Import-substitution, some clues from international experiences

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The concept and limits of import-substitution policies

The main ideologist of the concept of import substitution in the 20th century an Argentinean economist Raul Prebisch, The main priority was the "self-reliance“. In the case of Argentina, one can argue that the result was mixed, with an obvious lack of competitivenesss of national companies.

Similar policies were implemented with some success in Brazil in the second half of the 20th century, with less success in Africa.

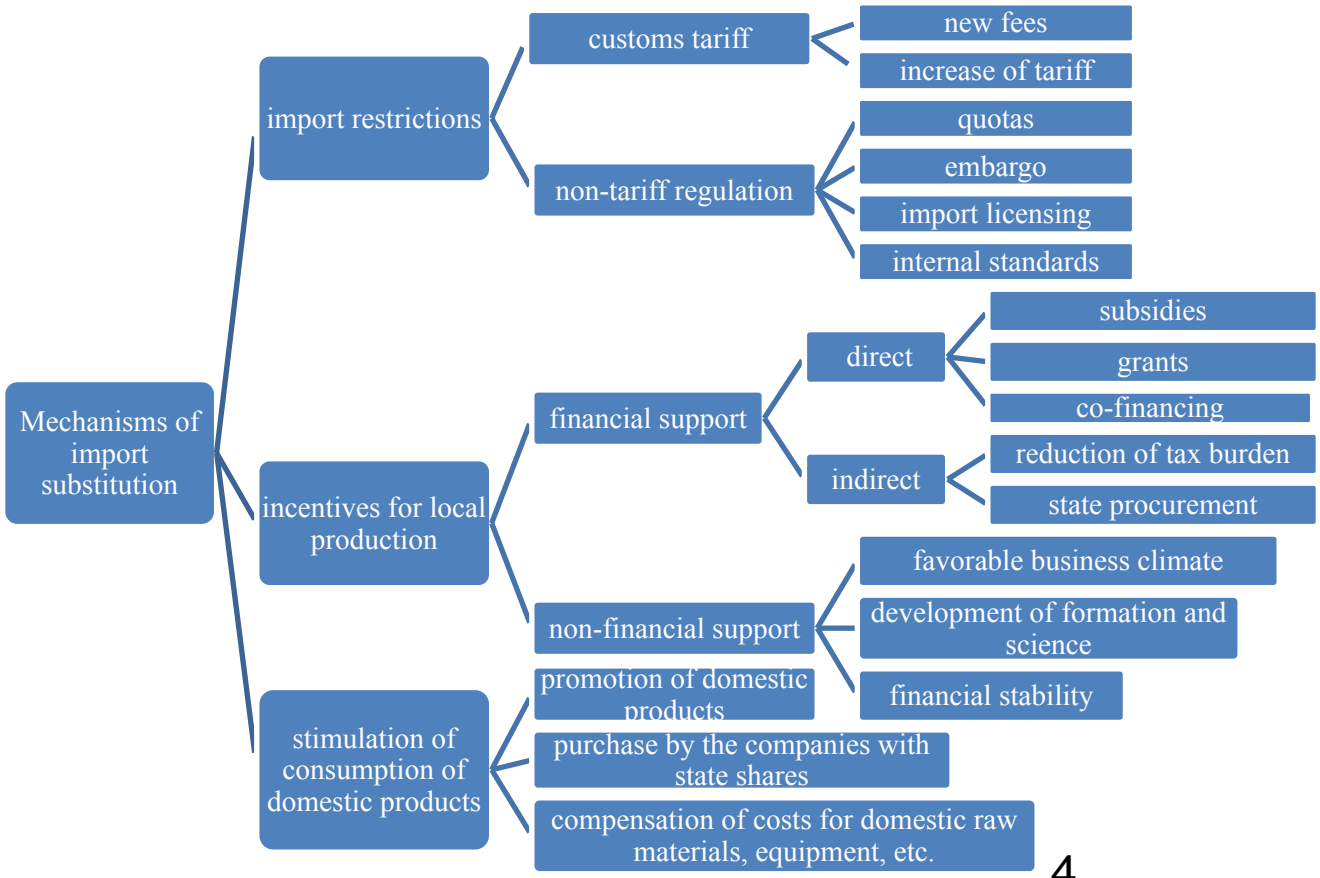
Several industrialised countries have also implemented such policies. Among them Japan and France.

