

Increase of Competitiveness of Production of Import-Bail

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Abstract: The study is devoted to some issues of import substitution at the present stage including at the stage of the actions of the Russian sanctions. In connection with the tightening of economic sanctions by Western countries the Russian government was forced to resort to retaliation. In the current economic situation of the country's food security is increasingly associated with import substitution. Solving the problem of import substitution is the task of a multi-faceted and multi-stage, being in direct proportion to the level of development of production in turn interconnected with the problem areas. The worsening economic problems in Russia requires the development of adequate, comprehensive and effective technology policy which provides a system of measures aimed at improving the efficiency and competitiveness of domestic products.

Key words: Import substitution, agriculture, AIC, competitiveness, Russia

INTRODUCTION

Import substitution in Russian is the main economic benchmark state in the sanctions fight against the West. Until recently, the import substitution spontaneously and more or less successfully carried out in various sectors of the economy. In 2014, Western sanctions and retaliatory steps taken by the Russian side led to the fact that the import substitution strategy has become one of the priorities of the Russian government. How business can participate in the implementation of this strategy and what assistance the government is ready to provide the companies at this stage and in the future.

There is a need to create conditions under which domestic producers can compete with foreign companies on the fair market basis. There are major problems, the solution of which will contribute to the successful implementation of this strategy in Russia. And what steps are already being taken in this direction.

The government plans to build on the business initiative in the field of import substitution and assist companies that want to grow. The authorities promised to create conditions for equal dialogue between business and government. On what will turn a new crisis policies for domestic companies and whether the financing of import-substituting projects enough.

CURRENT PROBLEMS IN TERMS OF IMPORT SUBSTITUTION

Today, the situation is taking place in the global geopolitical arena, the manifestation of new tensions in the immediate vicinity of the Russian Federation, regional boundaries, the cooling and the deterioration of relations with the world's leading players are aiming to ensure national security. Policy import, carried out both at the federal and at the territorial level is now one of the structural components of the policy in the field of national and economic security of Russia. However, it should be emphasized that the total import substitution in our country today is unrealistic and inefficient, though in most sectors and spheres of the Russian economy it is an objective necessity today.

We should pay attention to several key issues such as: despite the uncertainty of conclusions of sanctions war in terms of its implications for the parties, yet it is clear that certain losses will be borne by all the participants. For Russia, the result of the sanctions is largely positive: the country has accelerated the creation of a national payment system but weary of the development of domestic industrial production, typing

response in support of agricultural measures. However, waiting for rapid economic growth only because of the sanctions is not necessary, from the fact that there are other factors limiting growth. This list is located on the lower tier of the industry manufacturability, against about a complete lack of spare capacity in most cases because of the moral and physical depreciation of fixed assets and the existing volume of direct investments is unsatisfactory for a fundamental change in the situation. But the result of import substitution may be invisible only in the medium and long term. In the short term slowdown and decline in economic growth in the country and its regions and accordingly, reduced the indicators characterizing indicators of quality of life becomes inevitable. Thus, the expected positive results from the rapid import substitution is not possible.

Under the conditions of globalization and interdependence between the subjects of the world economy by which today we understand not only the country but also the huge multinationals in the whole country has a niche in the international division of labor and the global market section on which the competitiveness of its products. All other countries import goods in accordance with the objective economic laws, than there is nothing reprehensible. In a global world the need for import substitution may occur only if the country consciously chooses the path of isolation and closure of the national market of imported products which may last for some time. But sooner or later, depending on changes in the number and in the political situation, the country will be obliged to return to the world market.

The essence of the policy of import substitution industrialization of the economy is by limiting imports or discrimination. Its implementation is done by the unnatural creation of tax, financial and monetary shocks to the formation of certain domestic manufacturers a number of branches of the national economy in order to increase their competitiveness in the domestic market.

According to published data of the Federal State Statistics Service, the index of industrial production in January 2016 decreased by 2.7% compared with January 2015. Compared to December 2015 the index fell by 19.7%. In January 2016 compared with January 2015 (y/y) volume of mineral production grew by 0.4% as show in Table 1.

