Results of food import substitution in Russia

RESULTS OF FOOD IMPORT SUBSTITUTION IN RUSSIA

RESULTADOS DE LA SUSTITUCIÓN DE IMPORTACIONES DE ALIMENTOS EN RUSIA

Tatyana M. Yarkova[1], Olga I. Khairullina[2]

[1] *Federal State Budgetary Educational Institution of Higher Education «Perm State Agro-Technological University named after Academician D.N. Pryanishnikov» Perm, Russia*

E-mail: *tanyayarkova@ya.ru*

[2] *Federal State Budgetary Educational Institution of Higher Education «Perm State Agro-Technological University named after Academician D.N. Pryanishnikov» Perm, Russia*

E-mail*: oikhayrullina@mail.ru*

ARTÍCULO RECIBIDO: 14 de marzo de 2019
ARTÍCULO ACEPTADO PARA PUBLICACIÓN: 20 de marzo de 2019
ARTÍCULO PUBLICADO: 30 de abril de 2019

abstract

Import substitution processes which are the focus of Russia's agricultural and food policy, are conditioned and strengthened mostly due to the sanctions of the United States and other Western countries. Importance of import substitution, rather than a change of importers, is reflected not only in scientific works of research economists, but also in regulatory documents, the development of which has become active in Russia since 2010. During the past eight years, import substitution policy in the Russian Federation has obtained significant positive results. In particular, a decrease in the share of imports in commodity resources was revealed for all commodity groups of basic foodstuffs. Possible threshold values for the share of imports have been exceeded in such commodity groups as beef meat, including by-products, as well as cheeses, milk and cream. At the same time, the level of food supply and self-sufficiency is not fulfilled for such types of food as milk and vegetables. To implement all the import substitution targets, it is necessary to minimize the impact of a number of negative internal and external factors that significantly affect the agricultural production industry. Along with this, it is important to implement the policy concerning the domestic system of provision and supply food with a view to their even distribution within the regions.

Keywords: food, import, import substitution, food security, food supply.

Los procesos de sustitución de importaciones, que son el foco de la política agrícola y alimentaria de Rusia, están condicionados y fortalecidos principalmente debido a las sanciones de los Estados Unidos y otros países occidentales. La importancia de la sustitución de importaciones, en lugar de un cambio de importadores, se refleja no solo en los trabajos científicos de los economistas de investigación, sino también en los documentos reglamentarios, cuyo desarrollo se ha vuelto activo en Rusia desde 2010. Durante los últimos ocho años, la política de sustitución de importaciones en la Federación de Rusia ha obtenido resultados positivos significativos. En particular, se reveló una disminución en la participación de las importaciones en los recursos de los productos básicos para todos los grupos de productos alimenticios básicos. Se han excedido los umbrales posibles para la participación de las importaciones en grupos de productos básicos como la carne de res, incluidos los subproductos, así como los quesos, la leche y la nata. Al mismo tiempo, el nivel de suministro de alimentos y la autosuficiencia no se cumple para tipos de alimentos como la leche y las verduras. Para implementar todos los objetivos de sustitución de importaciones, es necesario minimizar el impacto de una serie de factores negativos internos y externos que afectan significativamente a la industria de producción agrícola. Junto con esto, es importante implementar la política relativa al sistema interno de provisión y suministro de alimentos con miras a su distribución uniforme dentro de las regiones.

Palabras clave: alimentos, importación, sustitución de importaciones, seguridad alimentaria, suministro de alimentos.

Introduction

The structure of the Russian consumer market consists mostly (by 70%) of food and non-food products that are produced domestically, i.e. have the status of products of home manufacture. It is also important to emphasize that the production of most of these products is due to the use of agricultural raw materials. At the same time, the importance of the agricultural sector can also be supplemented by the fact that, firstly, almost a third of the branches of the Russian economy are somehow related to the agrarian sphere of activity, and secondly, more than a quarter of the population lives in rural areas (more than 25%) (Novikov, 2014; Khairullina & Yarkova, 2018).

