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**INNOVATION IMPORT SUBSTITUTION AS AN IMPERATIVE OF SUSTAINABLE ECONOMIC  
DEVELOPMENT OF THE RUSSIAN FEDERATION**

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**Abstract**

The article examines the essence and role of import substitution as an efficient strategy of the long-term development of the Russian economy in the context of sanction pressure of the Western countries. The authors chose the institutional peculiarities of organization of process of the rational import substitution as the research subject. In the article the authors sorted out objective factors confirming the economic reasonability of the import substitution, and potential threats accompanying its implementation. The authors systematized assessment-analytical tools for researching a level of the country's dependence on imports by separate commodity groups in some branches and spheres of the activities, and they specified an algorithm of methods of assessing a demand for the import substitution at an industrial enterprise. The authors offered institutional conditional and determinants, which can favor the efficient implementation of the import substitution policy in the Russian Federation.

**Keywords**

Innovation import substitution – Rational import substitution – National security – Industrial policy

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## Introduction

Import substitution is qualitative transformations in the country's economy, which favor the development of production of the goods, which are analogous to the imported goods, and which cause the competitive growth of the products manufactured, national goods producers and the whole state in order to achieve the innovation growth<sup>1</sup>. The import substitution policy is used by the developed and developing countries to assure the security of the national economy, its harmonious integration into the world economic system.

At present the definition "import substitution" has several options of interpretation. The first option of interpretation of the import substitution process implies a partial or full replacement of the import goods with their domestic equivalents. Special attention is paid to the following aspects of the process: time restriction, state control, and a positive effect from implementation. For example, according to E.E. Rummyantseva, the import substitution is "decrease or cessation of the import of the goods by means of development of national production of the same or analogous goods"<sup>2</sup>.

The second option is more fundamental and, apart from replacement of the import goods with their domestic equivalents, means pursuance by the state of an economic strategy and policy, which are aimed at supporting the domestic productions and branches by means of tax benefits, quotas and tariffs, development of the necessary production infrastructure in order to assure the economic security, improvement of its own production. V.A. Semykin gives a name "import substitution" to a process of optimization of the Russian economy structure by means of creating the productions, which are able to replace the import and which make it possible not to depend on the world economic relations<sup>3</sup>.

The third option explains the import substitution process in terms of the international trade as a way of entering of the country's economy into a system of foreign economic relations. This approach calls the development of the industrial import substitution one of the main goals of the domestic economy growth, the growth of the services and goods market within the country<sup>4</sup>.

The fourth option considers the import substitution process in a regional aspect as a factor of the sustainable balanced development of the region. Thus, the import substitution assures the achievement of the goals, which the region set, on the structure and volumes of its own production when the consumption of analogous import goods is reduced<sup>5</sup>.

The fifth option of interpretation has a targeting nature, when bringing the import substitution process to a level of a separate economic entity, namely, a specific industrial

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<sup>1</sup> E.G.; Animitsa; P. E. Animitsa and A. A. Glumov, "Import substitution in the region's industrial production: conceptual-theoretical and applied aspects", *Economy of the region*, num 3 (2015): 160-172.

<sup>2</sup> E. G. Rummyantseva, *New economic encyclopedia* (Moscow: Infra-M, 2005)

<sup>3</sup> V. A. Semykin; V. V. Safronov and V. P. Terekhov, "Import substitution as an efficient tool of optimal development of the market economy", *Vestnik of Kursk State Agricultural Academy*, num 7 (2014): 2-7.

<sup>4</sup> E.Y. Cherkesova and D. D. Mironova, "Formation of the import substitution policy in the Russian Federation: institutional conditions and determinants of efficiency", *Economy and business*, num 1 (90) (2018): 88-93.

<sup>5</sup> E. Y. Cherkesova and D. D. Mironova, "Institutional tools of implementation of rational import substitution in the Russian Federation", *Economy and business*, num 3 (92) (2018): 587-591.

enterprise. E.V. Volkodavova gives a name “import substitution process” to a system of measures, which are aimed at achieving an enterprise’s goals on the structure and volume of the products to make its activities more efficient<sup>6</sup>.

Thus, the import substitution process can be analyzed relative to specific goods and services or spheres of production and business at a level of the state, a region, and separate enterprises and organizations. The import substitution can be showed as two differently directed processes: reduction of the goods importation and organization of the production of this or analogous goods in its own territory.