In January 2016 compared with January 2015 (y/y) volume of mineral production grew by 0.4%:

- Manufacturing production fell by 5.6%
- Power generation and distribution, gas and water increased by 2.5%

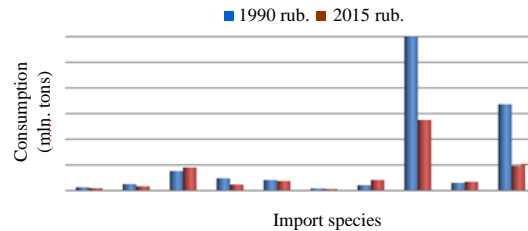


Fig. 1: Dynamics of import in the Russian Federation, 1990-2015 GG

In January 2016 compared with December 2015 (m/m):

- Volume of mineral production declined by 5.2%
- Manufacturing decreased by 32.6%
- Power generation and distribution, gas and water increased by 8.2%

The most important products are: the largest percentage increase compared to January 2015 (y/y) in not included in the table shows the following types of production: products knitted hosiery: 13.4 million pairs (+32.6%); chemical fibers and threads: 19.9 thousand tons (+27.6%); medical devices including surgical equipment, orthopedic devices and their component parts: 2.2 billion rubles (+37.9%). The largest percentage decrease compared to January 2015 (y/y) in not included in the table shows the following types of production: mineral water (natural and artificial), containing added sugar or other sweetening matter or flavored. 2.2 million half-liters (-35.7%).

Russia can not cope with the full import substitution products, fallen under the embargo. This is indicated by the specialists in the Accounting Chamber prepared the report "On the Federal Budget for 2015 and the planning period of 2016 and 2017". Based on the data of Rosstat, experts say primarily the task of import of certain types of meat and dairy products. Niche spare capacity in the meat branch was about 34%. At the same time, import was adjusted to about 59% of total beef consumption in the country, the share of imported from abroad reached 31% of pork, poultry meat 13%.

In addition to the branches of the AIC firmly significant import substitution represented in sectors such as machine tools, heavy machinery including the agricultural and food industry electronics, light industry, medicine and pharmaceuticals. Even in the face of tougher sanctions entirely replace imports of domestic production in the coming years, the country fails.

The idea of import substitution took place more or less successful the actual testing of the different countries of the world, the experience of which can be

Table 1: The data of the federal service of state statistics

Indicators	January 2016 rub.	Percentage	
		By January 2015 rub.	By December 2015 rub.
Mining mineral			
Coal (mln. tons)	32.0	+0.8	-9.7
Oil production including gas condensate, mln. tons	45.6	+0.8	+0.9
Flammable natural gas (bl. m ³ . m)	54.8	+1.6	-2.4
Gas oil passing (bn. cu. m)	7.1	+5.1	+2.9
Iron ore commodity unenriched (mln. tons)	6.1	+0.3	-1.6
Building materials aggregates (ml. m ³ . m)	17.1	-1.2	-40.4
Kaolin (thous. tons)	39.1	-37.9	-32.7
Manufacturing (25 of the 116 types of production)			
Meat and edible offal of slaughtered animals (thous. tons)	179.0	+12.2	-16.9
Meat and offal of poultry food (thous. tons)	360.0	+4.6	-8.2
Semis (meat)	133.0	-0.3	-13.1
Flour, wheat and wheat-rye (thous. tons)	619.0	-2.8	-28.8
Fish and fish products are processed and preserved (thous. tons)	281.0	-1.9	-5.5
Fruit and vegetables (mln. of conditional jars)	118.0	+6.3	-25.7
Fabrics (million. blocks. m)	364.0	+25.4	-12.3
Metallurgical coke from coal (mln. tons)	2.1	-6.4	-4.7
Oil will flow to the processing (mln. tons)	23.8	4.1	-5.4
Straight-run gasoline (mln. tons)	1.1	+0.6	-9.5
Gasoline (mln. tons)	3.4	-5.8	-7.2
Diesel fuel (mln. tons)	6.4	-5.2	4.4
Fuel oil (mln. tons)	5.5	-20.3	-10.8
Glass sheet for cast and rolled, drawn or blown (mln. m ²)	9.2	+5.3	-9.6
Brick, ceramic, non-refractory construction (mln. conv. bricks)	359.0	-25.6	-25.4
Building blocks of the large concrete (million. conv. bricks)	18.0	-58.7	-40.7
Iron (mln. tons)	4.4	-0.8	-4.7
Steel (mln. tons)	5.5	-10.6	-3.2
Hire finished ferrous metals (mln. tons)	4.7	-12.6	-5.9
Piston internal combustion engine with compression ignition other pieces	28.0	-34.9	-56.9
Electric motors and DC generators thousand dpieces	52.5	-7.7	-35.1
Cars (thousand pieces)	48.4	-40.4	-45.1
Automotive. cargo (thousand pieces)	2.4	-11.1	-83.7
Freight trunk (thousand pieces)	1.8	+1.5	-51.1
Jewelry with stone (thousan dpieces)	793.0	+17.2	-17.3
Production and distribution of electricity (gas, water)			
Electricity (bln. kW. h)	105.0	+2.5	+4.1
i.e. including nuclear power plants	17.9	-3.7	-2.1
Thermal power plants	73.1	+1.9	+6.7
Hydroelectric power plants	14.0	+14.0	-0.6
Thermal energy (millioncal)	186.0	+4.9	+16.9
Including thermal power plants	86.3	+8.1	+22.9
Boilers	90.3	+1.5	+12.6
Industrial disposal plants	7.9	+8.2	+4.3

