

# Import Substitution as the Basis for Ensuring Russia's Food Security

## Sustitución de importaciones como base para garantizar la seguridad alimentaria de Rusia

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#### ABSTRACT:

This paper examines the current state and some of the key characteristics of the process of import substitution within the Russian agro-economy. The authors provide an insight into the concept of import substitution and describe some of the key stages in its genesis in modern scientific thought. The subject for this study is the Russian agrarian economy in a climate of Western sanctions, Russia's food countersanctions, and its current pursuit of the policy of import substitution. The authors, firstly, examine the characteristics of the nation's short-term and long-term strategies of import substitution. Secondly, they provide a rationale for diversifying the nation's external economic activity through reorienting its external trade relations toward the markets of Eurasian Economic Union and Asia-Pacific nations. Insight is provided into the reasons behind the high import intensity of food products within the Russian economy. Thirdly, the authors compute a set of coefficients describing the nation's food dependence across food staples. They compare the nation's key performance indicators for domestic agricultural production with those of some other industrially developed nations. Fourthly, the authors propose an import substitution strategy for domestic agriculture based on its special characteristics and production potential. The paper shares some of the key characteristics of import substitution within the

#### RESUMEN:

Este documento examina el estado actual y algunas de las características clave del proceso de sustitución de importaciones dentro de la agro-economía rusa. Los autores proporcionan una idea del concepto de sustitución de importaciones y describen algunas de las etapas clave en su génesis en el pensamiento científico moderno. El tema de este estudio es la economía agraria rusa en un clima de sanciones occidentales, las contravenciones alimentarias de Rusia y su actual búsqueda de la política de sustitución de importaciones. Los autores, en primer lugar, examinan las características de las estrategias nacionales de sustitución de importaciones a corto y largo plazo. En segundo lugar, proporcionan una justificación para diversificar la actividad económica externa de la nación mediante la reorientación de sus relaciones comerciales externas hacia los mercados de la Unión Económica Euroasiática y las naciones de Asia y el Pacífico. Se proporciona información sobre las razones detrás de la alta intensidad de importación de productos alimenticios dentro de la economía rusa. En tercer lugar, los autores calculan un conjunto de coeficientes que describen la dependencia alimentaria del país en los alimentos básicos. Ellos comparan los indicadores clave de desempeño de la nación para la producción agrícola nacional con los de otras naciones industrialmente desarrolladas. En cuarto lugar, los autores proponen

Russian agro-economy identified by the authors. The study leads the authors to bring forward a set of front-and-center activities aimed at ensuring the nation's food security and driving its agricultural growth.

**Keywords:** imports, import substitution, food, food dependence coefficient.

una estrategia de sustitución de importaciones para la agricultura nacional basada en sus características especiales y potencial de producción. El documento comparte algunas de las características clave de la sustitución de importaciones dentro de la agroeconomía rusa identificada por los autores. El estudio lleva a los autores a presentar un conjunto de actividades de front-and-center destinadas a garantizar la seguridad alimentaria de la nación e impulsar su crecimiento agrícola.

**Palabras clave:** importaciones, sustitución de importaciones, alimentos, coeficiente de dependencia alimentaria.

## 1. Introduction

Given the West's anti-Russian economic sanctions and Russia's unwillingly imposed countermeasures, renewed relevance has been brought to the concept of import substitution, lending a topicality also to the need to explore these measures' social and economic effects, their benefits and risks, and their potentials and perils for the national economy.

Unrestrained increases in food imports have had negative consequences both for Russia's agrarian sector and its economy as a whole. The key perils of satiating the market in an uncontrolled manner with imported food are, above all, associated with declines in the profitability of domestic agricultural production, drops in economic activity, upticks in unemployment, and, as a consequence, a slowdown in economic growth.

Increases in imports and unresolved issues in the agrarian sector are causing a chain reaction of problems in other sectors of the national economy, i.e. there is arising a multiplication effect. For instance, drops in agrarian production are causing declines in demand for the output of the domestic machine manufacturing industry. At the national level, this may have negative repercussions in the form of slower economic growth, shrinking GDP, and jeopardized food security.