Therefore, the agriculture of Russia and, in general, its agro-industrial complex is the basis for the formation, development and strengthening of food security and independence, as well as the stabilization of their food supply processes (self-sufficiency). However, they began to give attention to these issues at the state level only during the already deep economic and agro-food crisis (Yarkova & Khairullina, 2018).

The economic crisis in Russia has a cyclical nature of its manifestation. Its last cycle is caused by political upheavals in the world. The events of 2014 on changing the territorial boundaries of the Russian Federation by joining (according to the results of the referendum) the Crimea (the former territory of Ukraine) led to a series of economic sanctions against the Russian Federation, which were initiated by the United States of America and several European Union countries. That was a stimulus for the development of the economic crisis not only in Russia, but also in the West, namely, in the countries initiated anti-Russian sanctions.

The sanctions stimulated changes in the state agrarian policy development vector, that is, Russia resolutely took a course on import substitution, the beginning of which was the response to the ban on importing food from several countries to Russia. It is important to note that Russia has long had not taken such attempts, possibly, having had fears of destabilizing the functioning of food markets in the Russian Federation, because in the previous couple of decades, the volume of imports reached a critical level of 43.5 billion US dollars. This figure was several times higher than the domestic Russian expenditures on the production of food and agricultural raw materials. Therefore, it can be clearly stated that the current measures of strategic state planning of agricultural development and the entire agro-industrial complex are an important step towards a long but necessary reform of the agrarian sector of the economy as the main source of food security (Donnik & Voronin, 2015).

Even before the impact of sanctions and the corresponding response from Russia, adherents of food security in the Russian Federation argued that the strong growth of food imports in Russia led to a severe dependence on importers, trade relations with which had long since become stable and long-term. Food security ideologues argued that "…sooner or later, punishment may come for our country in the form of "shutting off the spigot". But we, Russians, decided to shut the so-called "spigot" ourselves. As a result, it is possible to ascertain the losses of European countries from measures of sanctions pressure on Russia: for example, the European Union had losses of about 21 billion euros due to the short export supply of a number of food products only in 2014 (Veselov, & Azanov, 2017).

Russian Professor A.N. Mitin in his writings argues that judging by the sufficient availability of food in the domestic food markets, no catastrophe has been happened. The question then arises, why there are such notable casualty figures in the countries from which we have denied the food products export? Abroad, and more specifically, in the developed European Union countries with their own unique agricultural and food policy, huge resources are involved in agricultural production there, starting with labor, ending with technical and technological resources. At the same time, of the diversity of resources used, many are imported, and, therefore, agrarian production itself is interdependent in the Western economies. For example, in Russia, food dependence is manifested in the final product, and in the EU, it is manifested in the intermediate one. It should be noted that, despite the low efficiency of the agricultural sector in Russia, there is practically no its resource dependence. As an exception, we can mention the production of concentrated feed for the poultry industry, the production of malt for brewing and so on. Prior to the sanctions, i.e. until 2014, Russia annually spent on the purchase of food up to 20 billion US dollars, and it was allocated several times (up to 10 times) less funds to support Russia's own agricultural sector in the form of indirect subsidies, preferential loans and other things, what has amounted to no more than 1% of the annual Russian budget (Mitin, 2015).

Import substitution in Russia is a very relevant and significant process both at present and in the future, while the definition of this term itself is practically not discussed.

Most scientists who study, consider and research the food security problem in Russia and the processes accompanying it, including import substitution, consider it as a given, as an ordinary fact (Bondarenko, 2016; Khairulin, 2015; Shpak & Bashko, 2016; Shutkov & Shutkov, 2016; Yussufov, 2014; Nezhad et al, 2014).

However, despite the fact that the position of

most domestic economists is recognized, some scientists consider this term ambiguously. So, for example I.L. Vorotnikov, I.F. Sukhanov and in their writings define that: "…. in general, import substitution is a reduction or cessation of import supplies of products through the growth of domestic production of those products or their analogues" (Vorotnikov & Sukhanova, 2015).

