Abstract. The article examines the institutional aspect of state regulation of foreign economic activity in Russia. Theoretical basis of the research is the concept of “educational protectionism” by F. List, which involves the cultivation of “young industries” under the shelter of protective customs tariffs until they become competitive in domestic and foreign markets; as well as the theory of “delinking” by S. Amin, who considers protectionism as a method for the countries, which are on the periphery of the world economy, to exit the relations of unequal exchange with industrialized countries: national economic policy should be aimed at meeting the needs of domestic development, rather than promoting international competitiveness (food security, full employment, minimum wage, etc.). Such measures were a stable element of the socio-economic model of the USSR and acted as a source of capital accumulation for the development of industry and the military-industrial complex. We come to the conclusion that the mindless borrowing (transplantation) of institutions of free trade and protectionism in Russia in the
1990s, which was not accompanied by the formulation and implementation of state strategic plans for the development of the Russian economy, led to the formation of a “mutant” economic model. On the one hand, the complete abandonment of the policy of state monopoly on foreign trade led to the flooding of the domestic market with imported goods and, as a consequence, massive ruin of domestic manufacturing enterprises. On the other hand, the purpose of the fragmentary application of protectionist policy instruments was not so much to support national producers as to create a comfortable environment for the distribution of state property among a narrow group of people close to the authorities, as well as favoring monopoly capital in a number of sectors of the domestic economy.

**Key words:** protectionism, institutions, free-trade, Russia, agriculture.

**Introduction**

Understanding the role of protectionism in the modern economy is impossible without taking into account the institutional environment in which the state implements such practices. Thus, during the market reforms of the 1990s, post-Soviet Russia imported the institutions of state regulation of the economy through their transplantation\(^1\). An attempt to directly borrow foreign elements from the external environment — the capitalist countries of the Western world, due to privatization and economic freedom of business entities, the policy of “austerity”, easing the tax burden on capital, liberalization of currency regulation, the rejection of the monopoly on foreign trade, etc., came into conflict with the traditions of the planned economy. As a result, this symbiosis created the “Frankenstein monster” — socio-economic relations in which the institution of state regulation served the function of redistributing public property and protecting the interests of a narrow group of persons close to the government from external competition. In this context, protectionism will not produce the traditionally expected results, such as developing a competitive national manufacturer, economic growth and full employment, because their work was initially driven by other goals. Thus, the purpose of the study is to consider the development features of protectionism in modern Russia in the context of the institutional environment formed under the influence of atrophy and rebirth of liberal institutions, as well as the dysfunction of institutional macrostructure, when the freedom of entrepreneurship turned into all-powerful monopoly capital, privatization has led to mass bankruptcies of enterprises, the policy of non-interference of the state resulted in the abandonment of a large part of social obligations.

**Protectionism according to F. List and S. Amin**

The Dictionary of Economics defines protectionism as an economic policy of the state, which manifests itself “in the purposeful protection of the country’s domestic market from the introduction of foreign goods into it. This policy aims to encourage the development of the national economy and protect it from foreign competition by imposing high duties on goods imported into the country or banning the importation”\(^2\). Thus, protectionism is a phenomenon typical of the market model of the economy. In economic theory, the authors of different economic schools have developed the ideas of protectionism. The most famous are the works of F. List, who formulated the theory of “educational protectionism”. It implies the cultivation of “young industries” imposing protective customs tariffs until they become competitive on internal and external markets. Trade restrictions should not be applied

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\(^1\) On the problem of the transplantation of institutions in the case of the post-Soviet countries see (Grinberg, Komolov, 2020).

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to the purchase of equipment and technology. The costs of protectionism have to be borne by consumers, that List called “tuition fees”. They will be overcompensated for by future economic growth. Protective or “nurturing” duties, according to List, should be temporary and abolished as national industry reaches the stage where it can compete openly with foreign manufacturers. “The customs system, as a means of promoting the economic development of the nation through the regulation of foreign trade, must constantly bear in mind the principle of the industrial education of the nation”, List wrote in the preface to *The National System of Political Economy* (List, 2017). At the same time, F. List was an opponent of “prohibitive duties” and believed that they could be resorted to only in exceptional cases, such as in times of war.