Given the latest changes in the global food market, Russia's priority for agricultural development today is ensuring food security while actively pursuing import substitution. The change in the geopolitical situation is pointedly signaling the need to ensure the availability of food through internal production. Being oriented toward import substitution and related modernization is expected to turn around Russia's economic reliance on natural resources.

The issue of import substitution is not new. Russia is not the only nation where it has had relevance: during the 20th century, many nations attempted to resolve the issue of meeting their internal needs through domestic production. At different times, attempts to protect the internal market from foreign products have been made by such nations as Germany, the US, and Japan. Import substitution used to be viewed as a form of breaking free from colonial dependence or overcoming catch-up development in a climate of foreign nations wielding supremacy in the global market.

During the 20th century, a policy of import substitution was pursued by the nations of Latin America, Asia, and Africa. The greatest success was recorded in Malaysia, South Korea, Taiwan, Indonesia, China, and Thailand. Implementing a policy of import substitution has helped these nations achieve significant economic growth and draw level on many indicators with industrially developed nations.

Over the past few years, Russia's pursuit of a policy of agrifood import substitution has facilitated growth and development across the agricultural sector, boosts in the nation's food security as a result of decreased dependence on imports, and the diversification of external economic relations. Among the more significant outcomes is a considerable decline in the share of imports in the total pool of the nation's commodity resources, accompanied by an increase in exports.

The study's theoretical and methodological foundations are grounded in works by a number of foreign and Russian scholars, including R. Prebisch (1951), G. Myrdal (1957), H.B.

Chenery (1979), W. Baer (1972), Z.M. Okrut, Phạm Gia Minh (1992), H.J. Bruton (1998), H. Yilmazkuday (2009), P. McCann (2002), E.A. Maslyukova, O.V. Yutkina (2016), E.V. Volkodavova (2009), N.A. Suchkova (2009), and others.

This paper explores just some of the characteristics of food import substitution in Russia, which, in the authors' view, may be regarded as fundamental.

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## 2. Methods

The study is grounded in the principles of classic economic theory, import substitution theory, the theory of comparative advantage in international trade, as well as two modern fundamental theories dealing with resolving the issue of attaining food security – export base theory and consumption theory. The two theories are, traditionally, alternative to one another.

In conducting this study, the authors employed the following methods and approaches:

- the systemic approach, with a focus on its functional, genetic, and structuralistic aspects in conducting an integrated analysis of the current state of and possible ways to achieve food security in Russia, as well as the difficulties in and prospects for fostering import substitution to be able to deal with external challenges and restrictions;
- the synergetic approach, used in analyzing the concerted action of internal and external factors associated with ensuring food security and the competitiveness of the national agrarian economy under conditions of global competition;
- analysis of the import substitution process through the prism of the clash of the interests of economic entities;
- economic-statistical methods, used to assess the dynamics of the import substitution process;
- the computational-constructive method;
- comparative analysis;
- the expert assessment method.

In addition to specific methods, the authors also employed a set of universal and common scientific methods, including dialectics, abstraction, deduction, induction, analysis, and synthesis.

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## 3. Results

Import substitution is a special type of economic strategy and industrial policy undertaken by the government to protect the domestic manufacturer and provide the nation's population with all necessary fast-moving consumer goods, food products, and agricultural resources through substituting imported goods with domestically produced ones (Suchkova, 2009). Yet, this is a rather general concept of import substitution, with a more detailed account provided below.

Firstly, import substitution is believed to require both a short-term economic strategy and a long-term one. A short-term strategy requires diversifying the nation's system of external economic relations as fast as possible through optimizing imports and exports of domestic goods, enhancing the geographic and goods structure of its foreign economic activity, and seeking out new ways to obtain imported goods from overseas.

A long-term economic strategy of import substitution implies replacing, based on technological modernization, imports with domestic goods produced by domestic manufacturers inside the country. Thus, it is important to conceptually differentiate between urgent import substitution and strategic import substitution.

Secondly, implementing a policy of import substitution should enable the pursuit of the robust export policy, both at the national and local levels, backed by support from economic diplomacy, internal institutional measures, and an integrated tariff, tax, and foreign exchange mechanism. This especially holds for sectors within the agro-industrial complex, which possesses considerable industrial potential, including in the way of production of grain,

vegetable oil, vegetables, meat, and potatoes.