The research goal consists in a theoretical analysis of peculiarities and problems of the rational import substitution and development of the proposals to efficiently implement the import substitution policy and improvement of the economic security of the Russian economy.

The detailed specification of a notion “import substitution”, revelation of the basic priorities and potential threats of implementation of the import substitution policy, systematization of the assessment-analytical tools of research of a level of the dependence of imports, and development of the tools and mechanisms of implementing the comprehensive import substitution program in the Russian Federation will make it possible to achieve the set goal and to solve the specified scientific problem.

The main characteristics, which favor the import substitution process in the country, include<sup>7</sup>:

1. Availability of conditions for institutional changes of the economy. The import substitution is possible only in certain foreign political and inner short-term conditions, and it requires an efficient support system from the state.

2. Efficient qualitative transformations in the economic development. Measures for creating and expanding the import substituting productions can be considered as successful in the event of making the domestic goods producers more competitive including through restructuring of outdated and unpromising productions.

3. Increase in innovation activity of economic entities of the domestic economy. The import substitution is bolstering a role of the high-technology branches in achieving the progressive growth and it is forming the basis for industrialization, it requires the creation of new productions with the maximum added value and improvement of the technologies transfer in order to overcome the scientific and technical lag.

Let’s sort out the main factors confirming the economic reasonability of the import substitution process<sup>8</sup>.

1. With the import substitution the added value is within the state, just as when the necessary products are imported, it cannot get to the country.

<sup>6</sup> E. V. Volkodavova and A. P. Zhabin “Formation of the import substitution policy in the Russian Federation’s industry”, *The Humanities, socio-economic and social sciences*, num 5 (2016): 151-156.

<sup>7</sup> E. V. Volkodavova, “Implementation of a strategy of the import substitution of products at the Russian industrial enterprises”, *Economical sciences*, num 12 (2009): 281-286.

<sup>8</sup> E. R. Zakirova, “Institutional transformations in a system of regulation of the capital flow in stimulating the import substitution”, *Proceedings of the Voronezh State University of Engineering Technologies*, num 3 (69) (2016): 408-416.

2. The domestic production growth favors the preservation of the current jobs and the creation of new jobs, it makes it possible to improve the personnel training.

3. Manufacturing of the import-substituting products is on the basis of the operating enterprises (in the modern economic and political circumstances the creation of such productions from the scratch is difficult because of the lack of investments and the slack in time). This makes it possible to use the accumulated production potential of the enterprise and of the whole branch to a greater degree, to dispose of the available resources more efficiently, to satisfy the population's needs, to replenish the budgets of the enterprises, a region and the whole state, and to increase the population's incomes.

4. Creation of new competitive productions within the import substitution is causing the structural transformations in the economy, favors the formation of new productions and branches, the creation of additional demand for the own-produced goods, the development of scientific research. The created import-substituting productions, especially the high-technology productions, must not target only domestic consumers, they should enter the foreign markets and try to compete in them.

5. The import-substituting products are, as a rule, cheaper than the imported products, because the expenses are lower, the taxes are lower and the customs duties are not charged. The stepping up of the internal stimuli favors the development of the import-substituting productions.

6. The local enterprises know the consumers' demands and preferences better than the foreign ones do, they have studied a national, cultural, educational, economic specific character of the market.

7. The import substitution assures the continuous supplies of the strategic products. This aspect of import substitution has a political nature, so the economic reasonability may fade into insignificance.

Thus, the import substitution eliminates many risks of carrying on the business activities and produces a number of positive effects<sup>9</sup>:

- reduction of import ratio of the strategic goods;
- reduction of the cost of the import-substituting goods in organizing the production through the domestic resources;
- a possibility of raising the export level, if the import-substituting goods meet the level of quality of the products made by global manufacturers;
- creation of new jobs;
- innovation renovation of the production, even in the case of localization of the production of the goods, which exist in the world market;
- raising of the level of the national specialization and cooperation;
- non-admission of rupture of a chain of creating the cost, especially in the high-technology science-based branches;
- improvement of conditions of the economic activities of the domestic market's agents;
- assurance of steady rate of development of the domestic branches (clusters), enterprises and organizations;
- strengthening of the political and economic independence and security of the Russian Federation.

