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# Optimal Import Policy as an Effective Instrument of Economic Development of Russia in Terms of Sanctions

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#### **Abstract**

**Background/Objectives**: It is interesting to study theories revealing the principles of effective participation of national economies in the international commodity exchanges, the factors of competitiveness of separate countries in global market. **Methods/Statistical Analysis**: In the article, on the basis of statistical analysis, the authors assess Russia's participation in international trade in the current situation of economic and political dependence of Russian economy from other countries, which particularly confirms the imposition of economic sanctions by the EU. **Findings**: The necessity of optimization policies, as an effective tool for the recovery of the Russian economy is import substitution. The different levels of import substitution in the country, region, cluster, organization. The problem of import substitution of the national economy is defined as the direction of the country's transition from raw orientation to the creation of modern innovative industries with deep processing of raw materials and production of finished products. **Application/Improvements**: Analysis and solution of these problems is especially important for Russia and other countries that went path of creating open economy, oriented on active participation in international trade.

Keywords: Economic Sanctions, Export, Foreign Trade, Import, Integration Process, Open Economy, Trends

## 1. Introduction

Foreign trade is the oldest kind of interaction and cooperation between countries. It preserves an important position according to its expansion and value in the whole complex of world economic relations. Only international specialization makes it possible for national economic systems to achieve a consumption level which is much more than their production capacities. The main specific feature of modern international division of labour is creating and perfecting the world system of international commodity relations. Separate national goals and objectives give way to system-wide ones in the process of historical development. Many countries view increasing export and import of goods as conditions for income growth, cost reduction, ways of saturating national, regional and worldwide markets with necessary

goods and services, new knowledge and technologies. Established scientific schools point out that expansion of export, import and other kinds of foreign relations allow a better use of available natural, labour and intellectual resources, production capacity, growth of aggregate demand, more sufficient use of world advances in science and technology, improving living standards.

# 2. Materials and Methods

# 2.1 Scientific Development Level of the Topic

It is hard to overestimate the role of foreign trade in every country. "Economic success of any country in the world is based on foreign trade. No country has yet succeeded in

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building a healthy economy isolated from the world economic system".

In the present context active participation of the country in international trade is very advantageous: it allows to use available resources of the country more effectively, to become familiar with world scientific discoveries, and to carry out structural reorganization of its economy in a shorter time and also meet public demand more fully and differently.

There are 4 types of economic growth in international trade:

- Export-led growth expanding production of goods for export which leads to aggravating trade conditions of the country in favour of its commercial partners. Export-led growth is determined by increase in production of export goods in each country. Growth of their supply at worldwide market leads to decline of their relative prices, because each country has to sell more of its export goods (their relative price declines) in order to buy the previous quantity of import goods (their relative price grows). As a result, export-led growth leads to aggravation of trading conditions for this country and improving of these conditions in partner countries.
- Import-substituting growth expanding production of the goods which the country imports, that leads to improving trade conditions of the country as against its commercial partners. Import-substituting growth is determined by increase in production of goods which compete with import ones in each country. Growth of their production leads to growth of relative export prices and decline of relative import prices, because each country imports less and less goods which are usually imported, and produces them on its own.
- Growth of supply influences trading conditions only when it is not balanced between countries - in some countries several production factors grow faster, in the others slower. If we imagine a case when growth rate of production factors is the same in all countries, which is almost impossible, then a situation of neutral growth appears. Neutral trade growth is increase of international trading volume without change of trading conditions between countries.
- A situation is possible when, as a result of export-led growth, the country exports more and more goods which get cheaper, and the consequences of that damage trading conditions of the country so greatly that it surpasses the positive effect of the growth itself.

A situation when aggravation of trading conditions surpasses positive effect of economic growth is named devastating growth.

Developing international division of labour, specialization and cooperation makes national economies more open, they focus on outside market and it leads to expanding of international trade<sup>1-14</sup>.

This makes interest in international interaction stronger. Many countries integrate into trade blocks - European Union, MERCOSUR, EEU, etc. But actually, despite integration process, such unions more likely perform a protecting function. After all, it is hard to compete alone. And as for unions, there are more opportunities to trade and develop together, at the same time there is some protection against the outside world. In these circumstances advantages of international division of labour are better used, specialization of countries, regions and branches gets more focused, their cooperation and integration improves, capabilities of the countries and territories regarding climate and labour resources are used more effectively. Depending on specialization level of national economies, branches structure, intensity of export and import, national economies are divided into different types according to the role of foreign relations, depending on how open or closed they are, on their involvement in international economic relations. But it does not mean that modern stage of world economy development and its integration does not have contradictions and problems. Present-day world trade is built up under conditions of great economic differentiation of countries, regions and branches according to their socioeconomic development, role of import and export, growth rate. This results in great economic risks, using sanctions against competitors. In this case important issues are financial and economic stability in macroeconomy, credit and monetary system, political relationships and also limited use of economy for political expediency. Risks for export and import of goods are caused by frequent change of worldwide market situation, decline or increase of prices, increase of custom duties, new standards. In the last decade the role of political factors has grown, that also leads to appearance of new risks in international economic relations<sup>5</sup>.