The primary objective for food import substitution is to ensure the nation's food security, i.e. produce as much high-quality food as will be enough to meet the population's need for food, while meeting the need of national industry in raw materials.

Without question, in pursuing its food import substitution strategy, the government must implement certain protectionist measures that are consistent with obligations assumed as part of international agreements. That being said, such measures should not lead to declines in quality and the competitiveness of domestic products relative to their foreign counterparts. Concurrently, the government ought to stimulate internal demand for domestic products and may need to reorient it toward substitute goods if there is a lack of production on certain products. For instance, it is worth stimulating popular demand for poultry products having in consideration that Russia's current volume of pork and beef production is not sufficient to meet the demand. Thus, import substitution should result in getting the internal market satiated with domestic products.

Domestic agriculture, despite certain persisting issues and dim prospects, possesses considerable resource potential. The continual increase in the cost of food in global markets makes it as sought-after a product as oil, gas, and high technology are. The issue of famine and food security, i.e. the availability of food for the population, remains today a global issue of growing concern.

It is worth noting that, with minor exceptions, Russian agricultural output is not particularly sought after in the global market on account of relatively low quality, failure to comply with the standards, and unattractive external appearance. The imposition of Western sanctions on Russia is a real chance for domestic agriculturists, above all, in terms of conquering the domestic market. At some point, the shelves of domestic supermarkets were filled with foreign products, which really were not always of the best quality. Large retailers prefer working with large vendors, while small and medium-sized enterprises have hard time getting their output directly into retail chain outlets. This is the case with both grown and processed output.

The imposition of economic sanctions has pointedly indicated that being a long-time importer of food in amounts worth as much as the value of exports of gas to Western Europe has made Russia a highly dependent nation. Over half of all food consumed by the nation used to be imported. Consequently, Russia's level of food security is still quite low compared with the US and EU nations. In fact, Russia ranked just 48th on the 2016 Global Food Security Index (Economist Intelligence Unit, 2016).

In 2013, imports accounted for 37.3% of Russia's agricultural GDP (based on the annual average US dollar exchange rate). This was a result of disastrous declines in industrial food production. In the 1990s, food import duties were reduced to record low levels, which, naturally, caused a sharp uptick in imports. The result was reflected on the shelves of domestic supermarkets – apples from Poland, pears and garlic from China, eggplant and sweet peppers from the Netherlands, cheeses from Finland, or potatoes from Egypt. The list could be continued. Today, domestic agriculturists are capable of producing most of what is imported from overseas. An exception is exotic fruits and berries, nuts, and certain types of fish. That is, given its natural-climactic conditions, Russia *is* capable of achieving the maximum level of import substitution.

The changes in the geopolitical situation and economic sanctions have caused price hikes in the internal market and affected the situation in financial markets, weakening the ruble and causing declines in prices for the shares of Russian companies. Yes, drops in the rate may be good for exporters who sell in external markets and concurrently do business inside the country. But there are very few of them in agriculture. The pressure has only been increasing – now one has to seek and tap into new markets, as Western nations are escalating their political, economic, institutional, and personal sanctions against Russia.

Under existing conditions, the first stage of the import substitution process requires diversifying the structure, forms, and areas of external economic activity by Russia's agro-industrial complex, both exports- and imports-wise.

Today, it is becoming obvious that the policy of orienting its foreign trade toward slowly growing Western European markets which Russia has traditionally pursued in the past 10 years has proved ineffective. Thus, it is absolutely imperative that the nation explores some other avenues of cooperation, like working with nations within the Eurasian Economic Union (EAEU) and the Asia Pacific region.

The creation of the Eurasian Economic Union has given rise to a gigantic market serving more than 183 million consumers, characterized by uniform legislation and the free movement of capital, services, and manpower. The newly created dynamic markets employ uniform standards and requirements for goods and services, which, for the most part, harmonize with European ones. Nations within the Eurasian Customs Union (EACU) are expected to shift to the latest technical regulations, with coordinated scientific-technical policy enabling them to avoid technological gaps and product incompatibility.

