

“IMPORT PRESERVATION” IN LIEU OF IMPORT SUBSTITUTION¹

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Import substitution in the Russian industry shows obvious signs of a slow-down. Both comparative results of actually implemented import substitution quarter-on-quarter and plans of enterprises for the last quarter of the current year attest to this. At the same time, import substitution of machines and equipment was at a higher rate than import substitution of industrial inputs. It is true that the Russian machine building industry does not reduce procurements of imported equipment. The food processing industry is losing momentum in import substitution of inputs either having disillusioned in the domestic raw material base or having exhausted its potential. Significant part of the Russian industry pursues a policy of “import preservation” (in other words, does not reduce the share of imports) or even goes to “import expansion”. The latest assessment of the actual import substitution has been obtained for Q3 and forecast one for Q4 2015. Herewith, estimates of import substitution regarding industrial inputs was done separately from import substitution of machines and equipment.

According to the obtained results for Q3 2015 one can make a rather definitive general conclusion: the Russian industry has reduced the scale of import substitution. This refers to all indicators: inputs, equipment, actual changes and plans for Q4 2015. Let us conduct an in-depth analysis of import substitution taking into account comparable results for Q2 2015.

Industrial inputs

In Q3 2015, eighteen percent of enterprises have indicated a reduction of the share of imported industrial inputs. This result happened to be below the scale of import substitution registered in Q2 when 28% of enterprises reported a reduction of the quantum of import. Import substitution plans developed by the industry in Q2 2015 have failed to materialize in Q3 2015. Then 28% of enterprises were planning to cut the share of import. Current plans for Q4 2015 seem to be more realistic: 18% of enterprises are planning to cut the volume of import regarding their procurements of industrial inputs. In other words, to preserve the scale of import substitution in Q4 at the existing level of Q3 2015. Thus, actual import substitution of industrial inputs has contracted by 4 p.p. and plans for import substitution – by 10 p.p.

Similar results were developed by the analysis based on the comparable responses of enterprises which participated both in July and August business surveys. The analysis has indicated that the majority of enterprises (73%) preserved the existing import substitution policy in Q3 2015. Herewith, among all feasible scenarios the industry opted for the policy of retaining the existing share of import in its procurements of industrial inputs. There were 52% of such enterprises in the Russian industry.

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Just over quarter of enterprises have reported shifts in import substitution in Q3 against Q2 2015. At the same time, responses regarding the slowdown of import substitution have prevailed. There were 17% of such enterprises in two business surveys. Barely ten percent of enterprises indicated stepping up import substitution in Q3 against Q2 2015. In other words, merely ten percent of the Russian industrial enterprises have increased phasing out foreign made industrial inputs in Q3 2015.

Industrial plans for Q4 are clearer. 66% of enterprises are ready to stick to Q3 trends. Again, they prefer to preserve the existing share of import in their procurements. Remaining one third of enterprises decided to review their policy but not in favor of the Russian analogues.

23% of enterprises project slowdown of import substitution and merely 11% of Russian industrial enterprises project stepping up import substitution. Thus, balance of plans is also negative, i.e. import substitution will give way to import expansion.

Let us analyze sectoral features of import substitution in procurements of industrial inputs in Q3 and Q2 2015 (Fig. 1). Juxtaposition of import substitution scale which is estimated by the share of enterprises that actually reduced the quantum of import of industrial inputs has also demonstrated slowdown of import substitution practically in all sectors. Solely light, wood processing and metallurgical industries have shown an increase in the quantum of imports in Q3. In the light industry, this indicator has moved up to 8% against 4% in Q2. Thereat, 78% of the light industry enterprises reported that they had failed (did not want) to reduce the share of imports in Q3. In timber industry, the share of enterprises which have cut import procurements has gone up by 3 p.p. to 16%, where 80% of enterprises preserve existing dependence on imports. In metallurgical industry, the share of enterprises which have reduced import procurements is negligible (1 p.p.). Thus, these positive, at first sight, results of import substitution are very insignificant.