regarded as successful. This process went on the way replacing imported foodstuffs, light industry products and simple production process. In this direction it has evolved a tactic of import substitution in East Asia, Mexico and BRICS community. In the future, the way to becoming the data import process countries diverged. Go to the path of import substitution requires a large amount of funding.

The implementation of many investment plans to import substitution is impossible without appropriate funding. Along with the company's own funds, the Ministry of Industry provides loans to enterprises (approximately at 10% per annum), the foundation also provides industry becoming a target of the loan (approximately at 5% per annum). For companies that manufacture import-substituting products for 2015 allocated 500 mln. rubles in state guarantees.

Many banks including Sber bank is actively involved in lending to enterprises engaged in import substitution. The Bank provides long-term loans of 5.7 and 10 years at 17% per annum. The rate may vary if the company has a state guarantee, it has concluded long-term contracts with stable operating companies. In 2015, Sberbank has allocated approximately \$7 bln. rub. on investment plans.

Review of the enterprises on import permits to make up what their intentions are very important and prospects are high. But there are obstacles to the rapid and successful implementation.

Some of them obsolete equipment used in factories; low labor productivity in the region's enterprises; shortage of qualified experts; lack of financial resources; there are difficulties with the entrance and exit to markets; lack of well-prepared plans for participation in the

competition for financial support; the high cost of domestic counterparts; the lack of equipment for the production in which manufacturers are in dire need and the difficulty of obtaining additional equipment to increase production capacity; lack the required raw materials for the production of competitive products; lack of information about the probabilities of regional enterprises involved in import substitution.

Russia largest importer of agricultural products and pro-food products (up 65% of consumption), particularly meat and meat products, milk and dairy products, vegetables, fruits and berries, fish.

The data in Fig. 1 suggests that if in Russia in 1990 the import of grain, meat was excessive and far from optimal (21.3; 30.5%), then in 2015 he grains reduced to a minimum and on meat, milk, fish, vegetables and fruits increased to a sufficiently high level (22.4; 40.0; 26.0; 50%). In 2013, the country imported 2.5 mln. tons of meat, 11.0 mln. tons of milk, 2.9 mln. tons of fruits and berries, 1.9 mln. tons of vegetables, 0.3 mln. tons of onion, 0.3 million. tons of carrots, 20 thous. tons of elite seed potatoes. The basis of the import of Russian policy today should be based on objectives not fully replace imports Russian counterparts and to create conditions for the diversification of domestic production and exports, the world market with a much higher potential for growth of domestic companies with competitive products of Russian origin. The objectives of this policy are: analysis of trade turnover of the country and its regions during the last 5 years, the identification of the most critical for the Russian market of imported goods and services in the context of technology and equipment of individual sectors and segments of the economy.

Determination of percent on imports by sector and by individual product groups, according to the Commodity Nomenclature of Foreign Economic Activity.

Analysis of the productive capacity and technological capacity of enterprises producing goods for import-competing or substitute products by region assessment of their load capacities, the degree of deterioration of BPA, an assessment of their financial and economic standing.

Development of a list of equipment and technology needed for regional producers and evaluation of the economic feasibility of the production of this equipment in the region (alternative-buying in other regions of the Russian Federation or abroad in partner countries not applying sanctions against the Russian Federation).

Preparation of technical specifications for the development and production of equipment subject to import substitution, through open discussion of these documents with the product consumers-enterprises of the regions.