Active growth in demand for food products has been demonstrated by the group of nations within the Asia Pacific region. Russia's involuntary reorientation of its external economic focus toward these nations may be a factor for growth in not just its industrial and oil-and-gas sectors, but its agri-food sector as well. Boosts in partnerships with the above group of Asian nations ought to be achieved in not just the industrial and extractive sectors but agriculture as well. For instance, not only did Russia's 2014 buckwheat harvest cover the nation's internal needs – a portion of it was also sold to China.

Russia's pursuit of a policy of agrarian import substitution has helped achieve a number of significant results. In the period 2014–2016, imports of food products to Russia shrank by \$15 billion. The share of imports in agricultural GDP dropped from 35.5 to 30.3%. Growth in agricultural production totaled 27.5%. Right now, Russia is providing itself entirely with grain and its byproducts, potatoes, poultry meat, pork, and most vegetables. That is, across these items import substitution is no longer an issue of major concern. Yet, when it comes to beef, milk and dairy products, and fruits, the situation is quite different (Table 1).

**Table 1**  
Share of Imports of Certain Products in the Total Pool of Russia's Commodity Resources, %

<b>Product</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Meat and poultry, including byproducts	26.2	19.6	13.4	11.0
Beef, including byproducts	59.0	57.3	48.1	40.2
Pork, including byproducts	31.0	16.6	12.5	9.5
Poultry meat, including byproducts	12.8	10.0	5.5	5.0
Canned meat	20.0	13.7	9.0	9.1
Sausage products	3.2	2.2	1.0	1.4
Animal oils	35.9	34.3	25.5	26.3
Cheeses	48.0	37.3	23.3	22.8
Flour	1.5	0.9	0.8	1.9
Groats	1.8	0.5	0.3	0.2
Vegetable oils	19.0	14.4	17.4	16.3



								maximum level, %
Crop yield, ql/ha								
inclusive of:								
Cereal grains and grain legumes	24.1	79.9	57.8	89.9	75.2	33.9	57.6	26.8
Wheat	25.0	86.3	73.6	91.7	29.4	30.9	50.5	27.3
Rye	17.7	61.2	49.0	41.3	17.5	23.7	35.0	28.9
Corn	43.6	106.8	100.0	137.4	107.3	93.6	60.0	31.7
Sunflower	13.1	23.0	23.7	-	16.5	18.9	25.6	51.2
Potatoes	150	474	479	457	472	330	170	31.3
Vegetables	191.8	313.1	250.8	276.5	713.4	290.4	162.3	26.9
Sugar beet	370	799	924	-	613	717	490	40.0
Milk yield per cow, kg	4 029	7 541	6 850	7 747	10 150	8 811	2 994	39.7
Gross value added in agriculture per worker, \$ (in 2010 prices)	10,893	32,521	94,946	76,633	76,456	83,938	1,398	11.5

Note. Compiled by the authors based on data from the Indicators characterizing import substitution in Russia (n.d.), Publications catalogue, (n.d.), the Food and Agriculture Organization of the United Nations (n.d.), and the World Bank (n.d.).

The current levels of labor productivity will not let Russian producers compete on equal footing with their foreign counterparts in the global food market, meet to the full extent the population's ever-growing need for high-quality food, and step up exports of products with high added value. Restricting its trade relations with the EU has resulted in an enhancement of the geographic structure of Russia's food imports. The lack of domestic raw materials has been resolved through shipments from Latin America and China.

The past 3 years have seen a change in the nature of Russia's economic dependence on imports, with the nation getting reoriented from imports of ready-to-go products toward imports of raw materials. However, products turned out by domestic enterprises can, in essence, be regarded as imported. Under existing conditions, there is a need to further localize production and shift to lower levels of goods imports – all the way down to parts for manufacturing ancillary equipment. This can be achieved only if there are boosts in investment activity and if the nation carries out a technological modernization of its enterprises – otherwise, Russia's economic dependence on imports will only be increasing. When the manufacturer of the end-product fails to provide an effective answer to the nation's current demand, the production chain breaks up and the nation switches to direct imports.

In implementing its import substitution policy, the Russian government is expected to, above all, focus on integrating the nation more actively into international value chains and into the international division of labor system and boosting the competitiveness of the domestic

economy in the global market.