The remaining sectors have failed to achieve even these results. The most noticeable backtracking on import substitution has taken place in the food processing industry. In Q2 2015, the share of procurements of industrial inputs fell at 36% of enterprises. In Q3 2015, merely 16% of enterprises have managed to stick to the import substitution policy. As a result, decline in import substitution constituted 20 p.p. According to Q3 plans, 31% of enterprises projected import substitution in the procurement of industrial inputs. Q4 plans indicate feasible increase of import substitution by merely 3 p.p. (up to 19% of enterprises).

Therefore, the food processing industry having received unique advantages in the marketing of its products in August 2014, which were augmented by the ruble depreciation, became disappointed with the domestic raw materials. Now the industry is looking for other suppliers across the border.

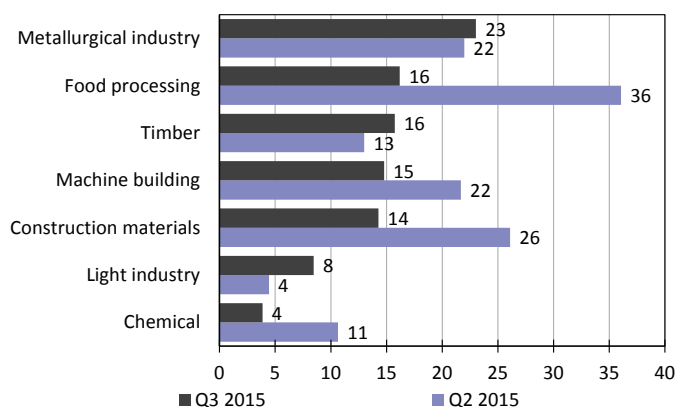


Fig. 1. Extent of actual import substitution in procurements of industrial inputs in manufacturing sector, %

Manufacture of construction materials takes the second place in import substitution slowdown. This sector is hardly dependent on imports of industrial inputs, but in Q2 2015, a quarter of enterprises managed to cut their dependence on imports. However, cooperation with the Russian producers has revealed the low quality and instability of supplies even of small volumes of critically important types of industrial inputs which traditionally arrived from abroad. As a result, construction industry decided, most likely, to turn to imports and reduced the scale of import substitution in Q3 to 14% of enterprises, although planned to stick to existing level of 25% of enterprises. Q4 plans envisage preservation of the Q3 indicators.

Machine building and chemical industries occupy the third place on the scale of reduction of import substitution with 7 p.p. of decline. However, the extent of import substitution reduction in these industries differ drastically. The Russian chemical industry showed minimum (in comparison with other sectors) import substitution levels both in Q2 and Q3 2015: 11% and 4% of enterprises, respectively, reported transition from imported industrial inputs to the Russian analogues. In Q4 2015, merely 5% of chemical enterprises plan to stick to the import substitution policy which is the minimum compared to other sectors. Russian machine building registers greater volumes of import substitution. In Q2, 22% of enterprises participated in import substitution and in Q3; 15% of them remained in this process.

Machines and equipment

In the sphere of machines and equipment, the Russian industry demonstrates more readiness for the transition to the Russian analogues than in case of industrial inputs. Actually 26% of enterprises were switching to the Russian made equipment in Q3 2015, although 31% planned to do so. In Q4 2015, a quarter of enterprises reported plans for import substitution.

In Q3 2015, the timber industry has achieved best results in the sphere of import substitution. Nearly half of enterprises of this industry reported a reduction of the share of imported equipment in their procurement. These results are improved taking into account the fact that 23% of enterprises registered import substitution and plans for Q3 envisaged its preservation at Q2 level. However, the sector managed (or was forced) to achieve better results in this sphere amid stagnation of the Russian economy and decline demand for its products on the domestic market, economic instability of the countries which consume Russian timber industry products and features of the sector investment cycle. All other sectors at best preserved existing (Q2 2015) proportions of import substitution.

High proportions of import substitution is observed regarding equipment used in the construction materials industry. Both in Q2 and Q3 2015, no less than 40% of enterprises of this industry substituted more expensive import equipment with the Russian analogues. In the wake of the crisis which engulfed the construction industry, increased competition for supply of inputs amid falling market and pessimistic expectations regarding the crisis, enterprises of the industry are revising their investment programs both in terms of reduction and cost-cutting. Industry's plans for Q4 (41% of enterprises) demonstrated Q2 proportions of import substitution and proved to be the highest against other sectors. To note, sectoral plans for Q3 envisaged import substitution of machines and equipment for about 40% of enterprises. Thus, the construction material industry demonstrates not only the highest pro-

portions of import substitution but also the most stable indicators in this sphere.

