

# Models and Types of the Russian Federation Regional Policy for Import Substitution and Export Support

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**Abstract.** The subject of the research is the regional industrial policy of import substitution and export support in constituent entities of the Russia. The hypothesis of the research is as follows: poor performance of the regional industrial policy implementation in 2014-2018 in the Russia is associated with the parallel implementation of the two policies types: import substitution and export support. The goal of the research is to develop theoretical and methodological approaches to the implementation of the regional industrial policy of import substitution and export support. To achieve the goal, the following methods were used: the world economic literature and the best foreign practices analysis, comparative and historical analysis of the legislation of the Russia, correlation analysis of import substitution policy results and export support results in constituent entities of the Russia. As a result of the study, the models and types of regional industrial policy of import substitution and export support were classified, and the types of export-oriented import substitution policy were introduced. As a result of approbation of the scientific results, gaps between the declared and implemented models and types of industrial policy in the regions of Russia were revealed. The conclusion was drawn about the imperfection of the strategic management system of the industrial policy in the constituent entities of the Russia, and recommendations for such system optimization were given. The results obtained may be used by executive authorities of the Russia constituent entities in the development of regional state programs in the field of industrial policy.

## 1. Introduction

In retrospect, since the Second World War, no stage of the implementation of the import substitution policy in Russia has led to a long-term economic breakthrough [1]. According to the updated estimate of industrial production in the Russian Federation in 2010-2018, done by Federal State Statistics service the share of manufacturing industries decreased from 53.2 to 50.7%. The results of import substitution policy implementation for the period of 2015-2019 showed that the growth of national output in a number of sectors of the economy is associated with measures of the state support and reliance on foreign technologies and production capacities, but not with the production internationalization and digital transformation [2]. The support policy of export activities in the Russian Federation has been officially actively implemented since 2016, which is connected with the creation of the Russian Export Centre JSC. At that, the analysts from the NRU Higher School of Economics [3] conclude that there have been no significant changes in the structure of Russian exports over the past 20 years, and raw materials remain the dominant commodity group.

The above facts indicate that the implementation of import substitution and export support policy actually did not contribute to the reindustrialization and modernization of the regional industry in the



country. Russian experts see the reasons for the identified trends in the decrease in the share of the main high-tech industries in GDP [2, 4], protectionism [2] and the associated unsatisfactory quality of Russian analogues of imported goods [2], low labour efficiency [4], low level of business confidence in policy [4], lack of demand in the domestic market [4, 5], lack of real institutional and structural transformations [4] and a working system of strategic development management [4], mainly raw material structure of Russian exports [6, 7]. At the present stage one of the key reasons for insufficiently implementation of the import substitution and export support policy in the RF is connected with the lack of systemic strategic management of the parallel implementation of the two types of policies at the regional level.

## 2. Problem statement

From the view point of the sequence of import substitution and export support policy implementation various models of regional industrial policy are described in the world economic literature. A number of authors describe a separate policy of import substitution [8, 9, 10, 11] or export support activities [12, 13, 14]. Moreover, vast majority of Russian scientific works are devoted to the implementation of separate policy of import substitution [5, 6, 15, 16, 17, 18]. Some authors describe regional industrial policy as an alternation of import substitution and export support policies [11, 19, 20, 21, 22]. At the same time, there is a scholarly debate on the priority of such policies implementation. In modern foreign economic literature, much attention is paid to the policy of export-oriented import substitution, when the considered types of industrial policy are implemented simultaneously [23, 24, 25], and also models of export-oriented import substitution of various world countries were studied and validated in detail [18, 26]. Russian economic literature generally describes the actual export-oriented import substitution policy as compared to the models described in foreign literature [27] However, the theoretical basis of the unique Russian model of export-oriented import substitution has not yet been formed.

In connection with the above, the purpose of this paper is to improve methodological approaches to the implementation of regional industrial policy for import substitution and export support in the Russian Federation.

The hypothesis of the research is as follows: the insufficient performance of import substitution and export support policies in the RF regions is related to the unsystematic implementation of both types of policies, lack of strategic vision for export-oriented import substitution policies. The research object is manufacturing industry, the research subject is regional industrial policy of import substitution and export support.