Each sector of the economy has special characteristics of its own. The agrifood complex appears to depend on factors of the external environment the most. Each sector pursues a specific strategy of import substitution. For instance, products turned out by the military-industrial complex are in constant demand. This sector, which works with external markets as well, has regular contractors and is actively supported by the government, representing a particular area of interest to it. The state will normally place a defense order, the size of which is known in advance. Even under conditions of economic sanctions, there are contracts for the supply of arms to foreign countries. Of relevance for Russia's defense enterprises is developing their own high-tech products and novel technology based on fostering cooperation and intersectoral interaction, given the impossibility of buying them overseas. The situation is totally different when it comes to agriculture, with import substitution strategies for the sector being somewhat different.

In the authors' view, in a climate of intensification of integration processes, globalization, and deepening of the international division of labor, the most advisable is a strategy for developing a competitive, export-oriented agrifood sector based on state support for priority production operations. A potential strategy of agrarian import substitution may consist of the following stages:

The first stage involves diversifying the nation's external economic relations and its entering into new food supply contracts. Here, one witnesses a change in the geographic structure of food imports. This stage is deemed to be indispensable, inasmuch as the domestic agro-industrial complex is unable to meet current demand, as there is a lack of necessary reserves of food and agricultural raw materials.

The second stage is associated with the achievement of food security. The nation is expected to increase the volume of domestic food production to a level where it will be able to meet the internal needs of the population and processors. In implementing a strategy of import substitution, it may help to not just increase the volume of production of agricultural raw materials but reorient production to highly processed products.

The third stage deals with exporting the product. If manufacturers do not start exporting their product after the internal market has been satiated, there may be declines in production growth. This is associated with that each nation has to take part in international trade and derive gain from its specialization. Besides, protectionism leads to the dynamic inefficiency of production, as, when there are low levels of external competition, there is little need to improve quality and reduce costs. Since products of processing are worth more in global markets based on value added, it makes sense to sell products that are processed in advance. That is, sell flour instead of grain, sunflower oil instead of sunflower seeds, or fish semi-finished products instead of raw fish. This requires modernizing and boosting the capacity of processing facilities, as well as implementing everywhere a quality management system that is consistent with the needs of foreign consumers.

Some of the key potential objectives for ensuring food security as part of import substitution policy include: boosting labor productivity; upgrading the material-technical base; stepping up state support; implementing innovations in production; ensuring stable macroeconomic conditions. Implementing a policy of import substitution is expected to produce a benign economic, social, and foreign trade effect. The pursuit of said policy should help ensure the nation's food security, boost the competitiveness of domestic products, create new jobs, and diversify internal production and exports.

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## **4. Discussion**

The theory of import substitution traces its origin to the 19th century. According to scholar W. Baer (1972), a period of import substitution has been completed by all nations that carried out industrialization after Great Britain. That said, hardly any conclusive assessment of import substitution has been proposed so far in terms of its efficiency. The advisability of implementing this kind of economic policy has been substantiated for agriculture, health care, and retail (McCann, 2002). Despite a significant number of works investigating import



substitution, most existing theoretical and methodological research into the issue may be characterized as fragmentary in nature (Sedova, Gagiev, & Melnikova, 2017). A sound theoretical rationale for import substitution policy was proposed by F. List. In his research, the scholar pointed to the relationship between the nation's economic growth and its own production base, which makes it possible to meet the needs of the internal market as much as possible (List, 1909).

Some of the initial attempts at developing the fundamentals of import substitution were made following the Great Depression, when many nations started to search for new ways to achieve economic growth. A substantial contribution to the development of the theory and practice of import substitution was made by Argentine economist R. Prebisch. The scholar viewed import substitution as the only effective area for economic development in peripheral developing nations. R. Prebisch propounded the hypothesis that third world countries lagging behind in economic development were the consequence of their increased dependence on exports of natural resources and imports of products with high added value from former colonial powers. An alternative to the existing order was import substitution industrialization, a policy pursued by the nations of Latin America. The scholar advocated for the protection of young industries, especially machine manufacturing, by way of active state intervention in the economy and restriction of imports (Prebisch, 1951).