S. Amin’s works contain similar ideas, but as applied to the analysis of the core-periphery relations of the modern economy. His research focuses on the problem of economic dependence: the countries of the periphery of the world economy specialize in a few export-oriented, labor-intensive industries with low value added (mining, agriculture, low value-added manufacturing). High-value-added industries are predominantly located in the center. The redistribution of peripheral surplus value in favor of the core takes place through underpayment of labor in the periphery, control of prices by the core countries and securing high-tech technologies through the patent system, as well as losses of some peripheral countries due to devaluation of national currencies, net capital outflows and interest payments on foreign debt.

S. Amin argued that it is impossible to free countries that exist under the rules of the global capitalist system from economic dependence. The only condition for their catch-up development is “delinking” from the established relations of the international division of labor. (Amin, 1990). Separation does not mean autarky. The basic idea of this theory is that peripheral states should redistribute resources and surplus product in accordance with the contribution of workers in each industry to total output. This would, for example, lead to an increase in the price of agricultural products and the welfare of the rural population.

The economic policy of the state should be aimed at meeting the needs of domestic development rather than promoting international competitiveness (food security, full employment, minimum wage, etc.). Amin admits that it is impossible to achieve complete separation from economic dependence, but even partial progress on this path can be considered a success for the country (Amin, 1996).

In the practice of state regulation of foreign economic activity protectionist measures can be a response to dumping by foreign producers. There are three forms of dumping:

1) occasional dumping, i.e. occasional sale of goods on foreign markets at a price below cost. This can happen, for example, in a situation of overproduction and the need at all costs to sell the goods produced on any terms. This form of dumping is not dangerous and does not require a government response (Maslov, 2019);

2) deliberate dumping – a conscious attempt to force a competitor out of the national market by selling goods at an artificially low price. The subsequent monopolization of the market makes it possible to more than compensate for the losses incurred;

3) sustainable dumping, based on the principle of third-degree price discrimination and posing the greatest danger. To deal with this phenomenon, the state is required to implement a well thought-out strategy that, on the one hand, will not deprive the consumer of access to imported goods sold at an affordable price, and on the other hand, will help to create sufficient conditions for the development and strengthening of a national competitor to the importer.
The most common protectionist measure in foreign trade is the customs tariff, i.e., the rate of duty levied on goods when they cross the customs border (Feenstra, 1992). This tool has a number of advantages: it allows limiting the entry of imported goods on the market in those industries that require support, usually new, underdeveloped industries that are not able to enter into open competition with the importer; it provides budget revenues; it serves as an argument in political confrontation between states in the international arena. However, the application of the customs tariff is effective only when the entire customs policy is part of a well-designed strategy for the development of the national economy, which considers inter-industry proportions and is aimed at achieving clearly defined goals of economic development. Otherwise, the sporadic, haphazard application of the customs tariff as a protectionist measure could lead to negative consequences. These include trade wars between countries, limited access of the population and companies to quality imported goods and advanced technologies, and reduced competitiveness of national producers due to the lack of competitive incentives for growth and development.