In the works of the above-mentioned researchers, a two-pronged approach to the disclosure of the term "import substitution" is clearly visible, what in our opinion is quite relevant and has the right to be in science and practice. The first aspect involves the renaming of the term "import substitution" to "importer substitution". Its essence consists in replacing some suppliers of goods, in this case food and agricultural raw materials, with others. The second aspect involves import substitution in itself as a process when food imports are actually replaced by products of domestic manufacture. That is, in the first case, an importer is replaced, and in the second, a product is replaced. At present, both options are acceptable for Russia, although the second one should have a strategic goal, allowing the economic, industrial, innovative development of the state to realize, which will stabilize Russian markets, including the food market (Adadimova et al, 2016).

Research Methodology

We propose to study the effectiveness of import substitution processes by using well-known research methods which will be used as a base of a three-component methodology. The first component, as we understand it, will be the peculiarities of the state policy in the field of import substitution and the availability of regulatory and program levers of its regulation. Then, we will conduct an analysis as a second component, which allows us to assess the overall picture of import substitution and its impact on the food supply of the population in Russia. The final element of the methodology will be the development of a set of recommendations to ensure the dominant position of import substitution with regard to importer substitution by establishing an effective system of interregional cooperation within our country on food supplies and their even distribution.

Research Results

The purpose of the state import substitution concept is to create a model of the country's food supply system based on the functional and sectoral interaction between the subjects of the food market.

The achievement of this goal is supported by the fulfillment of the requirements of the basic documents which are the Decrees of the President of the Russian Federation, as well as orders and resolutions of the Russian Government. It should be noted that 2010 was the starting point for the implementation of the state plans for import substitution. It was the year when the Food Security Doctrine was developed, within which key benchmarks for the production of basic foods were set. Today, these guidelines are almost complete and need to be improved.

In order to conduct a qualitative analysis of the import substitution impact on the food security situation in Russia, we have carried out an assessment of the change in the share of imports in the main food commodity groups (Table 1).

Table 1. The share of imports in food resources of Russia, % *

Food Types	Years								Threshold value
	2010	2011	2012	2013	2014	2015	2016	2017	
Meat and poultry, including by-products	32.3	31.0	30.3	26.5	19.6	13.4	11.0	10.5	15
Beef, including by-products	64.5	59.5	59.9	59.0	57.3	48.1	40.0	40.9	15
Pork, including by-products	46.8	42,8	41.3	31.0	16.6	12.5	9.6	9.6	15
Poultry meat, including by-products	18.2	12.5	14.0	12.8	10.0	5.5	5.0	4.4	15
Cheese	47.5	46.0	47.8	48.0	37.3	23.3	28.2	27.3	10
Powdered milk and cream	59.9	40,8	42.4	60.4	49.5	56.4	59.1	52.7	10
Flour from grain and leguminous crops	0.9	1.0	0.7	1.5	0.9	0.8	1.9	1.3	5
Grit	2.2	2.0	1.4	1.8	0.5	0.3	0.3	0.2	5

Vegetable oils	23.3	21.9	16.1	19.0	14.7	17.4	16.7	14.7	20
Sugar	5.4	3.7	5.3	8.1	7.4	6.2	5.5	3.9	20

* The table was compiled by the authors based on their own observations using the Rosstat (Federal State Statistics Service) data

Thus, analyzing the state of imports, in particular, the share of imports in commodity resources, it can be noted that in the "meat and poultry, including by-products" product group, the share of imports has declined by 21.8 points over the past 8 years and amounted to 10,5 % by 2017. This is below the threshold value calculated on the basis of the values of the domestic products share in the total volume of commodity resources in the domestic market. The most positive situation is observed in the "poultry meat and pork" product group which share of imports is significantly lower than the threshold value (by 10.6% and 5.4%, respectively). Regarding the product group of "beef, including by-products," the situation as a whole has improved slightly for 8 years, but is still far now from the recommended threshold values for the share of imports (the excess in 2017 by 25.9%). A similar situation is observed in the group of "cheeses": the "threshold" is exceeded by 17.3%. With regard to the rest of the analyzed commodity groups in table 1, we can note the positive dynamics of the reduction in the share of imports in commodity resources and the absence of exceeding the threshold value.