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<sup>9</sup> D. D. Mironova, "Import substitution as a factor of assuring the sustainable development of the domestic economy". Prospect - 2016: materials of the International scientific conference of students, postgraduate students and young scientists. Nalchik: Kabardino-Balkarian University, Vol: IV (2017): 182-186.

Summing up all the said advantages, it is possible to conclude that as a result of the import substitution policy, a stable economic and socio-political situation is emerging in the country, which makes it possible to develop the market relations in prospect.

At the same time the import substitution process can be accompanied by some risks. Potential threats can be as follows<sup>10</sup>:

1. High probability of conservation of the current technological setup. There is a high risk of stagnation of the innovation activities, the economy acquires with difficulty the branches-locomotives, which assure the achievement of the world level of the technical progress, it seems highly probable that the enterprises operation will be less efficient when the import is restricted artificially. Apart from that, it is often the case that for development of new production technologies, the country does not have resources, so it has to trade with other countries. As a matter of fact, a specific character of the open market consists in the fact that the strongest and the most efficient enterprises, which are able to adapt to permanent changes of the competitive environment, can develop and survive.

2. The import substitution implies catching-up, and not outstripping accelerated development. In the Russian economy this model is applied in most cases in organizing the import-substituting productions. It consists in the fact that the imported equivalents are not subject to the innovative modernization, but they are reproduced in the import substitution without fundamental changes of the overall dimensions, technical and technological parameters and characteristics of the articles. The practice is quite justified at some historical stages, however, in the age of the information society an idea about the catching-up development must become vestiges of the past. It means that the import substitution must have an innovation nature, while the manufactured products must be competitive in comparison with the foreign products.

3. The changeable demand for the substituted products and a heightened risk of the bankruptcy. This is caused by rapid change of the technologies, the consumers' preferences and consequences of the crisis phenomena. An important condition for output of unique products in the context of wide individualization (specificity), or a transition to a unique type of the production, cutting production time from an idea to the market is correspondence of the import-substituting products' price to the mass products' price.

4. The import substitution should be considered as a component of the industrial policy, which implies a package of measures to organize the production and to promote, to the internal and external markets, the domestic products, which are analogous to the imported products and which excel them in the consumer properties and efficiency of the engineering solutions. While building its own reproduction chains, it is necessary to assure a high level of the research and development, to solve the engineering problems, to supply the production with qualitative materials and with skilled personnel. So, the efficient import substitution policy can be implemented successfully only in transition to a new model of the economic growth, which implies not only increase in the investment attractiveness, but also strengthening of the country's positions in the world markets.

## Materials and Methods

The import substitution problem has existed in the Russian economy for many years. To solve the problem, in different periods of time within the pursued import substitution policy, various strategies, methods and tools were used, but significant results,

<sup>10</sup> E. Y. Cherksova and D. D. Mironova, "Import substitution as an efficient tool of optimal development of the region's economy", *Economy and business*, num 2-2 (79-2) (2017): 298-302.

which would make it possible to speak about a stable, rational and economically justified decrease in the dependence on imports, have not been achieved yet.

Formation of efficient tools and mechanisms of implementing the import substitution policy implies the necessity of, above all, an objective assessment of a level of the country's dependence on imports according to separate kinds of the economic activities. In the domestic and foreign practice, in order to assess a level of the dependence on imports, some approaches to determining its indicators became the most commonly used<sup>11</sup>:

- an index of comparative advantages (B. Ballasa);
- an index of potential comparative advantages (B. Ballasa);
- an indicator of the import intensity (M. Shiff, A. Winters);
- an indicator of intensity of bilateral goods flows (G.A. Brown, K. Kodzima, K. Anderson, Kh. Norkheim).

Management of processes of the import substitution potential building in the domestic industry implies the necessity to develop the methods and tools of adopting the efficient management decisions and, in particular, the tools of analyzing the dependence of imports level according to separate commodity groups in separate branches and spheres of activities.

One of the key aspects of developing such tools is a task about restricting the sphere of spreading the import substitution policy by the reasonable limits with observation of principles of maintaining the state's national security.

In order to solve the said tasks (O.A. Chernova and V.V. Klimuk) it is reasonable to use the methodological tools, which imply, in order to assess a level of the country's dependence of imports according to separate commodity groups of specific branches, to calculate the following indicators<sup>12</sup>:

- an index of the goods dependence of imports;
- an index of a level of the country economy integration into the globalization processes;
- balance of foreign trade, which falls on 1 km of transport carriages from the exporting country to the importing country.

