

DEVELOPMENT OF GOVERNMENT SUPPORT FOR IMPORT SUBSTITUTION IN SMALL AND MEDIUM ENTERPRISES OF NORTHERN REGIONS

Bogomolova L.L.*

Abstract: The paper surveys topical issues of import substitution based on the potential of small and medium enterprises in oil and gas producing regions of the North under conditions of crisis and sanctions. It analyzes the activity of small and medium enterprises and proves the need of imported goods substitution with domestic ones in Khanty-Mansiysk Autonomous Okrug-Yugra (region). The research sets strategic priorities for government support aimed at import substitution in small and medium enterprises. The objective of the research is to make economic assessment of small enterprises development in the oil and gas producing region under conditions of crisis and to prove strategic priorities of the government support for import substitution in Khanty-Mansiysk Autonomous Okrug-Yugra. As the result the scientific research is supposed to make an economic development assessment of entrepreneurship in traditional industries of minor indigenous peoples of the North as one of the prospective ways of import substitution.

Key words: government support, small and medium enterprises, import substitution, strategic directions, development

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Introduction

Khanty-Mansiysk Autonomous Okrug – Yugra is one of the world's major oil producing regions leading in the production of oil, electric power, industrial output and gas. Enterprises of the autonomous region make a substantial contribution to the Russian economy, equally to approximately 7.5 percent of industrial production and 15.1 percent of government budget revenue. The share of Khanty-Mansiysk Autonomous Okrug – Yugra in all Russian oil production output constituted 48 percent in 2013. A total of 104 oil and gas companies operate within the territory of the Okrug. The region's share in total output of gas production in Russia is 5 percent (Bogomolova, 2014a).

Over 24.2 thousand small and medium enterprises are doing business in Khanty-Mansiysk Autonomous Okrug – Yugra. More than 138.8 thousand people are employed in small and medium enterprises. The turnover of small and medium enterprises including microenterprises is approximately 454.6 billion Roubles and has grown at an annual rate of 42 percent over the past 3 years. The turnover share of small enterprises in total GRP is 16.9 percent. Development of small and medium enterprises in the autonomous Okrug as well as in Russia is taking more increasing political, social and economic meaning. This is the main challenge for

* **Lyubov L. Bogomolova**, Associate Professor, Candidate of Economic Sciences, Yugra State University, Institute of Management and Economics

✉ Corresponding author: sci.publ@gmail.com

the regional government since its support for the development and establishment of small enterprises provides the basis for sustainable regional economy in general, creates new jobs, extends the tax base and as a result, improves living standards in the region. Under the current development crisis of the regional economy, Khanty-Mansiysk Autonomous Okrug – Yugra faces new goals and challenges associated with ensuring the sustainable economic growth which basically consists of driving up the demand for domestic-produced goods on the consumer market based on import substitution. Considering this, a special role may be assigned to small and medium enterprises as they are the final point in the production-consumption.

Research Methodology

Methodological base of the research are works by foreign and domestic economists on the governmental support for import substitution as well as laws and regulations on the governmental support for small enterprises, and also decrees and orders of the Government of Khanty-Mansiysk Autonomous Okrug – Yugra on providing facilities for creating import substitution industries and directions for small enterprises in the region. The problems of import substitution as an economic process of replacing import goods with domestic ones are analyzed in studies by the following Russian researchers: L. Abalkina, G. Trofimova, E. Logacheva, S. Chetverikova, F. Fedolyak, E. Nazarchuk (Nazarchuck, 2005), Z. Omarova. Most of works are of a clear scientific character and contain the results of thesis researches. Theoretic aspects of development of the import substitution process are highlighted in a series of works by some foreign scientists, such as A. Straut and N. Carter who noticed the necessity for replacing import goods with national goods. Z. Okrut and W. Jouineau justified that the government import substitution policy is necessary only in a particular limited period of time in order to augment the resource potential of a country. H. Singer and R. Prebisch considered import substitution as direction of economic development for developing countries. G. Myrdal, A. Gruchy, P. Massé are the scientists who asserted that stability of a national economy is possible in terms of increasing industrial self-sufficiency. Studies by foreign researchers W. Bauer and J. Sachs represent import substitution as a process of practical substitution of goods in developing countries (Bauer, 1972; Sachs, 1974).

