in Russia or produced in a quantity inadequate for self-sufficiency	coffee citrus fruit tea exotic fruit walnuts

The first commodity group is characterized by sustainable production within the framework of the Food Security Doctrine, the second group is characterized by the possibility of achieving food independence in the medium term, the third group means the possibility of achieving food independence in the long term, and the fourth group includes food supplies, the production of which is impractical due to climatic differences. The following types of strategies can be implemented for different types of goods: export-oriented production, advanced import substitution or focus on domestic demand.

In general, import substitution should become "assortment-based", i.e. focused on the saturation of the domestic market with individual goods within product groups. For example, the level of self-sufficiency with meat in Russia exceeds the threshold value. At the same time, there are still problems with meeting domestic needs in cattle meat, while poultry and pork exports are increasing and their geographical spread is expanding. Almost the same situation is observed for open ground vegetables, the provision of which exceeds 90%. At the same time, the least labor-intensive products that are not in demand in foreign markets should be grown domestically. Thus, in order to further deepen the import substitution processes and develop export potential, it is necessary to undertake specific measures aimed at the development of production of specific products within a specific product group.

The new paradigm of Russian agricultural production should be based not on the need to "replace everything" and develop the production of all possible types of products, but on the feasibility, efficiency, and possibility of interregional exchange. As a result, this will make it possible to save significant financial resources and redistribute financial flows for the implementation of similar investment projects, but in regions with higher export potential for this type of product.

Production and export efficiency should be assessed for each specific commodity or product in demand on the global market. It is necessary to know exactly whether the country will benefit from increased production and access to foreign markets. The production of popular types of food products, especially focused on the rapidly growing markets of Asia, will allow Russia to significantly increase national competitiveness.

The possibilities of increasing agricultural production, achieving advanced import substitution, and increasing export potential largely depend on pursuing a balanced agricultural policy, improving the investment climate, increasing state support for agribusiness, and diversifying foreign economic relations.

Further development of export food potential of Russia requires activities in the following areas:

3.1. Geographical Diversification of Exports in Order to Reduce the Vulnerability of The Domestic Market in Crisis Situations

Currently, the export of food commodities is carried out in a limited number of countries, mainly non-CIS countries. At that, the CIS and Eurasian Economic Union countries form a significant food market. Monitoring the demand of foreign countries, taking into account national characteristics, traditions and other criteria will allow identifying new foreign partners. In this regard, it is necessary to decide what agricultural and processing industry products can be in demand according to noted criteria, and to work on the organization of export of demanded goods (kosher products, including chickpea, watermelon, pumpkin seeds, Halal products, etc.).

3.2. Implementation of Inertial and Innovative Diversification of The Export Commodity Structure

Inertial diversification of exports is based on mobilization, consolidation, and combination of already existing competitive advantages, where the export turnover involves suitable and export-oriented products and services, not changing principally, but only optimizing the specialization. In years with favorable weather conditions, it is

necessary to increase the export volume of commodities such as cereals (wheat, rye, and barley), oilseeds, fats and oils of animal and vegetable origin, potatoes and vegetables, etc.

Innovative diversification of exports involves introducing into the export turnover new goods and services that meet international standards and are in demand in the global and regional markets (Sukhanova, 2009). It should be aimed at overcoming the monocrop, raw material based orientation of exports and, consequently, at increasing the proportion of processing industry in the export structure. This will require from agricultural and processing enterprises both increasing production and improving product quality.

3.3. Reorientation of Exports from Agricultural Products Towards Deep Processing Products

This is due to the world price ratio, which is much higher for finished products than raw materials.

3.4. Outstripping Growth of Agricultural

Exports in comparison with the country's economy growth in general, targeted export programming in close connection with the structural investment policy; searching for domestic reserves to increase exports, including that achieved through the production of small and medium-sized businesses and support of their innovation activity; export promotion of products of small and medium-sized businesses of the region.

Mechanisms to implement this task should include the provision of subsidies for partial reimbursement of business entities' expenses associated with access to foreign markets and export of products, including subsidies for the cost of innovation implementation into production, participation in domestic and foreign exhibitions and fairs, obtaining certificates of product quality, etc.

3.5. Rationalization of the Imports Structure

Based on priority and maximum import of machinery and equipment for the first sphere of agribusiness, sets of means of production for advanced industrial technologies, biotechnology, breeding and seed centers, breeding animals of highly productive breeds, hybrid seeds of high-yielding and high-protein crops, the acquisition of patents and licenses, contributing to the radical reequipping of agribusiness industries and areas.

4. Discussion

The increase in the level of regional economic development in the contemporary world economy is based on the application of one of the two theories – the export base theory or consumption base theory, considered as an alternative to each other (Didenko and Kuzaeva, 2015).

In accordance with the provisions of the export base theory, domestic development of the region is based on an increase in cash flows, the main source of which is the export of products (Andrews, 1970); (North, 1955). The income generated should be used locally to increase employment in service industries. In turn, employees should spend their increased incomes within the region that will create additional jobs in the region (Krikelas, 1992).

Proponents of the export base theory come to conclusion that the increase in exports of the region characterizes its specialization, allows producing goods and services at lower prices due to economies of scale, as well as reflects the impact of changes in the main sector on other industry sectors and scope of activities (Rovayo, 2006). At that, the proposed theory does not take into account such sources of the regional economy growth as domestic economic activity, financing within the framework of targeted state programs, and increase of labor efficiency. In addition, there are some difficulties in identifying the export base of a particular industry sector and local service industries, causing certain difficulties in implementing the proposed policy and its main conjectures. Harris *et al.* (1998).

In turn, consumption theory suggests that economic growth in the region is based on a reduction in cash outflows, while local service industries have no less impact on the economy than exports. The growth of domestic investment predetermines the increase in production and consumption and, as consequence, the growth of the regional budget revenues (Krikelas, 1992). The preservation of cash flows within the region should be based on the local production development, that is, the import substitution of those goods that could be imported (Shaffer, 1989).

The considered theories are rather contradictory, characterized by certain advantages and disadvantages (Markusen, 2007). In our opinion, in contemporary conditions of the Russian economy development, eliminating of possible negative consequences can be achieved through the simultaneous implementation of import substitution and export development strategies. In other words, the country should boost export of products of those industries where it has a comparative advantage, and implement import substitution in industries that are crucial to the economy (Mukhin, 2016).

Active participation of country's economic complex in the international labor division is a necessary condition for the formation, development and rational use of the national economy potential. Since the import substitution was chosen as a development model of the national economy, each region of the country is obliged to unlock its potential in order to improve the competitiveness of economic sectors at the mesolevel and to ensure the exports growth of domestic goods to the world market.

5. Conclusion

The study proves that the long-term development of the agricultural sector in Russia should be focused on the strategy of combining export-oriented and import-substituting development. This is explained by the fact that the development of the economy according to the import-substituting model is justified in the period of industrialization,

when countries, solving the problems of catching-up development, get the opportunity to use the world experience of technological reconstruction of national production. However, as evidenced by the world experience, the implementation of mainly import substitution policy in the time following is accompanied by deterioration in the main macroeconomic indicators (decline in GDP, investment efficiency, and rise in inflation), reduction in exports, and decrease in the competitiveness of resources and goods.

The authors have come to the conclusion that in the long term, import-substituting policy should be focused on the development of exports of import-substituting products and access to foreign markets, which can stimulate economic growth, strengthen the external accounts, and the national currency. Thus, an integrated approach will be implemented, which will result in the development of product exports and an increase in the presence in foreign markets.

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