Research questions:

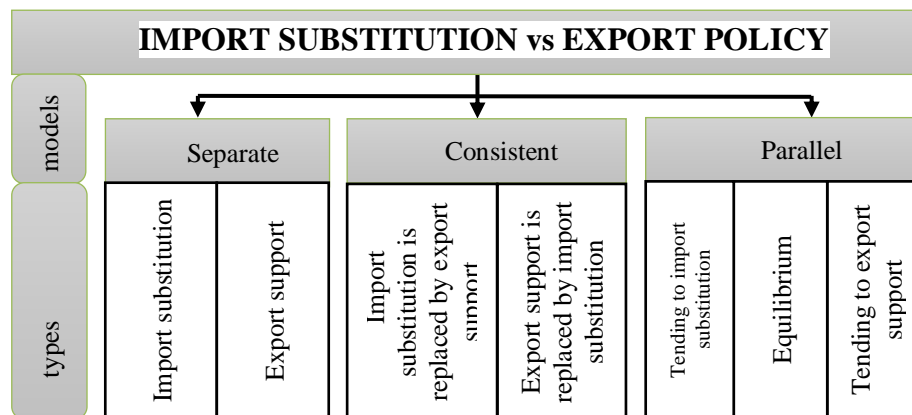
- 1) What models and types of regional industrial policy of import substitution and (or) support for export activities are described in the world economic literature?
- 2) What model of industrial policy of import substitution and (or) export support is declared in the Russian Federation at the federal level?
- 3) What models and types of industrial policy for import substitution and (or) export support have been declared in the regulatory framework of the constituent entities of the Russian Federation until 2020 and are planned for implementation in the new period of strategic planning?
- 4) How well developed is the regional industrial policy of import substitution and (or) export support in the legislation of constituent entities of the Russian Federation? Are the measures and activities consistent with the two policy types, are there overlaps or gaps in the legislation?
- 5) What models and types of regional industrial policy were implemented in constituent entities of the Russian Federation in practice in the period 2014-2018? To what extent do they correspond to those declared at the legislative level?
- 6) What are the features and prospects for the regional industrial policy implementation of import substitution and (or) export support in constituent entities of the Russian Federation?

In relation to the study, the following scientific methods were used: analysis and systematization of expert commentaries on the implementation of import substitution and export support policy abroad

and in the Russian Federation, content-analysis of Russian regulatory and program-planning documents of the federal and regional levels, correlation analysis of key indicators of import substitution and export activities of constituent entities of the Russian Federation, as well as methods of typology, comparison, analysis and synthesis, sequential groupings.

### 3. Research findings

As a result of the study, we classified the models and types of regional industrial import substitution and (or) export support policy presented in the world economic literature, and also supplemented the proposed classification with the author's definition of export-oriented import substitution policy types (see Fig. 1). Models of such policy include: 1) separate implementation of import substitution or export support policy; 2) consistent implementation of two types of policies in two versions: import substitution is replaced by export, or export support policy is replaced by import substitution; 3) parallel industrial policy or export-oriented import substitution.



**Figure 1.** Classification of models and types of regional industrial import substitution and (or) export support policy.

The model and the type of industrial policy of import substitution and (or) export support that has developed in the region can be assessed by the method of correlation analysis between the growth rates of the volumes of shipped goods from manufacturing and the volume of non-resource non-energy exports. If the correlation is weak or there is no correlation (the correlation coefficient ( $K_k$ ) is  $-0.29-0.29$ ), the region is characterized by separate policy of import substitution or export support. If the relationship is medium or strong negative ( $K_k < -0.3$ ) - consistent policy of import substitution and support for export activities (we assume that the presence of strong or medium negative correlation determines undeveloped opportunities for expansion of the domestic or foreign market). If there is average or strong positive correlation ( $K_k > 0.3$ ) between these variables, regional policy of export-oriented import substitution takes place.