Scientific research on import substitution is supposed to be conducted through economic methods of system and comparative analyses, statistics, using methods of economic forecasting and economic modeling. A method of analysis, diagnostics and forecasting of import substitute on which is based on the management-by-objectives method of the governmental support for small enterprises development is supposed to be used as the main one.

Research tools are assumed to develop an indicator system designed to assess governmental bodies' actions within the management-by-objectives method of the

governmental support for the development of small enterprises. The following techniques are used in the research:

- Assessment of the impact of regional peculiarities on import substitution development in small and medium industrial enterprises;
- Assessment of the efficiency of the management-by-objectives method of the governmental support for import substitution;
- Forecast of key indicators of the mid-term development of import substitution.

The scientific research will be conducted using the following principles:

- Principle of the governmental approach assumes the assessment of economic phenomena, processes and results of economic management. When making an assessment of certain results of small enterprises' economy it is necessary to take into consideration their correspondence to economic, social, ecological, international policy and law system of the Government;
- Principle of scientific content stipulates the research complexity, requires the coverage of all links and aspects of activity as well as the comprehensive study of casual dependences in small and medium enterprises' economies;
- Principle of consistency assumes that the study object is considered as a complex dynamic system composed of a series of elements connected one with another and the environment in a special way;
- Principle of objectivity, specificity and accuracy should be based on true, reliable information that actually reflects objective reality and its conclusions should be proved by exact analytical calculations;
- Principle of efficiency of scientific research is based on the postulate stating that expenditures on its conduction should produce an abundant effect.

The Main Part

The modern state of economies in northern oil and gas regions under conditions of political instability and crisis is characterized by inflation and increase in basic raw material industries. These industries significantly affect the increase of inflationary developments in non-resource economic sectors and as the result affect the consumer inflation increase on the principle of a closed chain. Goods, labour and services not related to imported operations as well as to the rise of dollar and euro grow rapidly because of the pervasive price increase and this panic boosting kindles new, unreasonable inflation. It is rather difficult to curb growing prices on the market in terms of unpredictable prices on goods, labour and services. The growth of consumer inflation affects the cost-based mechanism of small and medium enterprises and suspends their economic development, the recession of which may cause cut-off of inefficient economy lines which is definitely unacceptable (Larionova et al., 2014).

The governmental policy under applied sanctions is compelled to target only on the Russian market and to concentrate its efforts and recourses on substitution of imported goods with domestic goods (Murzina et al., 2015) This means that the

domestic policy of Russian northern oil and gas regions will be aimed at import substitution industries mentioned in special anti-crisis policy documents of the region as priority ones and consider the resource potential of small and medium enterprises as elements assisting this process.

During the IVth Congress of the Russian Union of Entrepreneurs and Industrialists the President of Russian Federation Vladimir Putin said: *"We will provide necessary support for our companies to help them enter the global market, defend their interests through the WTO mechanisms and other legal regulations. Competitiveness of domestic business is a guarantee of national competitiveness... Our general mission is to provide a new quality of economy and development of domestic industrial sector. This is the motive power of long-term economic growth, scientific progress and solution for social challenges... Russia must be competitive in all key parameters in business environment. We will continue providing best facilities for investments, establishing new manufactures, training skilled professionals"* (The IV Congress of the Russian Union of Entrepreneurs and Industrialists proceedings, 2015).