The offered assessment-analytical tools of researching a level of the country's dependence of imports makes it possible, on the basis of the obtained data, to adopt the management strategic decisions in relation to a choice of a trade partner with account taken of the set tasks of import substitution and preservation of economic security of the state.

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<sup>11</sup> E. V. Volkodavova and A. P. Zhabin, "Methods of assessment of demand for the import substitution at the industrial enterprise", Production organizer, num 3 (70) (2016): 5-17.

<sup>12</sup> O. A. Chernova and V. V. Klimuk, "Rational import substitution in the industry: tools of assessment", Tomsk State University Journal, Economy, num 38 (2017): 43-52.

An assessment of the dependence of imports at a micro level confirms that according to separate positions of goods, whose production can be organized by the domestic producers, the import ration is still high. In an uncertain economic-political environment the enterprises may face a problem of failure to supply or short supply of the import components of the production process.

Then the management of the enterprises, whose technological chain uses the import components: raw materials, materials, equipment, consulting, also faces an import substitution problem.

Determination of the demand for the import substitution can become a pressing problem of the enterprise's management in the events when<sup>13</sup>:

- failure to supply the imported components can lead to a risk of the production suspension;

- the importer changes conditions of the goods supply or service rendering on a price, package contents, time limits and it is necessary to switch over to another counteragent;

- the import quality does not meet the technological requirements of the production anymore;

- there is a confidence that it is possible to organize the production of import goods using one's own resources or in the RF.

Switching over to another supplier can raise the goods (service) price, a level of the production rejects, lower the goods' quality, which, in any case, will reduce the sales volume and the production profitability.

So, in order to substantiate a management decision on assessment of volume of the necessary components of the import substantiation: raw materials, materials, components, technologies, equipment, training, it is possible to use the methods of assessing the demand for the import substantiation at the industrial enterprise (Fig.1).

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<sup>13</sup> R. V. Zharikov, "Import substitution of the food goods in the innovation economy", Issues of the modern science and practice. V.I. Vernadsky University, num 2 (64) (2017): 55-60.