**Formation of protectionism in modern Russia. Contradictions of the transition period**

The economy of modern Russia has developed on the basis of the industrial and institutional foundation inherited from the Soviet period. In the Soviet Union, foreign economic activity was part of the planned economic system. In the absence of economic independence of enterprises, the customs policy of the Soviet state did not function as a regulator of foreign trade operations, so it would be incorrect to apply the term “protectionism” to the policy. Its role was auxiliary and limited mainly to fiscal function: customs duties acted as a source of replenishment of the state budget. In addition, the state monopoly on foreign trade made it possible to stabilize the economy, first, by ensuring the planned sale of goods by Soviet enterprises abroad (using, among other things, political instruments to secure foreign markets), and second, by filling the lack of domestic goods at the expense of import supplies (Gruzinov, 1978). Lenin considered the introduction of a state monopoly on foreign trade in 1918 as one of the main commanding heights of the Soviet state to overcome the economic ruin in the country in the context of a hostile external environment: this was the only way to protect the young republic from the invasion of foreign capital and successfully solve the problems of socialist construction; “without such monopolization we cannot get away from foreign capital by paying tribute” (Lenin, 1974). The principle of foreign trade monopoly assumed the implementation of foreign economic activities in accordance with the national plan. The proportions of foreign trade turnover became part of a single national economic plan, subordinated to its goals and objectives. The government centrally determined the nomenclature of imported goods needed by the country and formed a fund of export goods for sale abroad as normal conditions for foreign trade were restored (Yakub, 2018).

The period of market transformation in Russia coincided with the development of the neoliberal stage in the history of capitalism. The institutions of regulated capitalism in the Western world were replaced by the principles of market self-regulation. They are reflected in the provisions of the Washington Consensus — the type of macroeconomic policy recommended by the World Bank and the IMF, based on privatization, stabilization and liberalization. The latter meant a significant reduction in or abandonment of state regulation of the financial market (interest rates set by the market, abandonment of reduced rates for preferred borrowers); the removal of barriers to the inflow of foreign direct investment and ensuring direct competition between local producers and
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foreign ones; deregulation that facilitates the creation of new enterprises and eases antimonopoly policies; trade liberalization by replacing quotas with tariffs and the gradual reduction of the tariffs themselves.

During the R. Reagan and G. Bush presidencies, the USA considerably restricted protectionism, reduced trade quotas, supported the GATT (WTO) principles of abandoning economic barriers to the movement of goods and production factors. The United States also initiated the North American Free Trade Area, NAFTA, which included Canada and Mexico. The creation of the integration association was an attempt by the U.S. to expand markets for domestically produced goods. The general movement of the world economy toward globalization was a response to the “stagflation” crisis of the 1970s: the shift of production to regions with low wages and the simultaneous growth of imports by developed countries from newly industrialized economies reduced the costs of American and European manufacturers, which ensured high rates of economic growth over the next two decades.

The center of the market reforms of the 1990s in Russia was the privatization of state property. This process has also affected the state policy of regulating foreign economic relations. In general, the prevailing ideology of market fundamentalism at the time assumed that the removal of the state from the economy was a sufficient condition for prosperity: the natural mechanisms of market competition would run themselves. All the government has to do is to limit monopolization through rather lenient antitrust legislation.

The abolition of the state monopoly on foreign trade was one of the key decisions aimed at integrating Russia into the international division of labor through the internationalization of the national economy. The country’s competitive advantages — its rich scientific potential, educated population, natural resources, and diversified industry — were expected to actively attract foreign investment (Dzarasov, Novozhenov, 2009). However, this did not happen, partly because the Russian ruling class itself was not fully interested in such a development. Unlike the former Soviet republics of Central and Eastern Europe, which chose the path of unconditional submission and openness to the Western world (quick accession to the WTO and the EU), the Russian authorities were unwilling to share attractive assets with the outside world (Evenett, Vines, 2012). On the contrary, the 1990s were marked by a revival of protectionism, but in an ugly, distorted form, aimed at protecting property from external encroachment, rather than at developing the national producer. Conditions for attracting foreign direct investment to privatization were enshrined in the Foreign Investment Law, dated July 4, 1991, and the Civil Code. Foreign investors were subject to “national treatment”, which equalized the status of foreign companies with Russian ones. The Law “On privatization of state and municipal enterprises in the Russian Federation”, dated July 3, 1991, did not regulate the acquisition of state property by foreigners. Clarifications appeared only in the text of the State Privatization Program of State and Municipal Property, dated December 24, 1993. The document contained several restrictions on the participation of foreigners in privatization:

1) to privatize organizations of trade, transport, public catering, consumer services, as well as small construction and industrial enterprises (with up to 200 employees), the foreign investor needed to obtain permission from local authorities;

2) in case there were no other bidders, the sale of property to a foreign resident was possible only after a special evaluation of the company’s property by the Russian Ministry of Finance;

3) The Federal Counterintelligence Service was given the right to apply to the Government of the Russian Federation with a request to refuse the acquisition of assets by foreigners in a number of
sectors: defense, transport, communications, oil and gas, mining of strategic materials and precious metals and stones;

4) foreign capital was not allowed to acquire assets located in closed territorial entities.