The necessity for import substitution in regional economy of northern oil and gas regions is stipulated by a set of factors appeared in Khanty-Mansiysk Autonomous Okrug – Yugra:

- The economy of the autonomous region is an export oriented and sector-specific economy. Khanty-Mansiysk Autonomous Okrug – Yugra is export oriented region where export accounts for 95.6 percent of the total foreign trade turnover, while import accounts for 4.4 percent. Crude oil account for 99.4 percent of the total export turnover. Import of goods and services into the region increased by 8.4 percent within the last year (Bogomolova, 2014a). The necessity for import substitution is stipulated by necessity for the regional economy to be diversified due to its sector-specific nature;
- Development peculiarities of regional economy (Bogomolova, 2014b) of oil regions affect the sectoral structure of small and medium enterprises, the price dynamics of imported goods and import priorities;
- Embargo imposed on goods supply from countries that joined sanctions against Russia has given small and medium enterprises real opportunities for selling own-produced goods. Now when the Russian market is closed for foreign goods and services it is crucial to occupy the empty niche as soon as possible. It is also necessary to promote urgently the advantages of high-quality and organic own-produced agricultural goods on consumer market, goods of traditional industry of minor peoples of the North (wild harvest, reindeer production, fishery and other), timber processing and other goods produced by local small enterprises;
- 70 percent share of the confectionary; bakery and soft beverages production had been transferred to Yugra by 2007. Therefore, small and medium enterprises which strategically tend to extend own production today will be in a winning situation later.

Objectively, economic sanctions imposed against Russian companies by foreign countries reflected badly on small and medium enterprises in Yugra. But one should not take sanctions in a negative way only. On one hand, they practically put both the industrial growth rate and the selling ability in some economic sectors back and caused the production rate to decrease in small and medium enterprises. On the other hand, those same sanctions gave manufacturers new opportunities and guidance for understanding the importance of domestic production and domestic goods, labour and services. Therefore, meaning that they gave additional stimulation to embody ideas into real import substitution projects.

Main directions of the governmental support in terms of import substitution will be promotion of small and medium enterprises producing goods that substitute imported goods especially agricultural ones; providing comfortable facilities for small and medium enterprises aimed to produce goods for import substitution and to attract investments in real economy.

The proper effect will be achieved through providing small and medium enterprises and responsible investors with tax and other benefits; eliminating the administrative barriers; improving competitiveness on the consumer and other markets. The governmental support for small and medium enterprises will be continued with a view of providing comfortable facilities to fulfill mid-term entrepreneurial initiatives. By virtue of special natural and climatic conditions Khanty-Mansiysk Autonomous Okrug – Yugra is well-provided with own-produced provisions only for 10 percent on the average. The agro-industrial sector of Khanty-Mansiysk Autonomous Okrug – Yugra satisfies its population's needs in potatoes for 52 percent, in vegetables for 14 percent, in eggs for 10 percent. Food producing enterprises within the processing sector cover 3.9 percent. Taking into consideration climate conditions of the region, the agro-industrial sector of Yugra contributes to the market basket not more than 15 percent of the domestic goods, with all that the share of processed goods does not exceed 5 percent. This volume of produced goods is definitely scarce. Traditional industries of the agriculture in the region are able to supply 65-80% of domestic goods. They are meat and milk products, potatoes and a variety of other goods which are always produced in good supply here. Import substitution is focused on these directions in farm enterprises and small agricultural enterprises in the region. Thus, it is planned to have become a self-dependable region in potato production for over 70 percent by 2017.

Substantial import substitution has taken place on the consumer market in Khanty-Mansiysk Autonomous Okrug – Yugra within last years. It is basically food products, vegetables, fruits, meat and milk products. There are not many foreign goods on the Yugra market and its volume is declining since the import substitution course has been taken. Wholesalers and retailers try and meet the requirements of consumers who ask for domestic goods above all others.

Furthermore, the high dollar exchange rate does not foster purchases of imported goods. The consumer market dictates its terms concerning supply and demand for imported goods owing to the spirit of times and geopolitical situation. Retail

trading reflects downward trend in import, foreign goods which sales have decreased by 67 percent within the last year and even today the agro-industrial sector is ready to fill the niche in the region.