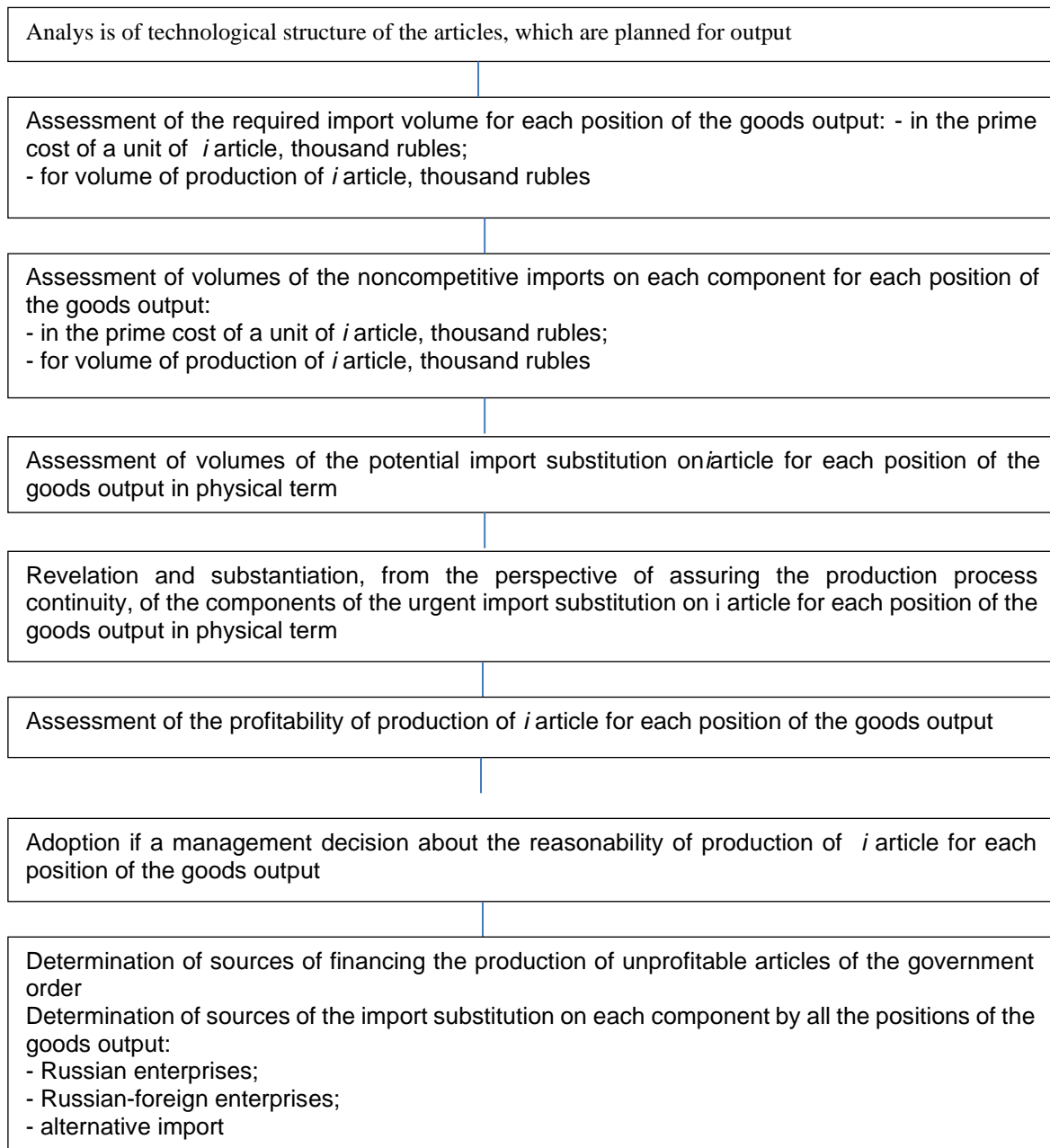


Figure 1

Block diagram of an algorithm of the methods of assessment of the demand for the import substitution at the industrial enterprise

Determination of the demand for the import substitution at an enterprise starts with an analysis of the technological structure of each article. This will make it possible to reveal a composition of the components, which need the import substitution in the planning period. It is necessary to supplement those data with the forecast calculations in a horizon of the middle-term period. It is necessary to calculate the required volume of import for each component of the import substitution for each position of the goods output in the cost of an unit of an  $i$  article, in value terms, (which will make it possible to see a share (proportions)

of the required import in each article) and by the volume of production of  $i$  article for the purchase department<sup>14</sup>.

The next step is an analysis of volumes of import supplies to the importing countries in order to reveal positions of the noncompetitive imports, to which it is possible to attribute, in value terms, all volumes of the import components, on which it is impossible to organize the import substitution in Russia for any reasons (non competitiveness, lack of raw materials, technologies, etc). If the import supplies are implemented from the countries, which can withhold or cease them, they should be attributed to the noncompetitive imports positions too.

The demand for the import substitution by  $i$  article for each position of the goods output in physical terms is assessed as a difference of the import volume and the noncompetitive imports volume.

It is necessary to reveal from the required import substitution volume, and to assess the import components, whose lack can lead to stoppage of, at least, one business process. Organization of the import substitution on those components is urgent.

When calculating the volumes of the imports, the noncompetitive imports and the import substitution, when calculating, in value terms, the volume of each component of the import substitution, it is necessary to take into account its total demand for the article.

The import substitution volumes can be calculated in the following assessments:

- in order to assess a picture of the volumes change in monetary terms, excluding the influence of the prices change upwards and downwards, it is necessary to assess all the periods in the current prices of the year (in comparable ones);
- in order to watch the volumes change in monetary terms, with account taken of the prices change, it is necessary to access each year in its own current prices;
- when assessing the prices of the forecast years it is recommended to apply the forecast deflator-indexes of the Ministry of Economic Development of the Russian Federation.

An important stage of those methods is an assessment of profitability of each article and adoption of the management decision if it is possible to produce it in the future or it is necessary to exclude it from the production program. A situation can emerge that it would be more efficient for the enterprise to withdraw the products, which the state needs, from production. So, the enterprise's management can request to receive additional financing sources or other fixed benefits for production of unprofitable articles, which are expected to produce on the government order. Thus, those measures of the state stimulation of the import substitution are justified logically.