An analysis of the competitiveness of products for consumer purposes regional producers; determination of the list of consumer goods, demand for which Russia will be able to meet increasing its own production from existing reserves and activities aimed at the development of enterprises in the region.

Determination of the list of consumer goods, demand for which can be satisfied only by imports from the CIS and foreign countries.

According to the Ministry of Industry and Trade of Russia, the import dependence of the Russian economy in some industries is more than 80%, creating a potential threat to national security. For example, the share of imports in the machine tool industry is <90%, heavy machinery 60-80%, light industry 70-90%, electronic industry 80-90%, the pharmaceutical and medical industry 70-80%. Today as a result of attempts to isolate the Russian economy from international trade by economic and political sanctions by the Western partners, the embargo and the so-called retaliatory sanctions there a direct threat to the reproduction of the chain brake and actually stop the economy in a number of sectors and consequently, the threat national security.

MODELS OF REGULATION OF IMPORT SUBSTITUTION PROGRAM

The share of imports in different sectors of the Russian economy is the indisputable argument for Russia's transition to import substitution strategy. As the main element of state industrial policy, import substitution is aimed at replacing imports of manufactured goods that are in demand in the domestic market, products of national production and minimizing thus the negative effect of the introduced with respect to Russia on the part of foreign partners sanctions. Opponents of the move to the import substitution strategy in Russia as an argument claiming that the creation of a closed economic system, using mostly domestic capacity will inevitably take the form of economic self-sufficiency.

Controversy laws of the global economy, reducing its effectiveness, determines the subsequent economic backwardness of the country. It may be objected that at this stage, Russia was in a state of need for import substitution strategy of necessity, due to external circumstances, due to the holding in respect of its economic blockade and economic sanctions. And in these circumstances, the implementation of import substitution policies should be viewed as a means of protection against external pressures.

It can be assumed that those strict conditions which was now the Russian industry will benefit its development and turn it into a stable platform of the national economy. This assumption is argued that the import substitution policy is based on the creation of a favorable environment

Table 2: Embodiments of the import substitution strategy

Option import substitution strategy	Content strategy	Benefits
Strategy based in import substitution	The development of import-substituting industries with a view to the development of the domestic market only	In this situation, the company replace imported components used by domestic peers and sell the product in the domestic market
The strategy of the external-oriented import substitution	Promotion of domestic products on the world market and the replacement of imported parts and components in the export product	The implementation of this strategy boosts the company to research and implementation in accordance with the requirements of foreign markets which ultimately should lead to an increase in the competitiveness of domestic industries in the domestic market with further access to foreign markets
The strategy of import substitution mixed	Implementation of import-substituting activities in both domestic and foreign markets in different ratios	The possibility of rational distribution of the resources needed for the implementation of import substitution for internal and external areas, the ability to reduce costs as the exported products and products aimed at the implementation of the domestic market

for the growth of the national industry which involves active government support for domestic producers. However, the implementation of the import substitution strategy should not lead to a breach of the principles of international economic integration.

Import substitution is a system of national security factor as capable of providing technological independence in critical areas, to promote a positive trade balance as well as the cultivation of national leaders to conquer the global market. In this regard in terms of import substitution today seems the most relevant products industries have come under the effect of economic sanctions as well as sectors that are a priority in terms of national security a high-tech machine tool production, production of oil and gas engineering.

Particular attention in the development strategy of import substitution should be paid to the selection of appropriate models. Taking into account today's realities of Russia as well as analyzing the existing international experience, you can use the three embodiments of the import substitution strategy in focused, externally focused and mixed table strategy based in import substitution aims to develop import substitution industries with a view to the development of the domestic market only. In this situation, the company replace the imported components used by domestic counterparts and implement the product in the domestic market. The disadvantages of this system include the fact that the use of internally-oriented import substitution can lead to stagnation of innovation at the enterprise level as well as the backlog of the national economy in the field of technological and scientific cooperation.