The main implementation tool of the governmental development policy for small and medium entrepreneurship is the promotion of small and medium enterprises which deal directly with import substitution process. The government support for the small and medium entrepreneurship in Yugra under conditions of crisis will be provided through the set of measures aimed at financial, property, and informative, consulting and training support.

Table 1. Import substitution dynamics in the regional economy

	Current value	Year 2015	Year 2017	Growth rate,%
Number of business-missions abroad, yearly, units	5	6	7	40
Number of organizations which take part in exhibition and trade fair activities abroad, yearly, units	30	40	65	116
Number of fairs, presentations, trade exhibitions for commodity producers, units	106	135	175	65
Creation (modernization) of new high-performance jobs followed by investment projects in timber industry, units (running total)	40	75	150	275
Timber processing and wood manufacturing index, percent	105.0	105.0	105.6	-
Number of economic entities in agro-industrial sector, units	834	842	855	2.5
Number of constructed and reconstructed livestock farms, units	2	2	3	50
Forage crops area per agricultural organizations, peasant (farm) enterprises and self-employed entrepreneurs, thousand hectares	1.5	1.8	1.8	11
Livestock and poultry production for slaughter in all types of economies (as per live weight)	13.5	13.7	13.9	2.9
Milk production in all types of economies, thousand tons	26.0	26.1	27.5	5.7
Fish farming, tons	300	350	450	50

In accordance with governmental support activities it is planned to allocate funds from the region's budget for establishment and development of the support infrastructure for small and medium enterprises in innovation and industrial production spheres as well as in import substitution (business incubators,

technology park, center for cluster development, prototyping center). This infrastructure promotes introduction of new technologies and creates instruments for involving small enterprises into industrial processes of large-scale companies enhancing opportunities for domestic goods selling i.e. promoting import substitution.

The action plan of the «road map» for import substitution in Yugra in 2015-2017 is worked up in such a way that one should take into consideration the activity of small and medium enterprises in order to reduce dependence on imported goods, labour and services in the autonomous region. This should be done by means of meeting the domestic demand for high-quality domestic goods and improvement of utilization efficiency of imported technologies through providing facilities for development of competitive efficient organizations. The “road map” for import substitution supposes to increase the production volume of domestic producers in agriculture by 15 percent, timber industry by 12 percent and fishery by 35 percent. Governmental support funds allocated to promotion of small and medium enterprises have aggregated to approximately 6249.13 mln roubles for the past 3 years. For more financing of the Small and medium enterprises promotion subprogram as a part of the government program-2014 the federal budget granted 244.5 mln roubles subsidies (215.2 mln roubles in 2013) to support small and medium entrepreneurship including peasant (farm) enterprises. It is projected to grant 37 percent of the government support to develop small and medium enterprises. The volume of goods to be sold in Khanty-Mansiysk Autonomous Okrug – Yugra is not declining; instead of it a practical import substitution takes place. Together with innovations, establishment of the food market infrastructure, material and technical base modernization, small enterprises development, the import substitution becomes one of the strategic missions in the region and its completion will promote further sustainable development of the agricultural sector as a prospective industry of the regional economy under conditions of sanctions.

Conclusion

The import substitution support in Khanty-Mansiysk Autonomous Okrug – Yugra will be provided in 5 directions: creation of comfortable investment climate in Yugra, minerals extraction, agriculture, construction industry and timber processing and wood manufacturing. The primary emphasis is placed upon industrial development and advanced processing of available resources. During the forecast period the stress in development of small and medium entrepreneurship will be set on innovative production, farm enterprises, domestic tourism, craftsmanship, social services and also raising initiatives in young people so as to involve them into entrepreneurial activity.