At the next stage it is necessary to determine the sources of the component's import substitution. The research of organizing the import substitution processes at the Russian enterprises show that the import substitution can be organized by the enterprise itself on the basis of its own resources and (or) technologies; by another Russian enterprise; by a Russian-foreign enterprise on the basis of international cooperation; by means of the

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<sup>14</sup> D. D. Mironova, "Institutional conditions of efficient implementation of the import substitution policy in RF". Prospect - 2018: materials of the International scientific conference of students, postgraduate students and young scientists. Nalchik: Kabardino-Balkarian University, Vol: I (2018): 301-305.

alternative import or on the basis of the import resources and (or) technologies. In this case it is necessary to take account of achievement of the criteria indicators:

- a level of production rejects;
- a level of the consumers' reclamations<sup>15</sup>.

The demand for developing the import substitution policy in any country is formed under the influence of destabilizing factors of external and internal environment, which are forming a certain level of the dependence on imports. The dependence on imports consists in restriction or inaccessibility of the import of the commodity groups, which are strategic in terms of the economic potential implementation, and which lower the rates of the socio-economic development of the country and its productive forces.

The dependence on imports appears under the influence of a number of factors and system problems, cross or parallel influence, it may become apparent at any level: the country's industry – branch (cluster) – enterprise. So, the agents of all levels of the market economy must solve this task with account taken of a nature and power of influence of objective and subjective factors in the country organizing the import substitution.

The objective factors include those, while influencing upon which the domestic producers, even if they organize the production of the goods "at any price", will fail to achieve the import goods competitiveness level<sup>16</sup>:

- availability of minerals;
- climatic conditions;
- availability of territories (suitable production sites);
- a place of the country in the interstate division of labor.

The subjective factors include those, when influencing on which the domestic producers, if they have all the resources to manufacture the goods, fail to achieve the import goods competitiveness level:

- productivity of labor;
- a level of national specialization and corporation;
- a level of concentration of the goods production near sources of the raw materials and energy resources;
- the existing routes of transport and logistic chains;
- a level of creating the innovations and systems of the knowledge management;
- a level of implementation of innovations in the production process (especially in terms of technical, technological, design preparation of the production, organization and improvement of the business processes of the main, auxiliary and service productions);
- a level of quality and the branding of the products.

<sup>15</sup> Yu. Simachev; M. Kuzyk and N. Zudin "Dependence on imports and import substitution in the Russian manufacturing industry: business view", Forsyte, Vol: 10 num 4 (2016): 25-45.

<sup>16</sup> D.D. Mironova, "Region as a space of development of innovation small business": monograph. R. V. Chernyaev (Ed.) (The Ministry of Education and Science of the Russian Federation, Federal State Budget Educational Institution of Higher Professional Education "South Russian State University of Economy and Service", Shakhty, 2012).

In the current situation, the necessary condition of efficient implementation of the import substitution policy is a choice of its relevant model. Today in Russia, with account taken of the global experience, it is possible to apply three the most efficient options of implementing the import substitution policy: a model of internally oriented, externally oriented and mixed import substitution Figure 2)<sup>17</sup>