Application-oriented import substitution model in determining the stage of development was the so-called Newly Industrialized Economies (NIEs), Latin America (Brazil, Argentina, Mexico, Chile, Paraguay, Uruguay). Inside-oriented import substitution strategy has played a catalytic role in creating a diversified national economy with the expansion of the production of essential goods on their own. In order to protect its economy from the expansion from North America in the 50-60's. The

20th century. Latin American countries have taken a number of measures to reduce the prices of domestic products and thus retained in state funds directed to the modernization of the industry (Table 2). Strategy-oriented import substitution was carried out in essentially the first stage of industrialization of the developing countries of Asia, Africa and Latin America and was the phasing out of the import of industrial products and to ensure the internal market its own products. First, import substitution is carried out in the production of consumer goods, then it swept and heavy industry products. However, this import-substituting development as a whole was not enough effective. For example, Latin American countries to implement in due time strategy inside oriented import substitution, in the end faced with a general deterioration of the economic situation that is there was a rise in inflation, decline in savings and as a result a reduction of investment activity, the lack of balance of payments and the aggravation of the international monetary liquidity (Stafievsckaya *et al.*, 2015).

These countries have not been able to implement the restructuring of its economy and bring even in the domestic market a sufficient number of locally produced goods. Companies rely heavily on government support measures do not become competitive and national governments, to encourage protectionism, nurtured by the whole industry, not based on real competitiveness and administrative resources. Fiscal policy in these countries proved to be ineffective and import substitution has not led to growth and reduce the competitiveness of national industries.

By itself, the strategy is based in import substitution-this catch-up development strategy, implying the transition from the production of simple products to high technology and high-tech products with high added value. But this is impossible without an open economy, stimulating technological modernization, increase productivity, efficiency and the creation of competitive products.

National security issues are always a priority for any state which is not unimportant role of food security of the

country theme. It is known that in Russia the share of imports of goods. In this regard, import substitution theme is not only relevant but also important for the study (Krenea *et al.*, 2015a).

As can be seen from the spheres of the impact of sanctions, Western partners bring a focus on painful points of the Russian economy. The result is that the response affect those branches of industry partner countries that are important to them. So Europe exports to Russia a significant proportion of their agricultural products. These include dairy and meat products, vegetables and fruits. But it is worth noting that the choice of the scope of the sanctions is not due only to this factor. Protect domestic producers against unfair competition and support the development of small and medium-sized businesses in the field of agriculture that is another aim of the sanctions package. However, you need to soberly assess the situation and understand that Russia can not at this stage to give up most of the study of import and almost self-sufficient in all necessary kinds of goods. Therefore, our country's economic policy in these circumstances would not only aimed at import substitution but also to replace the trading partners.

Returning to the issue of import substitution it should be noted that the process of reducing dependence on external partners should be based on intensive development of private enterprise, in fact, it takes into account national specificities and able to adapt to changing conditions in the shortest possible time. Consequently, the state support in this area is one of the important factors in the development of small and medium-sized businesses and to overcome the barriers to the development of the productive sector of the national economy.

Public policy should be aimed specifically at reducing the impact of the above factors. This can be achieved through the following measures:

- Revision of tariff and customs regulations and tax rates
- Increase the availability of credit
- Creation of infrastructure
- Using the tools of public-private partnership

Implementing a program aimed at maintaining domestic producers. In turn, the Ministry of Industry and Trade Ministry submitted to the State Duma a draft law "On industrial policy in the Russian Federation" which *inter alia* provides the basis for the application of this tool to promote import substitution as investment contracts. It is planned that they will be concluded between the Russian Federation and investors, receiving a commitment

to the creation and development of industrial production and infrastructure. Under the terms of the contract provided various benefits such as tax. This measure should contribute to the development of the real sector of the economy (Albrecht *et al.*, 2014).

Another mechanism of assistance to domestic producer is to create the Industrial Development Fund for which the budget has provided 19 billion rubles. His main task will be to finance investment projects of medium-sized businesses at low rates.

It is also possible to use such a measure of support as government procurement. According to the law "On the contract system in the procurement of goods, works and services for state and municipal needs", the government has the right to impose restrictions on the purchase of imported products. Thus, domestic producers are able to increase the volume of its own production and market presence.

It is important to note that the limits imposed must not lead to a complete abandonment of the external market and the closure of the economy. Conversely, performing import substitution plans should take place along with the involvement of foreign capital in the economy and maintaining a certain level of its openness. Same way, the need to find solutions to form a well thought-out strategy to reduce Russia's dependence on external trading partners-has now become a top priority for our state and relevance will only grows up in the coming years. In the present study suggests ways to solve this problem but until it is local. Of course, you want to search for new methods and tools to ensure import substitution mechanism that will facilitate the development of national production and solving related problems (Smirnov and Stukova, 2015).