Strategic directions of substitution of imported goods, labour and services in the region are organized in such a way so that to make the best use of the natural-resources potential of the region and are focused not only on large raw-material companies. Small and medium enterprises reserve up to 17 percent in the import

substitution field which is a substantial share for them. One of the main goals for governmental authorities and business is to increase the own-produced provisions output so as to ensure food security and to meet the demand of the region's population regardless from change of both external and internal environment as stated in Yugra Strategy-2030. If the stimulation of import substitution is performed by 2017, the regional market basket will be expected to be 5 percent less dependable on foreign goods. The forecast predicts the production increase in timber and agricultural industries, development of gas processing cluster followed by providing the Yugra population with domestic goods. Particular investment projects designed to establish production in priority spheres will be funded. Using the research results it is supposed to elaborate the efficiency assessment technique for the governmental support for small and medium enterprises interrelated in their directions and designed for import substitution in the autonomous region.

The research will result in the elaboration of the governmental support mechanism for small enterprises in Khanty-Mansiysk Autonomous Okrug – Yugra that will include three basic blocks: infrastructural, informational and constructive. It is also planned to make an economic efficiency assessment of support mechanism for small enterprises. The scientific research supposes to make an economic development assessment of export-oriented businesses in the region and to give small enterprises an access to international trading. It may be also possible to reduce import dependency of the regional economy through the involvement of the import substitution into small enterprises and through the overall use of the resource potential of small and medium enterprises which promote modernization and establishment of new productions for import substitution.

Import substitution should primarily rely upon private initiatives and should have flexible support from the government. The measures taken by the government of the Khanty-Mansiysk Autonomous Okrug – Yugra to support import substitution are being put into practice on a full scale. An emphasis in import substitution in small and medium entrepreneurship in Yugra will be put on innovative production, peasant-farm enterprises, domestic tourism, craftsmanship, social services as well as on raising initiatives in young people to involve them into the entrepreneurial activity.

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ROZWÓJ WSPARCIA RZĄDOWEGO DLA SUBSTYTUCJI IMPORTU W MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTWACH REGIONÓW PÓŁNOCNYCH

Streszczenie: Niniejszy artykuł ma na celu zbadanie aktualnych zagadnień związanych z substytucją importu w oparciu o potencjał małych i średnich przedsiębiorstw w regionach z Północy produkujących ropę i gaz w warunkach kryzysu i sankcji. Analizuje działalność małych i średnich przedsiębiorstw oraz udowadnia potrzebę zastąpienia towarów importowanych krajowymi z Chanty-Mansyjskiego Okręgu Autonomicznego-Jurga. Badanie wyznacza strategiczne priorytety dla wsparcia rządowego mającego na celu substytucję importu w małych i średnich przedsiębiorstwach. Celem badań jest dokonanie oceny ekonomicznej rozwoju małych przedsiębiorstw w regionie produkcji ropy naftowej i gazu w warunkach kryzysu i udowodnienie strategicznych priorytetów rządowego wsparcia dla substytucji importu w Chanty-Mansyjskim Okręgu Autonomicznym-Yugra. W wyniku badań naukowych ma zostać dokonana ocena rozwoju gospodarczego przedsiębiorczości w tradycyjnych branżach mniejszości rdzennych mieszkańców Północy jako jeden z potencjalnych sposobów substytucji importu.

政府的支持對於中小企業北部地區的進口替代發展

摘要：調查基礎上，中小型企業在北方的石油和天然氣生產地區的危機和制裁的條件下，潛在進口替代的熱點問題。它分析了中小型企業的活動，證明進口商品替代，在漢特 -

曼西斯克民族自治區，Yugra那些國內（地區）的需要。該研究設置了政府支持中小企業瞄準進口替代戰略重點。這項研究的目的是使石油和天然氣生產地區小企業發展的經濟評估危機的條件下，證明在漢特 -

曼西斯克民族自治區，Yugra進口替代的政府支持的戰略重點。其結果是科研應該使創業經濟發展的評估北方作為進口替代的預期途徑之一未成年土著人民的傳統產業