The concept and limits of import-substitution policies

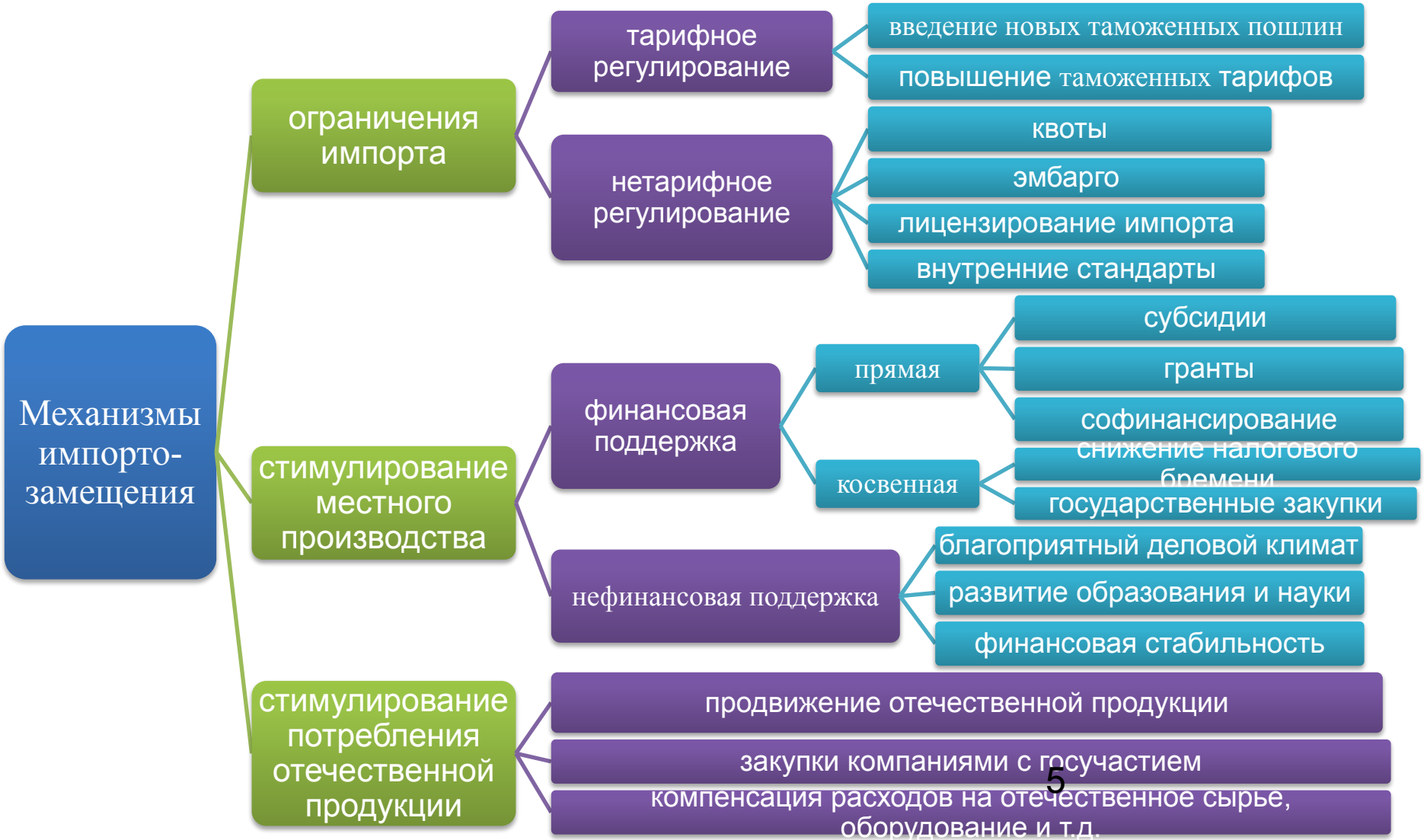
Import-substitution should be distinguished from pure protectionism in a sense that its aim is to promote the coherence and competiveness of the National System of Economy **in the long run**. The main goal consists neither to close the domestic market no to preserve a backwardness, but rather to **create truly competitive new industries** that produce high-quality and highly-demanded products.

