



## Import Replacement - As an Assistant Mechanism for Diversification of Production and Approval of Foreign Trade

*Sobitova Rano Solijonovna*

*Narzullaeva Maftuna Fayzullo qizi Termez State University*

**Abstract:** *The article discusses the essence of import substitution, its purpose, its importance in the economic development of the country.*

**Key words:** *Import substitution, industry, diversification, customs tariffs.*

*Date of Submission: 09-11-2021*

*Date Of Acceptance: 18-11-2021*

Currently, there is a growing interest in import substitution policies by countries with economies in transition, primarily the former Soviet Union. It is related to the problems that have arisen in the balance of foreign trade in the context of national product competitiveness, market liberalization and economic system reform. The following are important factors that stimulate these processes: The financial crisis of 1998, which led to a significant narrowing of sales markets for the CIS countries in the Russian Federation; the global financial and economic crisis, which led to a decline in demand in the world economy; The decline in oil prices, which negatively reflected in the Russian budget.

In the process of analyzing the world experience of import substitution, we can classify the purpose, conditions of implementation and features of implementation of this economic policy. In the 40s and 70s of the twentieth century, its mechanisms were identified in Latin America and Southeast Asia, as well as in the countries of the current transition economy, and the results achieved were evaluated. This made it possible to identify the main conditions that determine the expediency of import substitution policy and to identify the factors that significantly affect its implementation.

a) The purpose of import substitution. At present, the policy of import substitution in countries with economies in transition is aimed at solving local problems, primarily to improve the trade balance and protect against imports associated with the decline in the competitiveness of national industry and agriculture. This situation also determined the role of import substitution in the economic policy system. If in the past it was considered a leading element at a certain stage of development of countries, now it emerges as an auxiliary mechanism for diversifying production and optimizing foreign trade.

b) Condition of transfer. The products of the new industries will replace goods produced abroad, thereby allowing to divert costs from imports to the development of the national economy.

Currently, the decision on state support of import-substituting industries among the CIS countries has been made in Belarus, Azerbaijan, Kazakhstan, Russia and Ukraine. These countries are exporters of raw materials, the domestic market will have a large volume, and accordingly, this

economic strategy can be a potential success. It should be noted that in no country is import substitution policy studied as a key element of development, it emerges as a mechanism to diversify production and optimize foreign trade relations and help rebuild industries that were in crisis after the collapse of the Soviet Union.

c) Implementation features. The implementation of the second phase of import substitution and the organization of production of such products has become a complex and costly task that requires a significant increase in investment costs, training of qualified personnel and the involvement of technological innovations.

Heavy industrial enterprises focused on the domestic market have not been sufficiently profitable due to the low demand for their products, which does not allow to achieve cost savings. It has become impossible for them to achieve the level of competitiveness needed to expand exports.

Countries in transition, including Uzbekistan, often have a sufficiently developed industrial potential, ie they do not have the objective conditions for the gradual transition from the first and second phases of import substitution. The choice of development directions is largely determined by the existing competitive advantages as well as domestic demand and the volume of imported imports. For example, in the Republic of Uzbekistan, which has large mineral resources and a rich tradition of cotton growing, the priority of import substitution is light and processing industries, including machinery.

In general, countries with economies in transition have different capacities of labor, capital and science, and the simultaneous development of import-substituting products.

g) Mechanisms. In the early stages of the import substitution policy, the volume of imports was strictly controlled by the state. Restrictions were imposed on enterprises that could not import large quantities of their exports without special permission from government agencies, and quantitative import quotas were introduced. There are lists of national enterprises with low or zero customs tariffs, raw materials and supplies for export, and special permits for imported goods.

For most foreign goods, there were strict restrictions in the form of licensing, tariffs, and non-tariff measures, ranging from direct restrictions on product imports, to national similarities in affordable prices and quality. In order to stimulate the growth of the efficiency of import use in industry, differentiated customs tariffs were applied: low tariffs on raw materials, high consumer demand and prohibitive tariffs on industrial goods consisting of jewelry. Even after the general decline in customs rates, restrictions on the import of goods from certain countries, primarily Asian countries, which are direct competitors, remained.

Subsequently, restrictions on foreign trade in economic growth and exports eased. The volume of import tariffs on finished products has gradually decreased.

At the current stage of economic development, the possibility of using restrictive measures for imported goods has significantly decreased in connection with the liberalization of international trade. Therefore, the priority tools of import substitution policy are incentives. Implementation of relevant government and network programs will be one of the key areas. The first phase of import substitution in the Russian Federation after the 1998 crisis was marked by the devaluation of the national currency and a decline in real incomes. This has led to a relative rise in prices for imported goods in the domestic market and a shift in consumer demand towards domestically produced goods [1]. Currently, the intensification of import substitution policy is associated with the adoption of the Federal Law "On National Industrial Policy in the Russian Federation", the implementation of more than a dozen sectoral strategies for the development of industry, including heavy industry, machinery, automotive, chemical and petrochemical industries. . They are aimed at eliminating the technological backwardness of the industry, increasing the competitiveness of products, expanding

the diversity of manufactured goods and ousting foreign competitors from the domestic market [8]. At the same time, there is no direct import substitution program in the Russian Federation. One of the main reasons for this is its membership in the World Trade Organization (WTO). The ordering of efforts to squeeze foreign goods out of the domestic market and the direct declaring of import substitution in regulations can be a source of trade disputes in this organization.