These barriers cannot be called insurmountable. On the contrary, the conditions for allowing foreigners to buy Russian assets have been softened in comparison with the first version of the program adopted by the Supreme Soviet in 1992. However, despite this, the participation of foreign capital in privatization was insignificant, especially in comparison to other former socialist countries. Thus, between 1992 and 1994, non-residents bought back only 10% of privatized assets (Suleimanov, 2003). The main reason was the unwillingness of the organizers of the privatization process to share property with external buyers. The specific, voucher-based form of privatization chosen by the authorities severely limited the participation of foreign capital. The close relationship between government and business has become a source of protectionism of a special kind, where the role of the state is reduced to protecting the national buyer from foreign competition.

In December 1993, Nezavisimaya Gazeta published an article with the headline “Rejection of Protectionism”.

In this article, the author argues that against the backdrop of the formal movement toward internationalization of the Russian economy, in fact the state prevents the entry of foreign players into the market through currency controls, import duties and taxes. As a result, there remains a high degree of monopolization in the economy, which should be overcome by attracting foreign investors to the market. However, such appeals went unheeded, and the tandem of state and business continued to strengthen. As a result of this synthesis, a specific business environment emerged in Russia, which has carried its features through the decades. These include the following:

1) The rent-seeking behavior of big business. The source of wealth for most Russian billionaires has been the appropriation of superprofits from natural rents and trade in a completely free, undeveloped and undemanding internal market (Dzarasov, 2010). And if in the retail trade foreign capital began to gradually penetrate in the form of large retail networks, the extraction of raw material rent was and remains the privilege of national capital, as well as the state.

2) Excess profits as a prerequisite for investment. Protectionism and lack of competition, as well as the absence of property rights guarantees and insignificant reputational risks, have left room only for investment strategies that imply quick, mostly speculative profits. This problem is inextricably linked to the offshorization of the Russian economy: capital flight becomes a tool to protect the profits from redistribution by non-market methods.

3) Non-market methods of competition: administrative support of regional business by local authorities for a fee; the policy of vertically integrated companies overpricing their products; monopolism in certain industries and regions, caused by the features of the production process, the state of the distribution of productive forces (for example, in the production of assemblies and units for mechanical engineering) (Apokin, 2011).

4) Low quality of management personnel, cronyism, lack of entrepreneurial initiative. It manifests itself, in particular, in the fact that Russian business was unable to achieve success in foreign markets, including those with a favorable business climate, low levels of corruption and a stable legal system.
5) Low wages, social inequality and property stratification. The proportion of wages in the cost of Russian goods and services in Russia is 20–25%, the EU – 50–60%, the U.S. – 75–80% (Aksenova, 2016).