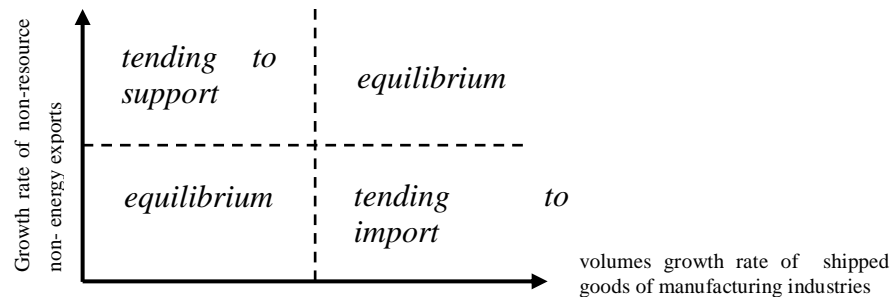
The type of export-oriented import substitution policy is determined by the comparative advantages of the regional economy in the world market, which can be both product and geographical. We propose to distinguish three types of export-oriented import substitution policy, depending on the phase of the region's immersion in foreign marketing (see Fig. 2):

1) tending to import substitution (implicit or rare foreign marketing) - surplus goods or services produced in the region are exported, as a rule, by intermediaries, the region does not make their own efforts to enhance export activities (geo-brand development, creation of representative offices, trade missions, etc.); this type is typical for regions that do not have strong product and geographical comparative advantages;

2) equilibrium (regular foreign marketing) - the dominant strategy is to meet demand in the domestic market, but the activity in foreign markets is also continuous (the region invests resources to

ensure its presence abroad), this type is typical for regions with product and / or geographic comparative advantages in the world market;

3) tending to support exports (dominant foreign marketing) - foreign market is considered by the region as the major market, i.e. production of goods and services is adapted to the needs of foreign markets, and production potential is integrated into global value chains.



**Figure 2.** Types of industrial policy of export-oriented import substitution.

Managing export-oriented import substitution implies gradual immersion of the region in foreign marketing, that is, the transition between phases from implicit to dominant foreign marketing by changing the economic and managerial factors of industrial policy. At the first stages of the implementation of export-oriented import substitution policy (the transition from implicit, rare foreign marketing to regular marketing), it is important to influence managerial factors, as the domestic market remains dominant and it is important to enable the export of surplus goods and services to external markets, as well as to attract foreign investment. At that step it is important to create an environment that is comfortable for foreign investors, partners and consumers within a region.

During the first stages of immersion in international marketing, special attention should be paid to electronic internationalization. When passing to dominant foreign marketing, it is important to influence economic factors by integrating the production potential of the regional economy into global value chains, and adapting products and services to the needs of global customers.

The legal foundations for import substitution and export support policy of the Russian Federation are laid down in the federal law of the Russian Federation "On industrial policy in the Russian Federation" No. 488-FL. One of the implementation tools of this federal law is the State Program of the Russian Federation "Development of industry and improving its competitiveness". In addition, the goals for export activities development are declared in the Decree of the President of the Russian Federation "On national goals and strategic objectives for the development of the Russian Federation for the period until 2024."

To achieve the goals and targets of the Decree, a national project "International cooperation and export" has been developed. The content analysis of these documents showed that a model for the parallel implementation of regional industrial policy is fixed at the federal level - export-oriented import substitution. In the most of constituent entities of the Russian Federation, import substitution plans have been developed for the period 2016-2020, which are generally well-developed, contain priority sectors, goals and objectives of import substitution, measures to support regional producers. Two stages can be traced in the implementation of the export support policy: 1) 2016-2017 and the adoption of the Regional Export Standard 1.0, within the framework of which regional export strategies were developed in 22 pilot regions of the Russian Federation or the relevant sections were included in strategic planning documents (for more details, [29] ); 2) 2018-2020 and national projects of the Russian Federation and the Regional Export Standard 2.0, within the framework of which regional export development projects have been developed in almost all constituent entities of the Russian Federation. Unlike export strategies, regional projects do not set goals, objectives, priorities and mechanisms for the non-resource non-energy exports development of a constituent entity of the

Russian Federation. Such projects were developed in 2019, but they are not the successors of import substitution plans and are not based on updated strategies for the social and economic development of constituent entities of the Russian Federation.

Strategies for social and economic development of constituent entities of the Russian Federation until 2020 rarely contain measures to implement the policy of export-oriented import substitution. New strategies for social and economic development 2030-2035 have priorities and measures for export activities development (but they rarely have analysis of export potential or study of potential demand in target markets), however, not in all constituent entities of the Russian Federation.