Russian metallurgical industry shows high stability of actual and planned results of import substitution of equipment. In this sector, a quarter of enterprises actually reduces the share of the investment import and plans to continue doing so in Q4 2015.

The food processing industry demonstrates the same proportions of import substitution. 24% of enterprises of the industry were cutting the share of import in their procure-

ments of machines in Q2 and 23% – in Q3 2015. However, sectoral plans for Q3 were a bit higher amounting to 29% and fell a little bit to 27% for the last quarter of this year. Nevertheless, the food processing industry registered the highest level of import preservation. We can call so those enterprises of the industry which reported unchanged (or even growth) share of imports in their procurement of equipment. There are 74% of such enterprises in the food processing industry. As a result, conventional for the business surveys balance of responses (import substitution – import preservation) has worked out not in favor of the national policy in this sphere (-51 p.p.) with the minimum independence of the sector from foreign made equipment. Sector plans for Q4 indicate attempts of enterprises aimed at import dependency. For example, solely 62% of enterprises project to preserve the existing share of imports which dropped the balance of import substitution investment plans to -35 p.p.

The machine building industry proved to be one of the two sectors which cut the scale of actual import substitution in Q3 compared to Q2 – 22% after 32%. Similar situation is true of the plans in this sector: they fell from 33% in Q3 to 22% in Q4. Thus, both actual scale and plans of import substitution lost 11 p.p. each. The machine-building sector definitely refuses to procure domestic means of production and tries to preserve the existing share of imports: in Q3, the share of advocates of import preservation in the sector went up to 64% after 52% in Q2. Resolution of this problem even after the devaluation and rising costs of imported equipment is offset by a sharp fall of the sector investment plans.

The light industry was the second one which reported a decline in import substitution of equipment. In Q2 2015, this industry reported that 25% of its enterprises had refused to procure equipment from abroad. However, in Q3 2015, solely 12% of its enterprises have stuck to the import substitution policy. Similar scenario is unfolding with their plans: in Q3 31% of light industry enterprises reported about plans to refuse foreign equipment. However, in Q3 merely 15% have reported such plans. Two-fold reduction of the import substitution pace in the light industry can be explained both by a lack of required equipment production in the territory of Russia and by the attempts of the industry to market its products across the border following ruble depreciation. In However, they seem to be unsuccessful so far.

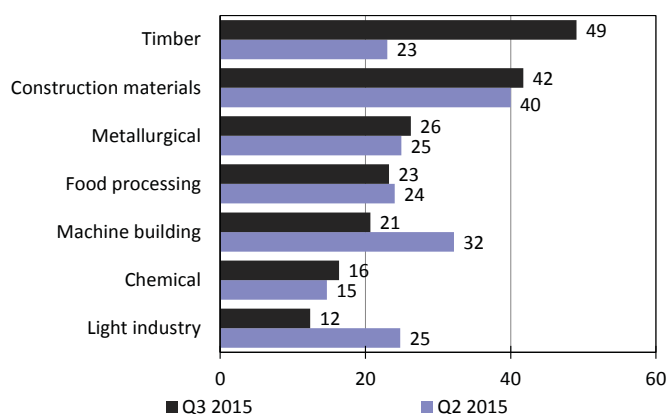


Fig. 2. Extent of actual import substitution in procurements of machines and equipment in manufacturing sector, %

September 2015, barely 7% of enterprises have reported increase of export demand for their products following ruble devaluation. Furthermore, due to ruble devaluation 17% of enterprises of the light industry have indicated an increase of domestic demand: more expensive foreign made consumer goods force the Russian consumers to cross over to the products made in Russian, although not in the amounts which the followers of the devaluation protection of domestic producers expected.

On the whole, we can say that the lack of required industrial inputs and equipment actually makes the Russian industrial enterprises to turn to critically important import and gradual adjustment to new prices allows them to achieve it. ●