Another scholar who has made a contribution to putting in place the theoretical tenets of import substitution is Swedish economist G. Myrdal. In his research, he substantiates that sustainable economic development ought to be based on boosts in the level of industrial self-provision, while to overcome their backwardness underdeveloped regions need to interfere with market forces (Myrdal, 1957).

In accordance with the concept proposed, import substitution comes down to nationalizing the economy through buying out the shares and creating state monopolies within the nation's key natural resource-based sectors of the economy. The major tools for boosting internal production are: providing inexpensive loans, allocating import quotas, regulating the exchange rate, and administering foreign currency control. At the initial stage of the import substitution process, national companies receive considerable advantage and push imported products out. There are boosts in internal production, increases in GDP per capita, and declines in unemployment, i.e. significant economic growth. However, closing the internal market to the rest of the world (Bruton, 1998) may, going forward, lead to negative consequences for the nation. The nation's state-backed industry is unable to compete with foreign sectors in price, while the sale of products that are expensive to foreign nations may damage its exports and affect its balance of trade (Yilmazkuday, 2009).

During the 1970s, the theory of industrial import substitution was further refined by neo-Keynesian economists. Their 'two-gap' model of economic growth holds that a nation's economic development is based on replacing external sources of funding with internal ones and replacing imported goods with domestic ones (Chenery & Bruno, 1962; Chenery & Strout, 1966; Chenery & Eckstein, 1970). Import substitution itself was viewed as a priority area for economic development. Neo-Keynesian economist H.B. Chenery regarded import substitution as a way to engage the nation in processes within the global economic system to ensure its future economic growth based on the development of the internal market (Chenery, 1979).

The negative effects of implementing a policy of import substitution made the nations shift to an alternative strategy – stimulating exports. This approach, mainly, implies supporting and protecting several sectors of the economy. For instance, scholars Z.M. Okrut and Phạm Gia Minh are convinced of the need to pursue a policy of import substitution with a view to boosting the nation's industrial potential and subsequently focusing on exports (Okrut & Phạm Gia Minh, 1992). It, however, should be kept in mind that, in implementing the concept, fluctuations in external markets and a high degree of liberalization of external trade may lead to a recession hitting the entire economic system.

In recent years, a novel approach to import substitution has been developed which views import substitution as the all-out incorporation of the nation into the international division of labor system through the development of viable production operations (Maslyukova &

Yutkina, 2016; Volkodavova, 2009). It has been suggested to minimize negative effects through the simultaneous pursuit of a strategy of import substitution and a strategy of export development. In other words, the nation ought to stimulate exports from domestic sectors where it has comparative advantage, and pursue import substitution in sectors that are vital to its economy (Mukhin, 2016).

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## 5. Conclusion

Based on the above, it may be concluded that import substitution is among the key objectives of the state's agricultural policy. Russia's current performance in terms of agricultural production and labor productivity will not yet allow for the full implementation of the entire process of import substitution. In this regard, there is a need for a new paradigm of agrarian production that would help resolve internal food issues.

The study has described some of the key characteristics of food import substitution and examined some of the results from the implementation of this policy. The authors have computed a set of coefficients describing food dependence across certain types of food. A conclusion has been made about the safe level of food dependence on most products.

The authors have come to the conclusion that import substitution has yet to receive sufficient coverage in the literature. Most of the time, the focus is on reducing or eliminating imports through boosts in domestic production of those goods or products similar to them. Having said that, import substitution must be part of both a short-term economic strategy and a long-term one.

The authors have substantiated that the process of import substitution in agriculture has special characteristics of its own. Import substitution mechanisms must be considered separately in the context of industrial policy and in the context of agricultural policy, as the differences are significant.

The authors propose a strategy of agrifood import substitution consisting of three stages. Stage one presupposes diversifying the nation's external economic relations, getting reoriented toward large suppliers of agricultural raw materials and food from Latin America. In Stage two, the government is expected to ensure steady, surplus-oriented production of agricultural raw materials and food across most items. Stage three is entering external markets with surplus output in hand and building up the nation's export potential.

Russia's food import substitution policy is expected to help: ensure food security; boost employment; boost GDP; speed up scientific-technical progress; drive up the demand for domestic products and, as a consequence, improve the overall situation in the internal food market; drive economic growth; diversify exports; boost the balance of trade.

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