#### 2.2 Data and Estimation

Import of goods and services takes an important place in modern international trade. Russian economy is not an exception, it is characterized by quite high indexes of

	2010	2011	2012	2013	2014	Relative inclination(%) of reference period in regard to 2010	Relative inclination(%) of reference period in regard to 2013
export	392 674	515 409	527 434	523 275	496 660	21	-5
including CIS countries:	59 039	78 682	83 656	78 125	68 014	23.2	-14.9
import	245 680	318 555	335 771	341 337	308 001	20.3	-10.8
including CIS countries	32 442	447 14	47 365	46 314	36 264	19.6	-27.7
Visible balance	146 995	196 854	19 1663	181 939	188 660	22.1	4.6

 Table 1.
 Volumes of Russian international trade (m.USD)

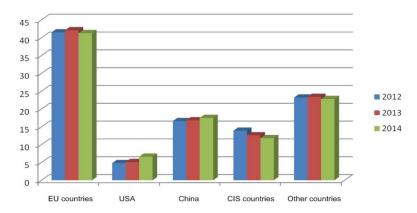


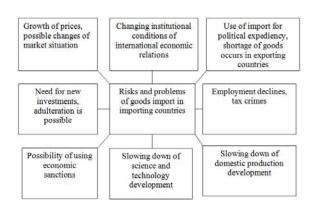
Figure 1. Structure of import in Russia divided by groups of countries – main commercial partners in %.

international trade. Table 1 shows the volume of import during the time of research.

As it can be seen from the diagram, Russia takes active participation in international trade, and the main importers are EU countries and China (Figure 1).

Effectiveness of different goods and services import lies in the fact that it allows to get over scarcity of economy and markets, organize new kinds of industry. Import of products is often caused by absence of necessary raw material base and also insufficiently skilled staff, specific character of one or another development stage of a country or a territory. Import expansion issues become especially pending in periods of recession and sanctions<sup>10,11</sup>.

Socioeconomic effectiveness of import lies in the fact that it allows to shorten the time for creating new production branches, develop advanced kinds of products, saturate national and regional markets with goods, reduce production costs, raise science and technology level and quality of domestic products, improve staff skills. But it does not mean that an economy with a high import share has no problems (Figure 2).



**Figure 2.** Possible economic and social problems of import in importing countries.

# 3. Results

There is no complete definition of import substitution essence in economic science. Exponents of mercantilism, one of the first economic doctrines, can be considered forebears of import substitution theory. They argued that export is the base of successful development and wealth

of society, it allows to accumulate wealth, and import should be reduced, national demands should be met by means of domestic production.

The concept of import substitution in modern economy should be viewed more widely. In our opinion, import substitution means strategy of optimizing economic structure of the country and its regions by means of substituting imported industrial goods with domestic products. The result of import substitution should be improving competitiveness of national products through stimulating technological modernization of production, upgrading its efficiency and assimilation of new competitive kinds of products with relatively high added value<sup>12</sup>.

Developing import substitution stage by stage leads to advancing effectiveness of economy:

- Growth of employment and consequent decline of unemployment and improving living standards.
- Growth of science and technology level and consequently education level.
- Promotion of economic and food supply security of the country.
- Growth of demand for domestic products, which in its turn stimulates development of country's economy, expansion of production capacity.
- Retaining foreign currency returns within the country and consequent growth of foreign exchange reserves and improving balance of trade in the country.

In this case economic and sociopolitic situation gets stable, the market and competitiveness develop, economic corruptness declines.

At the same time, this is a complicated and contradictory category, its effectiveness can be characterized by a complex of socioeconomic indexes which are built up both at microeconomic and macroeconomic levels and allow to characterize economic growth and production costs more completely, to integrate into global economy. Efficiency of import substitution can be defined only divided by products and depending on their safety limit. As import substitution is replacing import by new domestic production, it is not so easy to achieve this substitution. It is necessary to have certain scientific, technological and social conditions. Scientific, educational and social spheres should be well-developed, deeply adapted and integrated into world economy. For this purpose it is inportant to develop

science, education sphere, staff training and retraining. These factors ahould be competitive and management should be innovative<sup>13</sup>.