As an alternative to this strategy, many countries began to use externally-oriented import substitution strategy, based on which it was supposed to promote domestic products on the world market; anticipated replacement of imported parts and components in the export product. The implementation of this strategy boosts the company to implement R&D in accordance with the requirements of foreign markets which ultimately should lead to an increase in the competitiveness of domestic industries in the domestic market with further access to foreign markets. The aim of effective implementation of the strategy of import substitution is externally-oriented identification of reserves of the national economy for the formation of the factors supporting primarily underdeveloped promising industry.

The countries of Western Europe and the USA for the first time used the strategy of outwardly-oriented import substitution in 1850 to support its own industry.

However, the greatest development of this strategy was in the middle of the 20th century in developing countries, especially in the newly industrialized countries of Asia (Taiwan, South Korea, Malaysia, Thailand, Philippines). In this state of East Asia showed a trend of faster economic growth compared with the industrialized countries in line with the predictions of the theory of convergence.

Given the choice of a mixed strategy of import substitution, the company carries out import-substituting activities in both domestic and foreign markets in different proportions which allows efficient allocation of resources required for import substitution. However, the need for implementation of R&D and innovation in accordance with the requirements of foreign markets in the long term requires a constant investment of significant resources. An example of the implementation of the import substitution strategy is a mixed economy of India. Certain features of this strategy are also characteristic of the Egyptian economy (Krenea *et al.*, 2015b).

In this situation, a necessary condition for improving the quality of products is increasing state control at all stages of advancement of the goods to the consumer from production, its processing, transportation, storage to sale to the population. To do this, you need to develop a quality management system based on the experience of the world agricultural powers. Implementation of effective food safety systems in general administrative activities of the organization will provide the maximum benefit not only by producers but also to all interested parties. These problems should be solved at the level of specific producers and at the state level. In this connection, it is necessary to enhance the role of public services in product quality federation.

However, the implementation of quality management system-is not the only tool that can contribute to bringing products to world-class standards. Equally important is the increase in the level of professional training of AIC of our country. This requires the organization of re-training which will deepen the comprehensive technical and professional knowledge and to improve skills. In modern conditions, when scientific and technical progress affects the entire system of productive forces it is especially important.

Tough legislation and modernization of subsystem state standards is another important step towards the establishment of competitive agricultural products. Necessary tools, ensuring compliance with the requirements of product quality specifications and technical documentation are standardization and certification. Due to the improvement of a number of legislative acts that regulate these processes it is possible

to ensure the safety and quality of products, works and services according to the level of development of science and technology. In addition, experience shows the majority of European countries, food security can be achieved by large fines. For example in Germany the average size of the fine for overdue realization of products up to 20 thousand euros. In some cases, producers risk losing their business so to produce low-quality products is simply unprofitable. Unfortunately, penalties for unscrupulous producers minimal in Russia.

Another important aspect, significantly affecting the quality of the final product is the level of prices for agricultural raw materials. Often the price that allows to provide the necessary conditions of production is significantly higher than the profit earned by the company, realizing the goods. Of course in this situation, the manufacturer will not be interested in improving the quality of products. It is therefore necessary to stimulate the purchase of high quality raw materials by introducing differentiated purchase prices. However, this is not the only instrument of price policy. Considering the contribution of the agricultural sector in the formation of gross domestic product, the government should increase the budget financing of the sector, to expand lending and introduce preferential taxation. These measures will help to balance the prices in the agricultural sector, there by encouraging the manufacturer to acquire high quality raw materials.

Competitive products are also associated with the change and the improvement of technical production basis. Upgrading the equipment will help increase the volume of output of agricultural products, improve the efficiency of use of raw materials and most importantly, to reduce production costs which in turn will contribute to reduce the cost of goods.

These techniques will significantly reduce the Russian Federation on imports of agriculture, increase the competitiveness of agricultural production and the national economy as a whole. However, it is important to understand that the provision of long-term development of the agricultural food market and to prevent the negative consequences of the economic sanctions are possible only by increasing state support for sectors of the domestic agricultural sector because governments need to support the agro-producers to modernize their production facilities and control the quality of agricultural products.

CONCLUSION

This study has allowed to analyze the main problems of the functioning of enterprises at the present stage; aggravated food insecurity; disclose import barriers.

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