To realize import-substitution policy it may be used a variety of mechanisms: customs tariff (fee) and non-tariff (quotas, import licensing) regulations, as well as subsidies for domestic production and other tools of financial and non-financial state support. **They do not have the same efficiency in terms of industrial policy.**

The complex mechanisms of of import-substitution policies



Комплексные механизмы импортозамещения



Import-substitution and new industrialisation: Action on the whole productive chain

In modern economies, the interaction between industries is complex. Increasing the competiveness of one industry requires increasing the competitiveness of its suppliers. It also requires actions on other factors such as demand, links with education and research, financing…

The cases of import substitution policies implemented in Japan in the 70's and France in the 80's give good example of the complexity of such mechanisms.

Mechanisms of of import-substitution policies.

The case of the electronics industry in France in Japan – 1970's and 1980's

. Specificity of high tech industries: cumulative nature of technological leadership. The better you are, the better you become. Ever growing investment required.

. Role of public policies : financing Rand D, reducing technological uncertainties, favouring the emergence of new markets, providing bridging mechanism between RandD and industry.

. A that time very strong US domination.

 Need for a very strong public action to catch up.

Mechanisms of of import-substitution policies.

The case of the electronics industry. Japan – 1970's

Late 60's: only one strong area in the electronic industry, consumer goods.

Heavy dependence upon imports in

. Telecommunications.

. Computers (over 50%)

. Semiconductors (over 70%).

Mechanisms of of import-substitution policies.

The case of the electronics industry. Japan – 1970's

Very active public policy at all levels:

. Computer industry. Promotion of alliances between domestic manufacturers.

. Plan for an « information society » (Jacudi) with strong action on demand.

. Priority on the component industry, especially semi-conductors and integreted circuits, percieved as key industry for the whole sector:

Mechanisms of of import-substitution policies.

The case of the electronics industry. Japan – 1970's

The japanese plan to catch up in semiconductors and integrated circuits

. Subsidies to R and D and industry and through a coordinated plan (VLSI plans)

. Reliance on the consumer good industry as the major customer to favor domestic suppliers. In the process concumer electronics manufacturers became component manufacturers.

. Natoional preference for public purchasing, especially in telecommunications.

. Promotion of links between research centres and industry

Mechanisms of of import-substitution policies.