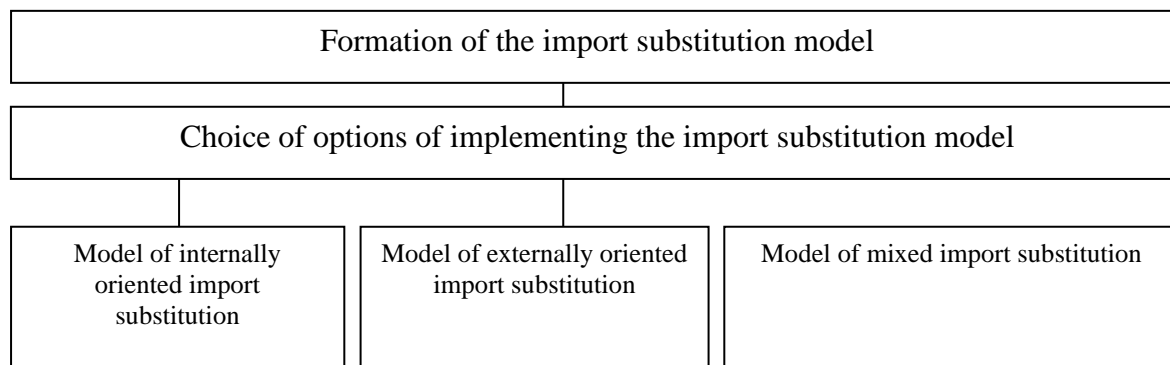


Figure 2  
Choice of models of implementing the import substitution policy

What is the most promising is the implementation of a model of the externally oriented import substitution, which is aimed at promoting the domestic goods in the world market and replacing the import components and byproducts with the domestic products through increasing a share of the enterprises implementing the technological innovations, in accordance with the world market standards, which, as a results, will lead to the growth of competitiveness of the domestic enterprises in the internal market with subsequent entrance to the external market<sup>18</sup>. However, with account taken of a regional specific character of the branch markets and productions, it is also possible to implement the mixed model of the import substitution, in the event of which, the enterprise itself determines the priority aspects of developing the import substitution with subsequent entrance to the external market, proceeding from the available possibilities, which require the greatest resource investments with simultaneous development of the less resource- intensive import substitution for the internal market<sup>19</sup>.

## Results

The model of implementing the efficient import substitution policy must include the following levels: enterprise – branch (cluster) – the country’s economy. Each level is managing the import substitution process, when solving its tasks and performing the relevant functions. At the enterprise level, an import product mix, which is subject to the import substitution, and its qualitative characteristic are revealed: competitive or noncompetitive. At a meso-level there are determined the possibilities of concentration, localization and

<sup>17</sup> A. A. Gurina and T. V. Zaitseva, “Key peculiarities of forming the investment strategy of Russia’s economic development”. Regularities and tendencies of forming the system of financial-credit relations: collection of articles of the International scientific-practical conference (2017): 18-22.

<sup>18</sup> D. D. Mironova and L. G. Simonian, “Development of algorithm of implementation of the import substitution policy at the industrial enterprise”, Modern socio-economic processes: problems, regularities, prospects (2017): 13-19.

<sup>19</sup> I. I. Slavitskaya and L. G. Simonyan, “Theoretical aspects of financing of the national innovation system of RF”, Innovation scientific research: theory, methodology, practice: Collection of articles of the XI International Scientific and Practical Conference: in 2 parts, (2017): 17-20.

cooperation of the cluster enterprises in accordance with their specialization, and the possibility to diversify their production. At a level of the state the legal and organizational measures are developed, which favor the efficient import substitution for micro (enterprises, organizations) and meso (branches, clusters) levels. Those three levels are interrelated and interdependent in solving the import substitution tasks<sup>20</sup>.

Strategies and priorities of the import substitution are established for each level, but then they are specified by a system of the highest order of the branch (cluster) and the Russian economy as a whole. A chain of business processes of the products revelation and the import substitution sequence starts from bottom upward: “enterprise – branch (cluster) – RF economy”, since the initial information from the enterprises, which is analyzed and concentrated at a level of a branch (cluster) from the perspective of a criterion and priority for the products of specific enterprises, is the grounds for development of the Programs and the measures to organize it at a level of the economy. Thus, it is possible to develop an efficient policy of the import substitution, which takes account of the modern economic and political realities, and which determines, for a specific period of time, aspects, products, sequence and strategies of the import substitution.

The interrelation of levels of managing the import substitution process makes it possible to analyze this process from the perspective of efficiency of implementing the organizational-economical and legal measures from top downward and from bottom upward, while implementing the iterative monitoring of qualitative and quantitative parameters of this process for the set time limits, criteria and volumes of rational, economically substantiated and reasonable import substitution<sup>21</sup>. Figure 3 shows the block diagram of organizing the import substitution process within a multi-level policy: “enterprise – branch (cluster) – RF economy”.

The demand for import substitution is determined “from bottom upward”, since only within a specific business entity it is possible to establish a chain of rupture of the process of creating the cost and its consequences for an enterprise, a branch, the state. In accordance with that, the enterprise management establishes a level of the dependence on imports: a permissible level(substituted by its own forces or by means of external Russian organizations) or a crucial level, when the import is not substituted.

With a permissible level of the dependence on imports the business entities, on each import-substituted position, analyze and substantiate the volumes and costs of the necessary resources to organize the import substitution. Later on the Program and mechanism of the import substitution are developed.

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<sup>20</sup> V. Y. Chernova, “Import substitution and reproduction potential of modernization: problems and prospects”, *Manager*, num 2 (66) (2017): 12-20.

<sup>21</sup> E. Y. Cherkesova; D. D. Mironova; I. I. Slatvitskaya and T. D. Popova, “Sustainable import substitution in Russia: Institutional conditions and efficiency imperatives”, *European Research Studies Journal*, Vol: 21 num 1 (2018): 287-295.