As follows from the analysis, it was found that the industrial policy of import substitution and export support was worked out in complex only in 6 constituent entities of the Russian Federation (Vladimir, Kaliningrad, Leningrad, Penza regions, the Republic of Crimea and Tatarstan). In 35 constituent entities of the Russian Federation, the industrial policy of import substitution and export support is reflected fragmentarily in the strategies of social and economic development (more often for the period up to 2030-2035) and program and planning documents. In 33 regions, planning documents were developed in the field of import substitution and export development (more often these are plans for import substitution 2016-2020 and / or regional projects in the field of export 2019-2024, which, however, are not successors).

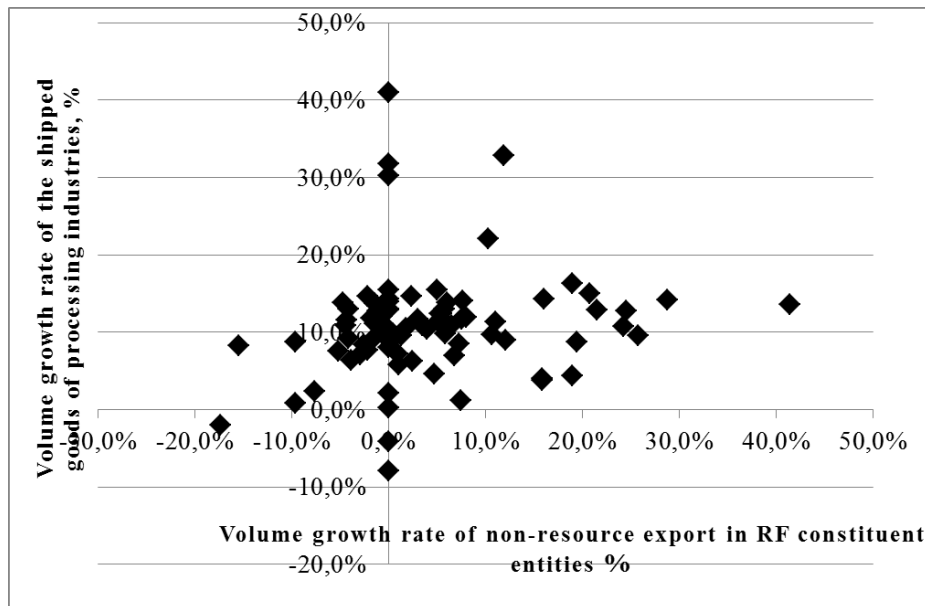
Comparative analysis of program and planning documents in the field of import substitution and export support made it possible to draw the following conclusions:

- the goals of the import substitution policy are more complex and are aimed at the development of the regional economy as a whole, while the goals of the regional export policy are rather private and are directly related to the development of export activities;
- import substitution policy is aimed, first of all, at the development of interregional cooperation, but in particular, at the development of international cooperation; export policy is aimed primarily at the development of international cooperation, and it does not imply cooperation between regions of the Russian Federation;
- import substitution plans outline the priority sectors of the regional economy, in contrast to regional projects in the field of export activities;
- measures of import substitution and export support policies are similar in the nature of support measures; at the same time, there is overlapping with measures, for example: organizing training events, promoting regional producers, fair and exhibition events, facilitating access to international markets.

Thus, in the Russian Federation, import substitution policy was initially declared at the regional level, which since 2019 has been replaced by export policy, i.e., import substitution and export support policies were planned to be implemented consistently.

To determine the actually implemented models and types of regional industrial policy, a correlation analysis of the growth rates of the volumes of non-resource non-energy exports and the volumes of shipped goods of manufacturing industries for the time interval 2014-2018 was carried out.

Fig. 3 shows that there is a weak positive correlation between the indicators.



**Figure 3.** Scattergram of constituent entities of the Russian Federation in terms of the growth rate of the volumes of non-resource non-energy exports and shipped goods of manufacturing industries.

For the period 2014-2018, in most of constituent entities of the Russian Federation, there was an increase in the volume of manufactured shipped goods (but for three regions: the Republic of Tyva, Ingushetia and Buryatia), which in general indicates the effectiveness of the import substitution policy. However, non-resource non-energy exports turnover varied unevenly in the specified period: in 55% of the RF subjects there was an increase in non-resource non-energy exports, in 14% of them - the volumes did not change, and in 28% of the regions, export volumes declined.

The use of successive groupings method made it possible to determine the groups of constituent entities of the Russian Federation that implement various models and types of industrial policy in terms of the correlation between changes in the non-resource non-energy exports volumes and the volumes of manufactured shipped goods (see Table 1).