Low efficiency of protectionism in Russia as a sign of institutional dysfunction

The mentioned features of Russian business are the result of a specific policy pursued by the state in the post-Soviet period. The new Russian protectionism did not fulfill the “educational” functions according to F. List: it did not create favorable conditions for the development of production (on the contrary, the low level of personal income, high taxes, the devalued ruble made direct investment unattractive), but it shielded big business from external competition. This situation is due to the dysfunction of the institutions of state regulation of the market economy. As O.S. Sukharev notes, dysfunction is a functional disorder, violation, non-execution (partial execution) of the institutional macrostructure functions. Distortedly functioning institutions ensure the stability of such a state, and overcoming the accumulated contradictions becomes possible only with appropriate modifications of institutions (Sukharev, 2021). In Russia, the functional disorder of the transplanted institutions of liberalism has taken the form of their atrophy and degeneration. According to V.M. Polterovich, the transplant turned out to be unclaimed, because its use became incompatible with the cultural traditions and institutional structure of the recipient. In this case, the atrophying institution becomes a source of more serious dysfunction: destructive possibilities of its application, suppressed by features of the institutional environment of the recipient, become more active (Polterovich, 2008). Thus, the problems of the USSR economy, where the state at least managed the economy in accordance with strategic plans, have not been overcome: greenhouse conditions for big business, lack of competition, as well as the unwillingness and probably inability of the Russian state to formulate and implement strategic plans for the development of the economy in general and priority industries in particular have led to contradictory results.

As an example, consider the situation in Russian agriculture. The use of protectionist measures in this industry is traditionally explained by unfavorable climatic conditions, the consequence of which is increased energy intensity, low yields and low labor productivity. Another argument in favor of the protection of national producers by tariff measures is an appeal to the practice of the USA and European countries. However, the mechanical borrowing of protectionist practices in foreign trade has led to ambiguous results. On the one hand, the volume of agricultural production as well as exports increased several times between 2000 and 2010 (Epshtein, 2017). On the other hand, the export-oriented nature of production, along with the undervalued ruble exchange rate, which the government maintains through the accumulation of excessive international reserves, leads to an increase in product inflation. As a result of such protectionism, it becomes more profitable for producers to export their goods and sell them for foreign currency rather than to sell them on the domestic market. Rapidly rising food prices contribute to a further decline in the real incomes of the population and force the president and the government to resort to methods of manual control in order to curb the rise in prices of socially important goods. In such a situation, the state’s influence on the volume of exports of Russian agricultural products would be a reasonable protectionist practice. Restrictions on the export of grain and other crops would reduce domestic market prices. At the same time, it would mean limiting foreign exchange earnings of exporters and, as a consequence, reducing the net outflow

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of capital — another channel of non-equivalent exchange in the global economy according to S. Amin.

Also, the side effects of domestic protectionism in the agro-industrial complex are the dominance of intermediaries and the monopolistic power of companies involved in the processing of raw materials. Thus, a certain percentage is added to the original producer price during transportation, packaging and storage. For example, the price of carrots increases by 195%, potatoes — 160%, buckwheat — 135%, milk — 91%, cabbage — 73%, beef — 51%, and meat — 40%. The absence of foreign competitors, coupled with ineffective antimonopoly policy, allows businesses to make high profits without sufficient capital investment (for example, the degree of depreciation of fixed assets in agriculture in Russia in 2020 was 40.5%). As a result, in pre-sanctioned times the trade margins exceeded the protective tariffs by several times, which loses its protective function: overpriced products limited domestic demand and to an even greater extent redistributed goods in favor of the foreign buyer (Table).

Low consumption undermines labor reproduction and makes the industry more dependent on external markets (Afanasyev et al., 2015). In addition, this situation is influenced by such a traditional protectionist measure as the devaluation of the ruble. The cheap ruble policy pursued by the Central Bank and the Ministry of Finance does not allow Russian companies to import machinery, equipment, machine tools and other elements of fixed capital necessary to replenish depreciation and upgrade the material base of production. In the context of an ever-increasing rate of fixed assets depreciation, the Russian economy is in a steadily positive net export position. In pre-pandemic 2019, the trade balance was 105 billion US dollars (Tolkachev, Brzhezinskii, 2018). This circumstance indicates that in the context of devaluation Russian enterprises find themselves unable to meet their needs for imported equipment, as they are forced to bear excessive costs in rubles when buying foreign currency on the domestic market. However, one should note that the low efficiency of the protectionism in Russia in the context of weak economic growth in the period from