### 4. Discussion

The most important methodological, methodical and practical condition of implementing import substitution strategy is elaboration of its stages. They should be special for each branch, that is why import substitution programs should be elaborated individually with regard to every branch of industry, but at the same time they have much in common. First of all, in our opinion, it is necessary to arrange monitoring for imported goods and services, inspection of their quality, production conditions, advantages and disadvantages, requirements to their technologies and use. It should be also taken into consideration that import is not always good, it often happens when imported products can not be used effectively. Peculiarity of Russian economy is that it imports finished goods and exports mostly raw materials and component parts (goods with low level of technical processing). With such structure is should provide oneself with currency by means of export, but it does not happen, because our products have very high demand for import. And ramping up export and GDP results in import growth. That is the reason why it is very important and pending to lower demand for import, and if this task remains unsolved, despite economic growth of the country our macroeconomic problems will get more and more complicated. And one of the tasks of import substitution in Russian economy is lowering of indirect import, demand for import caused by GDP and export. The most important products from the point of view of import substitution nowadays are those of branches under economic sanctions and strategic ones from the point of view of national security. In this case it refers first of all to high-technology products of machine tool industry, and also products of oil and gas machine building which are intended for offshore field development and extracting tight reserves of hydrocarbon deposits<sup>14-23</sup>.

It makes sense to specialize in the goods which have competitive advantages, where we can get highest added value. Such directions already exist and they should be developed. Creation of Hi-Tech park can be considered a positive experience. And if there is a process allowing to organize a separate branch which is competitive at worldwide market, government support is necessary.

Import substitution policy is based on creating positive environment for domestic industry growth. Upholders of this conception assert that a steady economic development of the state is only possible with rise of industrial self-reliance level, increase in products output within the country. Focus on self-reliance is the consequence of instable processes running in world economy, cautious attitude towards foreign capital. But we should remind that during implementing import substitution the main source of funds for giving a forward momentum to the economy remains export sector income. So the goods made at import-substituting enterprises should be focused not only on domestic market, but also on the foreign one, because only in this case the competitiveness level will be appropriate and the achieved success will not be wasted during return of the country to its usual policy. i.e., it is necessary not only to develop different production branches within the country, but only raise development level of economy, social sphere, infrastructure so that the country is able to compete with developed industrial countries on equal terms.

Consequently, creation of positive economic environment is one of the key aims of any state, and it is achieved in different ways, one of them in import substitution strategy. Import substitution strategy is based on development of all production, improving quality of produced goods and technologies used at enterprises, development of innovations. And it is especially important for a country whose level of industrial branches development lags behind that of partner countries. It is necessary to understand that import substitution is a catching up strategy which should lead not just to establishing certain production, but to establishing this production at a higher level than those of competitors. Development of high-technology and science-based branches will allow to enter the worldwide market and reduce dependence on mineral commodity market. Protection of domestic industry should not lead to industrial stagnation, because restriction of competition from the side of foreign manufacturers can reduce the wish of manufacturers to develop innovations, improve competitiveness and lead to full company's dependence on government donations. One needs to understand that it is impossible just to copy necessary production, it is necessary to develop domestic technologies. In the present context science and technological capacity and ability to use it has become one of the main index of country's development level and its place in the world system. But production development at a

high level is impossible without proper staff. We should aim at training our own professional staff and perhaps it is necessary to engage skilled employees from abroad. All this demands developing institutions, raising salaries, elaborating special programs for scientists and improving their social contents. If the state is not ready to pay enough attention to this problem, it will not be possible to solve the question of hi-tech and science-based technologies development.

# 5. Conclusion

Pointing out positive sides of import substitution, one should not forget about its disadvantages. When it comes to this strategy, it is necessary to understand that this is a kind of neo-protectionism and it comes into conflict with principles of free international trade to some extend. Protectionism as a way of protecting domestic market and business leads to the fact that domestic industries often work ineffectively, but nevertheless gain income by using their monopoly position and forcing up prices. So, the consequences of using tariff mechanisms and other protectionists barriers should be estimated and thoroughly analyzed in order not to allow blind restriction of competition. The experience of China, Brazil and other developing countries shows that import substitution policy should not defy principles of international economic integration and in the long run it should create a basis for a stable export-focused economy. In this respect promising mechanisms of Russian industrial development can be both support of domestic enterprises and investments and stimulation of investments in creating joint ventures and localizing production of modern hi-tech goods on Russian territory. Moreover, one of promising directions of import substitution is stimulating the so-called "deep" localization which presupposes creating cooperation ties, using domestic components and transfer of key technologies and brining necessary human and scientific resources.

When it comes to pursuance of import substitution it is necessary to understand that not any country in the world can completely refuse from import and create economically effective production in all branches on its own. The existing shortage of available resources makes it impossible. More than that, it is pointless to replace a certain set of hi-tech imported goods because national technologies and enterprises are absent or not developed enough. Intention to start producing some goods on domestic territory with insufficient capacity or resources can lead to even greater dependence on import - a company starts to buy even more raw materials for producing a larger variety of products which are necessary for creating certain goods. When we choose appropriate branches for import substitution strategy it is necessary to go by many factors, but all methods are united in certainty that they should have great growth capacity so that during its implementation we can preserve and improve the level achieved as a result of using this strategy.

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