The case of the electronics industry. Japan – 1970's

Results in mid 80's

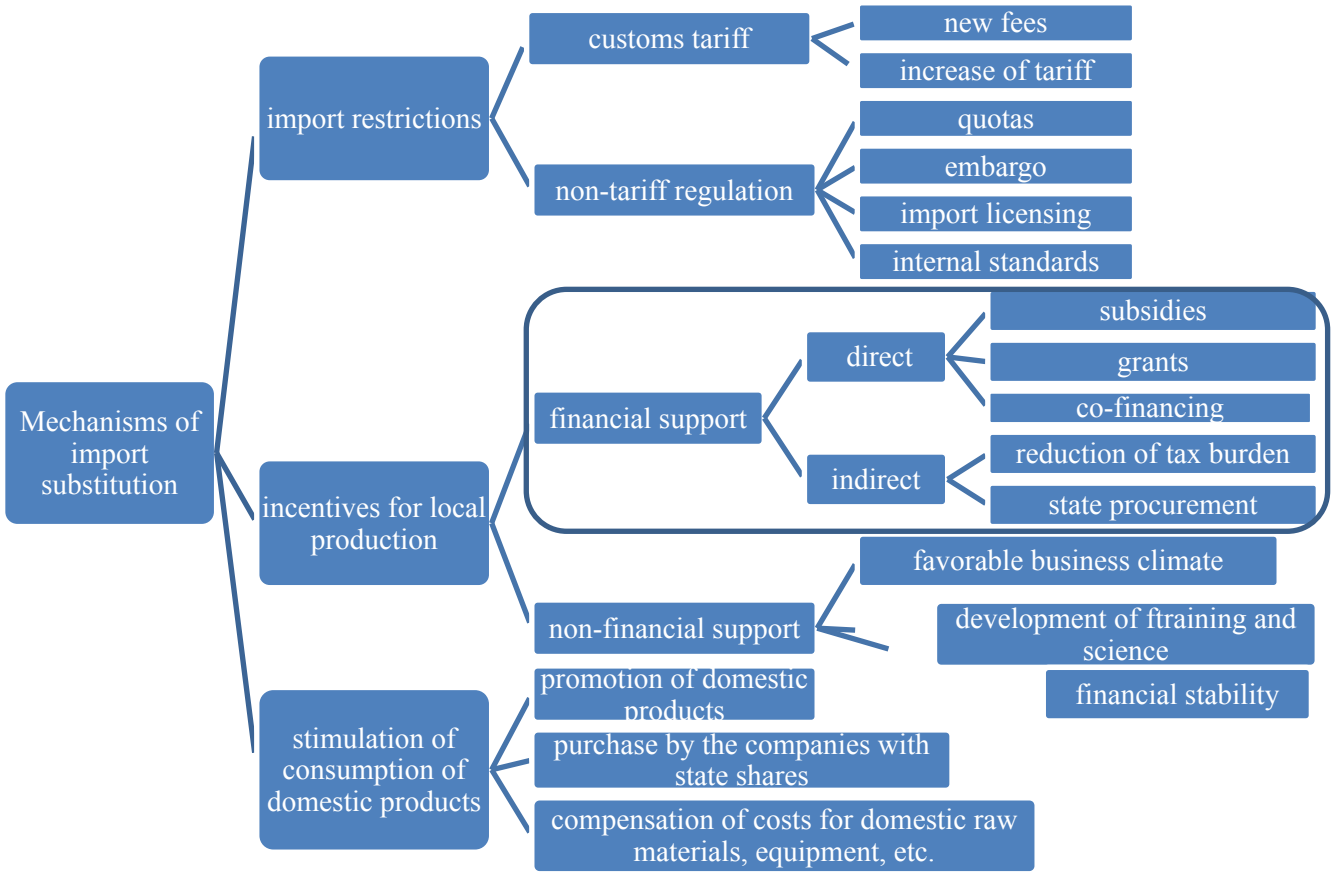
. Continuation of domination in consumer electronics.

. Computer and telecom industry competitive at world level.

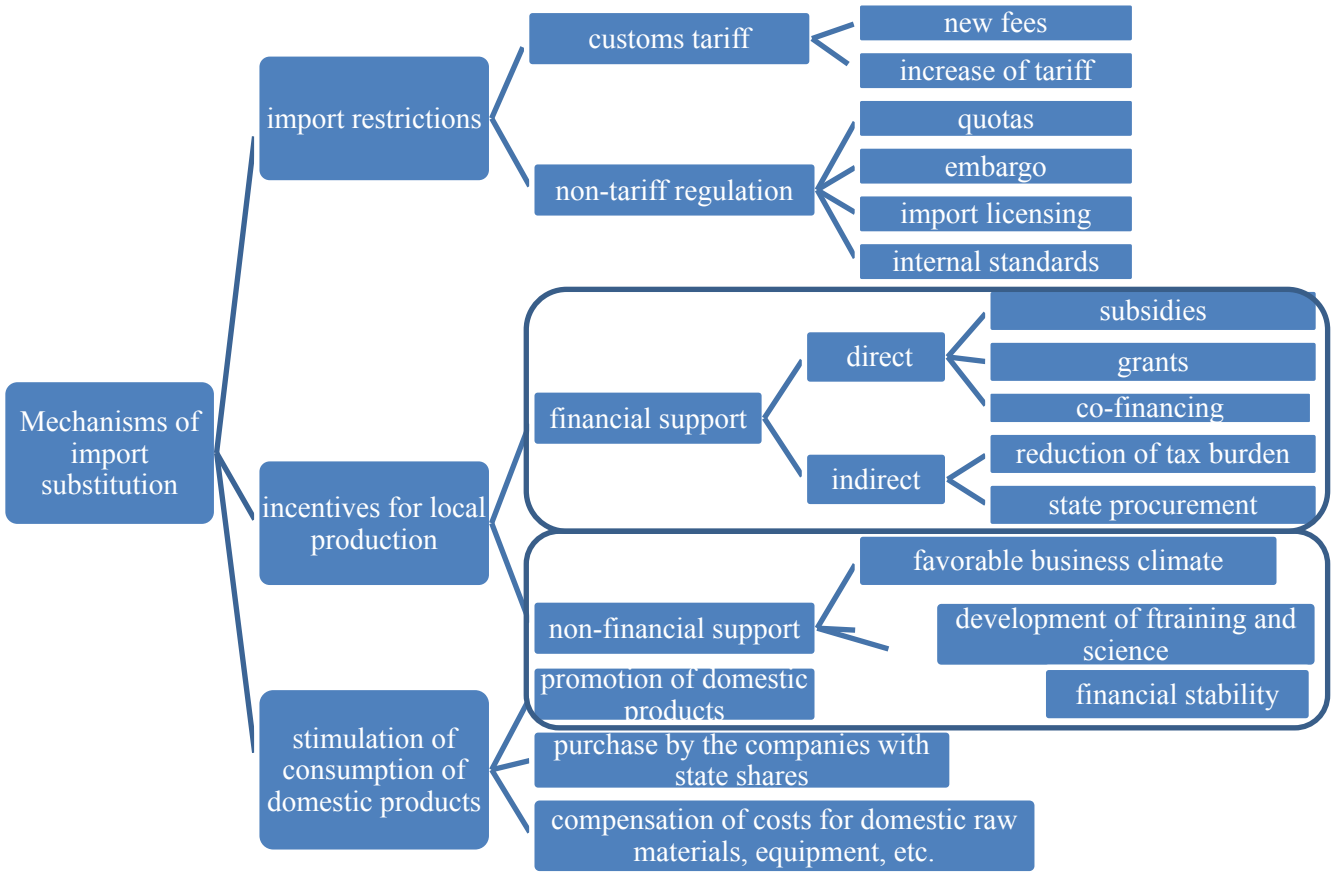
. Semiconductor industry covered more than 100% of domestic consumption. Became net exporter in such areas as memories. One deficiency = microprocessors.