<table>
<thead>
<tr>
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<th>Excess of retail prices over production prices, %</th>
<th>Rates of import duties, %</th>
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<tbody>
<tr>
<td>Carrots (kg)</td>
<td>131</td>
<td>15</td>
</tr>
<tr>
<td>Milk (l)</td>
<td>122</td>
<td>15</td>
</tr>
<tr>
<td>Pork (kg)</td>
<td>93</td>
<td>0–65</td>
</tr>
<tr>
<td>Cabbage (kg)</td>
<td>93</td>
<td>15</td>
</tr>
<tr>
<td>Beef (kg)</td>
<td>92</td>
<td>0–15</td>
</tr>
<tr>
<td>Potatoes (kg)</td>
<td>79</td>
<td>0–15</td>
</tr>
<tr>
<td>Flour (kg)</td>
<td>62</td>
<td>10</td>
</tr>
<tr>
<td>Sunflower oil (l)</td>
<td>51</td>
<td>15</td>
</tr>
<tr>
<td>Buckwheat (kg)</td>
<td>41</td>
<td>0</td>
</tr>
<tr>
<td>Chicken egg (10 eggs)</td>
<td>36</td>
<td>0</td>
</tr>
<tr>
<td>Tomatoes (kg)</td>
<td>18</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: own compilation according to (Tsedilin, 2014).

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2014 to 2020 forces the government to reconsider the role of the state in international economic relations, in particular the WTO, the expediency of membership in which is increasingly questioned by representatives of the highest authorities of the Russian Federation (Obolenskii, 2018). In recent years, the vector of Russian protectionism is forced to turn toward the protection of national producers in order to increase their competitiveness. Despite the fact that the level of protection of the domestic market during WTO membership has slightly decreased, since 2016, Russia is noticeably ahead of many developed countries in the degree of tariff protectionism. According to V.P. Obolenskii, “the average arithmetic rate of import duty under the most favored nation treatment (7.6%) is about twice as high as in the USA, Japan and Canada, one and a half times higher than in the EU” (Obolenskii, 2018). The government, despite budgetary difficulties, finds ways to partially compensate for the losses of domestic producers. These include a recycling fee on wheeled vehicles, anti-dumping duties on light commercial vehicles from the EU, a ban on imports of pork, as well as increased duties on household appliances and some commodity groups of the AIC. However, such steps are still insufficient and reflect only the natural desire of the Russian state to follow the global trend toward a stronger protectionism.

Conclusion

In this study we examine contradictions of protectionism in Russia through the prism of the problem of institutions import in the period from the 1990s to the present. The novelty of the study, therefore, lies in the application of the political and economic method based on analyzing the development of productive relations of the specific model of capitalism established in the territory of the post-Soviet space. We can argue that the mechanical borrowing (transplantation) of protectionist institutions in Russia in the 1990s, not accompanied by the formulation and implementation of strategic plans for the development of the Russian economy, led to the formation of a “mutant” economic model. On the one hand, the complete abandonment of the policy of state monopoly on foreign trade contributed to the flooding of the domestic market with imported goods and, as a consequence, the mass ruin of domestic manufacturing enterprises. On the other hand, the purpose of the fragmented application of protectionism instruments was not so much to support domestic producers as to create a comfortable environment for the distribution of state property among a narrow group of persons close to the government, as well as to favor monopoly capital in a number of sectors of the domestic economy. Russian protectionism does not fulfill the “educational” functions formulated by F. List, and also following S. Amin’s ideas does not allow Russia to ensure self-sufficiency of its economy, to overcome its dependence on the outside world and its peripheral state. These circumstances create significant barriers to the development of national production and the implementation of the import substitution program, formulated by the government. Trends of deglobalization, typical of the current stage of the world economy development, require the state to reconsider the fundamental principles of protectionism. The study results show that the purpose of state policy should be expanding consumer demand and redirecting the flow of products from the external to the domestic market. In the context of worsening global confrontation of national economies such strategy becomes the key to the successful concentration of resources on the development of priority sectors of the domestic economy, which form the basis of the modern, sixth technological mode.
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