The next stage of our study is to determine the degree of influence of import substitution processes on the level of food supply and self-sufficiency in the Russian Federation in the context of 2010 and 2017 (Table.2).

Table 2. The food supply level in the Russian Federation for the period of 2012 - 2017***

Main food types	Production level, million tons	Imports, million tons	Exports, million tons	Standard food volume for food support provision, million tons	Food self-sufficiency level, units	Food security level, thousand tons
2010						
Potatoes	29.5	0.6	0.03	13.8	2.1	2.2
Vegetables, melons and gourds	11.4	2.3	0.2	20.0	0.6	0.7
Meat	4.4	2.1	0.04	10.0	0.4	0.6
Milk	32.3	4.7	0.5	51.4	0.6	0.7
Eggs	** 34.1	1.2	0.3	** 34.7	1.0	1.0
2017						
Potatoes	21.7	1.2	0.3	14.2	1.5	1.6
Vegetables, melons and gourds	15.4	2.7	0.3	20.6	0.7	0.9
Meat	10.3	1.1	0.3	10.3	1.0	1.1
Milk	30.2	7.1	0.6	52.9	0.6	0.7
Egg	** 44.8	1.2	0.7	** 35.7	1.2	1,3

* The table was compiled by the author according to Rosstat (Federal State Statistics Service) [6]

** Eggs - billion pcs.

*** The table was compiled by the authors based on the results of their own calculations using Rosstat data

Thus, the analysis results shown in Table 2 suggest that the situation in the food security and self-sufficiency field has significantly improved over the eight years analyzed. This result is the evidence that the course of import substitution taken in 2010 by Russia is effective. However, it should be emphasized that despite the positive situation, there are some errors that the Government of the Russian Federation and the regional authorities should pay attention to. The identified deficiencies can be eliminated along with the implementation of the State Program for the Development of Agriculture for the period of 2013–2020.

A detailed analysis of the results from table 2 allows us to draw the following conclusions and accents. In particular, in 2010 the food supply level for some analyzed types of basic foodstuffs has reached to the level of 1.0, what is a positive thing, of course. However, if to perform a qualitative review for each type of food separately, we can speak about slightly different indicators. For example, this indicator was at a critical level in relation to vegetables, meat and

milk, even due to the presence of import supplies. Therefore, the self-sufficiency level which excludes the presence of imports in the calculations is even lower. The lowest value in 2010 refers to the saturation of the food market with meat of all kinds. Not the best situation was found in relation to vegetables and milk, the volume of which in the domestic food market did not then exceed (2010) 60% of the required volume. At the same time, it should be noted that there was no shortage as to the previously listed types of basic foodstuffs in the market, since its fullness depends on demand, preferences of the population and, of course, culture and traditions of nutrition.

By 2017, Russia has already received some positive results of the import substitution policy itself, which were strengthened in 2014 for obvious reasons noted by the authors of the paper above.

First, in 2017, the volume of domestic meat production has significantly increased: it was more than doubled, what made it possible to provide the population independently, even without imports, for meat products by 100%. The situation has slightly, but still to the better, changed for the product group of vegetables. So, the level of production in this type of food has increased by 35%, the level of provision rose from the level of 0.7 to 0.9, and self-sufficiency increased by 10%.

The situation remained unchanged in the milk market. Here, the level of self-sufficiency remained low and amounted to 60% of the required volume.