A step-by-step policy of import substitution is also being pursued in the Republic of Kazakhstan. It adopted the Program of import substitution in the light and food industries for 2001-2003 [4], the State Program for Industrial and Innovative Development of the Republic of Kazakhstan for 2010-2014 [5]. The Government of the Kyrgyz Republic has adopted the Export Development and Import Substitution Program of the Kyrgyz Republic. Achieving a positive trade balance of the country is one of its main goals.

d) Results. According to the Kazakh researcher JM Medetbekov, the first phase of import substitution in the Republic of Kazakhstan did not provide the necessary economic benefits. The formation and development of mechanical engineering has been successfully carried out in countries capable of ensuring the growth of investment in this area through the export of raw materials. First of all, it is the Russian Federation and the Republic of Kazakhstan. One of the distinguishing trends in this area is the active attraction of foreign direct investment to ensure import substitution. For example, in the Russian Federation, the assembly of foreign brands of cars is carried out in more than a dozen factories, virtually all world leaders have their own production, including Renault, GM, Ford Motors, Volkswagen. In 2012, the share of such cars in the domestic market accounted for 44% of total sales of passenger cars [7].

**Table 1 Basic forms of organization of local production [3]**

Forms of localization	Investments	Technology
Foreign enterprises in the domestic market	Foreign	Foreign
Joint ventures	Foreign/national	Foreign /national
Obtaining a license by national enterprises	National	Foreign
Placement of orders by foreign companies in national enterprises	Foreign	Foreign

A study of the substantive characteristics of import substitution allowed us to substantiate the following conclusions.

1. The content of the localization of production is the supply of components by domestic producers for foreign enterprises on the basis of newly established or existing productions, manufactured in the country.

The following are the main conditions for localization: the use of capital, technology, production capacity and the availability of sales markets.

2. The policy of import substitution is based on the need to reduce the dependence of the world's least developed countries on the economies of relatively developed countries. In the future, with its help, priority will be given to the development of the industry, improving the balance of payments, increasing the level of investment and employment, assessing the necessary amount of funding and creating models.

3. The current interest in import substitution is largely determined by the challenges facing countries with economies in transition, such as the need to restructure industry, achieve a balanced foreign trade and protect the domestic market. The main problem of this study is the specificity of import substitution policy in certain industries, including the problem of regulating the demand for

imports and domestic goods, which is analyzed through the involvement of econometric modeling methods.

4. Import substitution is an auxiliary mechanism for diversification of production and optimization of foreign trade flows. At the same time, the development of new products with different labor, capital and science capacities is inherent. In connection with the liberalization of foreign trade conditions, incentives such as preferential lending and taxation, government regulation will become priority mechanisms for import substitution.

5. The main responsibility of public administration bodies is to develop mechanisms for import substitution policy, including the development of internal and external sources of its financing. In terms of ensuring the competitiveness of production, national enterprises have a vertical import substitution strategy aimed at meeting the intermediate demand for the highest commodity nomenclature. Large domestic market capacity, large reserves of natural resources, the ability to provide investment in industry through the export of raw materials, etc., are factors in the successful implementation of import substitution policies by the country.

### **References:**

1. Kadochnikov, P. A. Analysis of import substitution in Russia after the crisis of 1998 / P. A. Kadochnikov. - M. : IEPP, 2006. - C.117-120
2. Makarov, A.N. Lokalizatsiya proizvodstva produktsii proizvodstvenno-tehnicheskogo naznacheniya na territorii regiona kak tendentsiya importozameshcheniya / A.N. Makarov // Humanitarian and social sciences. - 2011. - № 3. - p. 34-41.
3. On approval of the Program of importization in the fields of light and food industry in 2001–2003 [Electronic resource] // Information and legal system of normative legal acts of the Republic of Kazakhstan. - 2012. - Reaching mode: [http://www.adilet.minjust.kz/rus/docs/P010001088\\_/links](http://www.adilet.minjust.kz/rus/docs/P010001088_/links). - Data available: 01.07.2012
4. O Gosudarstvennoy program on forsirovannomu industrialno-innovatsionnomu razvitiyu Respubliki Kazaxstanna 2010–2014 gody i priznaniyu i upravleniyu ekonomicheskimi interesami Respubliki Kazahstan [Electronic resource] // Informatsionno-pravovaya sistema normativnykh pravovykh aktov Respubliki. - 2012. - Access mode: <http://adilet.zan.kz/rus/docs/U100000958>. - Available data: 11.03.2012.
5. Export and import development programs of the Kyrgyz Republic for 2007–2010 [Electronic resource] // Informatsionno-pravovaya sistema «Zakonodatelstvo stran SNG». - 2007. - Access mode: [http://base.spininform.ru/show\\_doc.fwx?rgn=15100](http://base.spininform.ru/show_doc.fwx?rgn=15100). - Data available: 22.03.2012
6. Sale of legumes and light commercial vehicles in Russia [Electronic resource] // Association of European Business. - 2013. - Access mode: [http://www.aeprus.ru/ru/press/sales\\_of\\_cars.php](http://www.aeprus.ru/ru/press/sales_of_cars.php). - Data available: 14.03.2013
7. Federal tselevyye programmy i gosudarstvennyye programmy [Electronic resource] // M-vo promyshlennosti i trgovli Rossiyskoy Federatsii. - 2012. - Access mode: <http://www.minpromtorg.gov.ru/ministry/fcp>. - Data available: 08.11.2012.