 Was the result of an action at a multiplicity of levels.

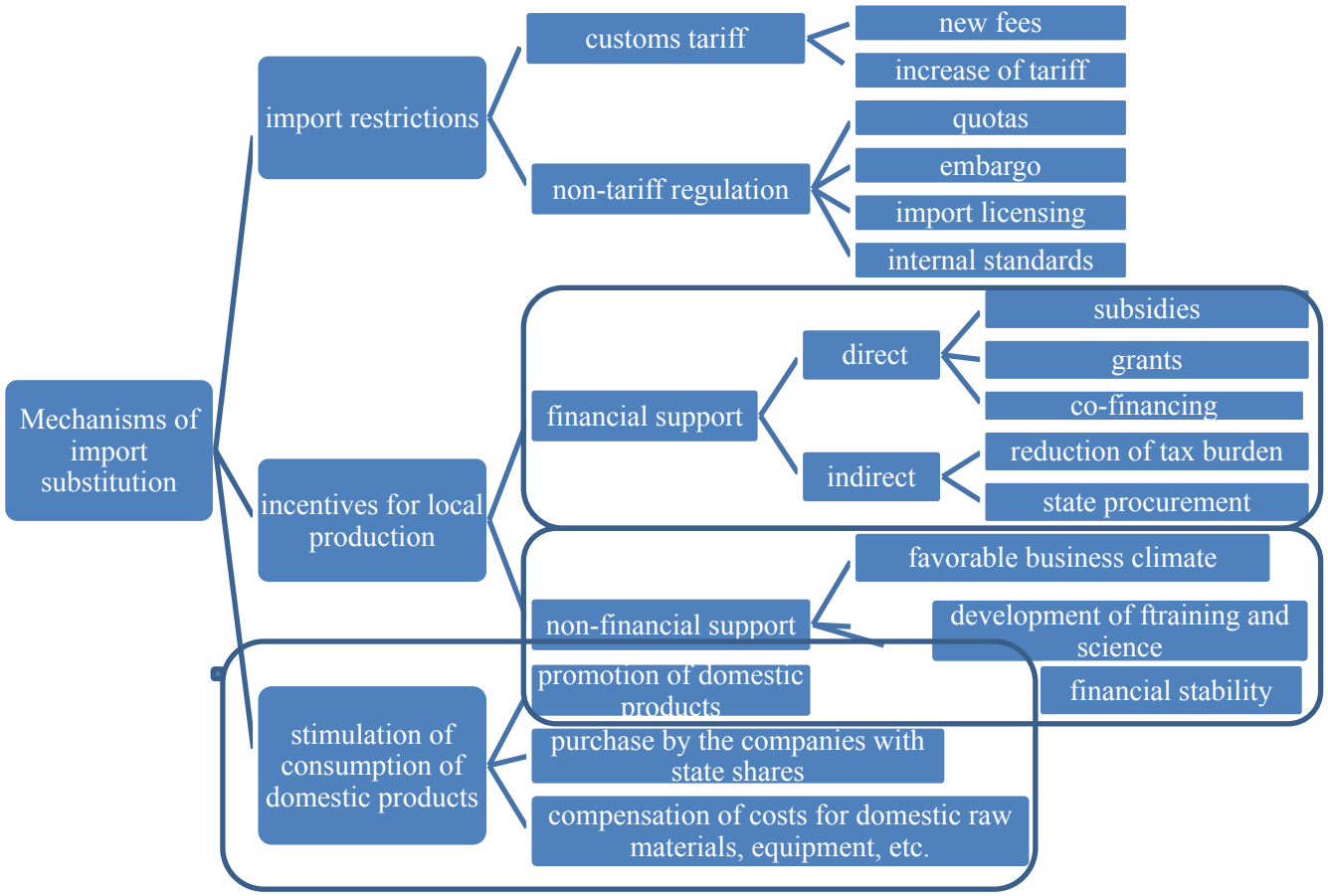
The complex mechanisms of of import-substitution policies. Japan 1970-1980