**Table 1.** Models and types of regional industrial policies for import substitution and (or) export support in constituent entities of the Russian Federation.

Industrial policies type	Number of entities (% of total)
Separate industrial policy 35 (41, 6%)	
import substitution	32 (38%)
export support	3 (3,6%)
Consistent industrial policy, 12 (14, 3%)	
export support – import substitution	1 (1,2 %)
import substitution – export support	11 (13,1%)
Parallel industrial policy, 37 (44, 1%)	
Tending to import substitution	11 (13,1%)
equilibrium	18 (21,5%)
Tending to export	8 (9,5%)

It has been shown that constituent entities of the Russian Federation are quite diversified according to models and types of regional industrial policy. 41.6% of the regions are characterized by separate industrial policies (the correlation between the above indicators is weak or non-existent), and the vast majority of this group are affected by import substitution policies. Only 14.3 % of the regions have a

consistent industrial policy (as stated in the regional planning documents), with nearly always a shift from import substitution to export support policies. 44.1 % of the regions have an export-oriented import substitution policy, with the federal entities being fairly evenly distributed among the types of such policies, (with the vast majority of regions in the group performing implicit or rare foreign marketing, i.e. output grows faster than exports).

A comparison of the analysis results of regulatory legal framework and the correlation analysis leads to the conclusion that the measures and tools set out in the legal and policy documents for the implementation of industrial policy are not correlated with the results of such policies. Among the «strong» RF entities from the point of view of developing export-oriented import substitution policy at the legislative level, only 1 region (17%) implemented in practice the model of industrial policy of export-oriented import substitution. Among the «weak» RF entities from the point of view of developing the policy of export-oriented import substitution at the legislative level, 42% of them implemented in practice the model of export-oriented import substitution (in this case the effectiveness of such policy is not evaluated).

#### 4. Conclusions

As a result of the study, features of regional industrial policy implementation in constituent entities of the Russian Federation have been identified:

- At the federal level, policy of export-oriented import substitution was declared and, at the regional level, consistent policy of import substitution and export support was implemented;
- In spite of the consistent industrial policy model, which is declared in regional regulations, with transit from import substitution to export support, various industrial policy models and types were implemented in constituent entities of the Russian Federation in the period 2014 - 2018;
- Centralization of strategic and project management of regional industrial policies and poor consideration of regional specifics take place;
- Regional strategic and planning documents in the field of industrial policy rarely have measures and activities to transform the managerial factors of the effectiveness of export-oriented import substitution policies;
- The prospects for the regional industrial policy implementation in our country are outlined in the social and economic development strategies 2030 (2035) and regional export development projects, and defined as the transition from import substitution policies to export support policies.

Following the approval of the updated Strategies for the Social and Economic Development of the constituent entities of the Russian Federation, it is advisable to develop State programmes of the regions in the implementation of industrial policy, taking into account regional specificities (established patterns and type of industrial policy). In developing such programmes, the following recommendations should be borne in mind:

- Orientation towards the model of export-oriented import substitution and choice of such policy type, taking into account the product and geographical comparative advantages of regional economy;
- Development and implementation of an integrated internationalization strategy for the region, including its umbrella geo-brand;
- Study of labour productivity role in the region in the international division of labour, which determines the specialization of constituent entities of the Russian Federation and individual producers in the global market;
- Development of human capital, including in the area of export activities;
- Building up active corporate export culture at all levels of government and in all sectors;
- Assessment and use of the potential of interregional cooperation to achieve the goals and objectives of regional industrial policies for export-oriented import substitution.

Thus, by testing the author's approach to classifying and defining models and types of regional industrial import substitution policies and (or) export support was confirmed by the research hypothesis and the fact of unsystematic implementation of such policy in constituent entities of the Russian Federation was proved. Namely, gaps in federal and regional legislation in the field of import

substitution and export support were identified, as well as the gaps between the strategic and program planning documents of constituent entities of the Russian Federation and the models and types of regional industrial policy implemented in practice. The features of the Russian model of regional industrial import substitution and export support policies described in the study will complement the world economic literature, and the presented methodological proposals and practical recommendations may be used by constituent entities of the Russian Federation in the development of State programs in the field of industrial development for a new strategic period.

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