We consider it appropriate to note that over the past 8 years, the volume of import deliveries has significantly decreased, which means that the main place in the country's agrarian policy is import substitution, and not importer substitution. The regions should strengthen their own influence in stimulating the development of the milk and vegetables (in both unprotected areas and areas under glass) production.

Conclusions

The state agri-food policy should be focused on minimizing the impact of existing negative internal and external factors (Fig. 1).

In addition to taking into account the above factors, we propose to implement a zoning system for the territories of the Russian Federation within regions or federal districts in order to identify the competitiveness level of the agro-industrial sector there for introduction of an effective import substitution system. This zoning will contribute to the development of intra-state and inter-regional relations for the efficient supply of food to domestic markets.

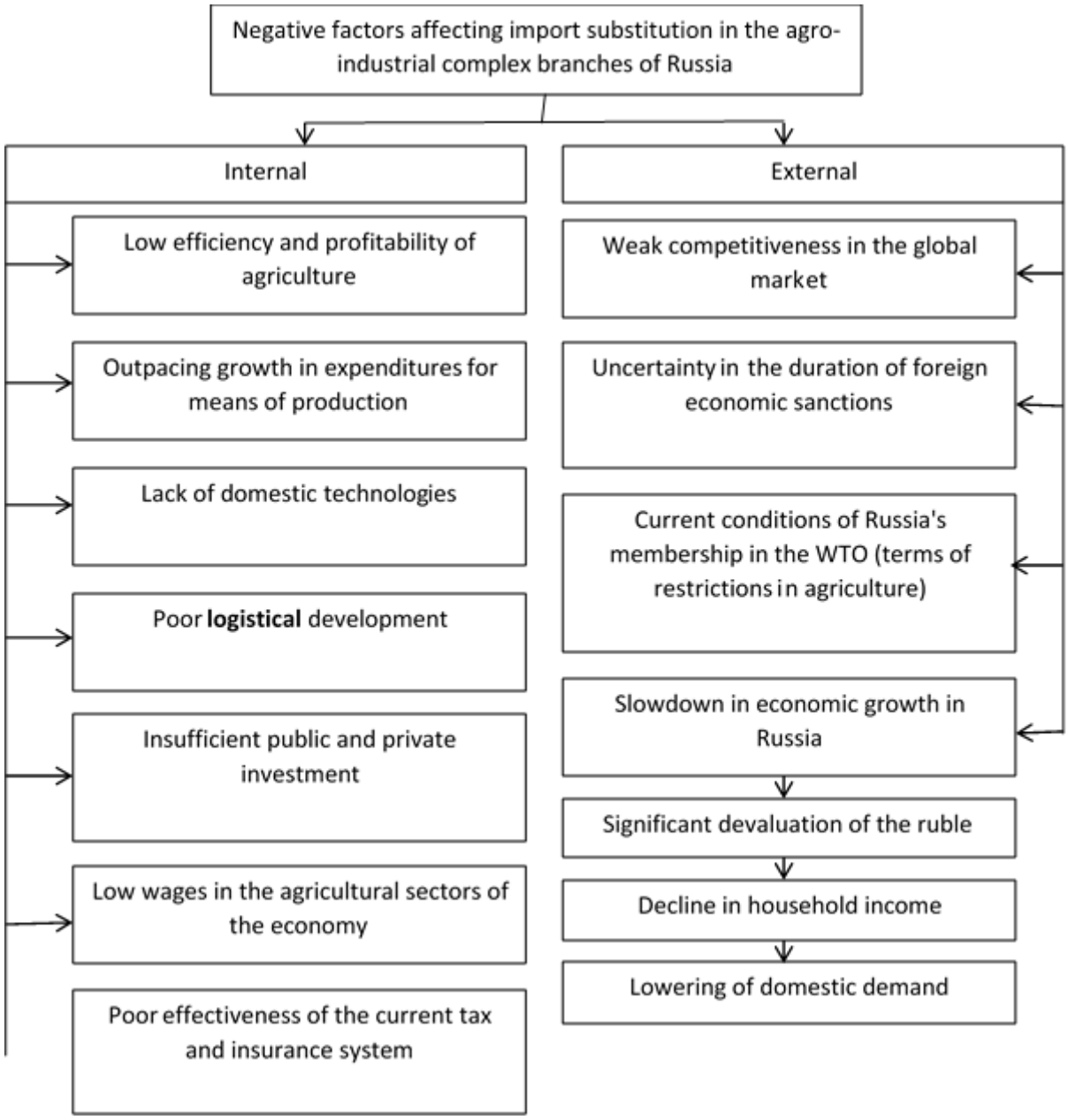

Figure 1. Internal and external negative factors affecting the processes of import substitution in Russia

We suggest using the following factors in the capacity of main criteria for competitiveness: the share of domestic food in the market (by type); the level of efficiency (profitability) of the industry with and without public investment; provision with fixed assets and their renewal (reproduction); the social sphere level with regard to the quality of life conditions, and also income and expenditure of the population. It is important to emphasize that the proposed criteria may vary over time.

We should also pay attention to the fact that Russia, being and developing according to the principles and conditions of a market economy, must maintain and increase the export supplies volume, what is possible if there is a competitive production of agricultural raw materials and food.

References

Novikov, A.I. (2014). Import substitution in the Russian food market. Bulletin of Vladimir State University named after Alexander Grigorievich and Nikolai Grigorievich Stoletovs. Series : Economic Sciences. №2 (2). - p. 90-94