The complex mechanisms of of import-substitution policies. Japan 1970-1980



The complex mechanisms of of import-substitution policies. Japan 1970-1980



Mechanisms of of import-substitution policies.

The case of the electronics industry. France – 1980's

1981. New government with a will to promote industrial policy.

Telecom industry had catch-up in the 70's

Heavy dependence upon imports in

. Consumer goods.

. Computers.

. Semiconductors.

Mechanisms of of import-substitution policies.

The case of the electronics industry. France – 1980's

Coordinated action, partly inspired by the Japanese strategy.

Nationalisation of the major companies in the area.

Global plan with strong accent on R and D.

Negociation on precise targets with companies.

Specific plan on semi-conductors, relying on domestic research capabilies as well as on licencing agreements. Very signicant subsidies.

Non tarif barriers to promote domestic productionof cusumer goods.

Mechanisms of of import-substitution policies.

The case of the electronics industry. France – 1980's

Mixed results

Very good in telecommunications and professional equipments and systems.

Partial success in semiconductors with the emergence of one of the top 10 world manufacturers.

Not very succussful in consumer electronics.

The complex mechanisms of of import-substitution policies.

What about Russia?

Import-substitution and export-oriented industries: the case of Russian software

Russia has the potential to develop a competitive industry in high-tech sectors such as IT and internet. The cumulative turnover of Russian software development companies increased by 5% and amounted to $12 Bn in 2014.

Yet the most dynamic part of the industry – 6B$ and 11% growth - is offshore outsourcing which was favoured by the depreciation of the ruble but has little linkage effect with the rest of the economy.

Import-substitution and export-oriented industries: the case of Russian software

Recent policies measures have pushed to replace foreign suppliers of software by national companies, especially for purchased by public companies or organisations.

This makes sense under several conditions :
. That Russian suppliers are technically able to provide the same quality – which seems to be true in most cases – at the same price or lower.
. That there is real competition between domestic suppliers.
. That the industry resumes it effort in export markets.

Import-substitution : Action on the whole productive chain

More generally, efforts of import-substitution in Russia should be focused on building synergies between traditional industries and the modern sector.

A **coordinated policies of linkages** could be applied in a whole array of industries :
Agro-industries.
Aircraft and aerospace.
Pharmacy and fine Fine chemistry;
Energy efficiency.

Conclusion

International experiences show that import substitution is **a long-term strategy,** that requires:

. Planification.

. Integration of all aspects of the productive chain, including education and science.

. Taking into account demand and social needs.

. Creation of a favorable ecosystem.

. Proper financing.

. Careful implementation, especially to avoid pure opportunistic strategies from existing actors.

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Спасибо за внимание