Khairullina O.I., & Yarkova T.M. (2018). Impact of economic sanctions on the food production and consumption in Russia. Herald National Academy of Managerial Staff of Culture and Arts. №3(2). - P.218-244

Yarkova T.M., & Khairullina O.I. (2018). Food Issue and Need for its Normative and Legal Regulation in Russia. Helix. Vol. 8(6). – P. 4702- 4706

Donnik, I. M., & Voronin, B. A. (2015). Loretz og import Substitution of agricultural products, raw materials and food: status, challenges. *Journal of Agricultural Urals*, (3), 54-59.

Veselov, A., & Azanov, R. (2017). Three years of sanctions: losses and acquisitions. TASS.

f A.N. (2015). The economic and managerial aspects of the import food substitution in Russia. Agrarian Bulletin of the Urals. №6 (136). - p. 80-84

Bondarenko L.V. (2016). Import substitution as viewed by experts and villagers. Economics of agricultural and processing enterprises. № 1. - p. 45–49

8. Khairulin A.N. (2015). Ways of import food products substitution by producers of agricultural goods in Russia. AIC: economics, management. № 4. - p. 3–8

Shpak A.P., & Bashko A.Yu. (2016). Import substitution in the agro-industrial complex of the Republic of Belarus. Economics of agricultural and processing enterprises. № 1. - p. 23–26

Shutkov A.A., & Shutkov S.A. (2016). Resource-innovative strategy of import substitution: formation and implementation problems. Economics of Agriculture of Russia. № 1. - p. 11–19

Yussufov R.A. (2014). Foreign experience of adapting the agrarian sector to the WTO conditions: takeaways for import substitution in the agro-industrial complex of Russia. Economics of Agriculture of Russia. № 12. - p. 75–81

Nezhad, N. J., & Jenaabadi, H. (2014). Studying Effect of Communication Skills and Leadership Styles of Manager on Knowledge Management of Zahedan University of Medical Sciences, Iran. *UCT Journal of Management and Accounting Studies 2*(2).

Vorotnikov I.L., & Sukhanova I.F. (2015). To improve the mechanisms of import substitution of agricultural products. AIC: economics, management. № 4. - p. 16–26

Adadimova L.Yu., Polulyakh Yu.G., Dorovskoy N.V., Bryzgalin T.V. (2016). Import food substitution: conditions, resources and prospects of the Volga region. Economic analysis: theory and practice. № 12 (459). - p. 14-25