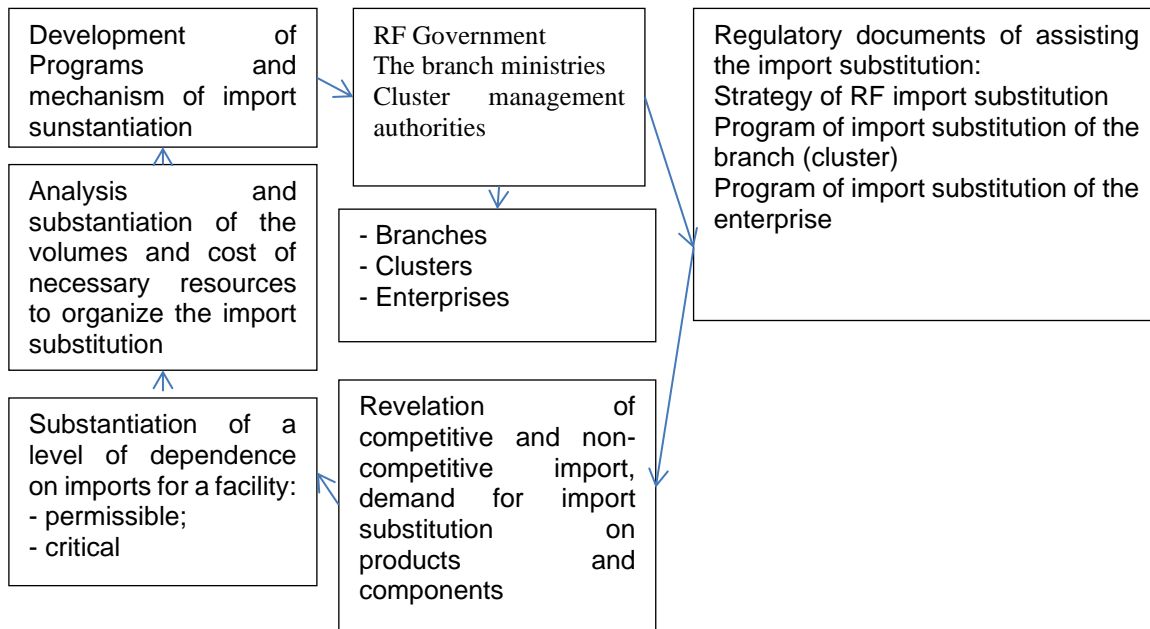


Figure 3  
Block diagram of organizing the import substitution process within a multilevel policy

Those programs are agreed upon at a branch (cluster) level. The authors believe that the import substitution policy will be implemented the most successfully at a cluster level, since, firstly, at present the Russian economy is based on the cluster development model, secondly, within a cluster, advantages of specialization of each enterprise are implemented to the fullest extent possible. The cluster policy in management is characterized by the fact that special attention is paid to strengthening of the interrelations between the economic entities – the participants in a cluster in order to simplify an access to new technologies, to distribute the risks in different forms of the joint economic activities, to jointly use the knowledge and fixed assets, to accelerate the training processes through physical contacts of the world level specialists. The enterprises, which belong to the cluster, can use the common production infrastructure (logistics, production services, etc.), and the region infrastructure at place of the enterprise’s location. In the cluster the enterprises remain independent, but they have an access to the common material, production, intellectual, information, labor and financial potentials, which make it possible to reach a synergistic effect.

The stimulation of process and development of the Programs of import substitution at a level of the country’s economy are implemented “from top downward”. The subjects, which implement the aspects, strategies and tactics of the import substitution formulated in the state import substitution policy, are the RF Government, the branch ministries, and the cluster management authorities. A major criterion of efficiency of the implemented import substitution policy is a determination of dependence of long-term prospects of the economic development on the import substituting industrialization.

Judging by the modern state, the import substitution sphere in the Russian Federation has some problems, which include the imperfect regulatory support; the lack of necessary institutions; shortcomings in organizing a system of state regulation and



comprehensive influence upon the control of dependence on imports; development of the domestic production and strengthening of positions of goods and services, which are manufactured and rendered in Russia.

It is evident that the evident implementation of the import substitution policy in the RF requires the management efforts at different levels and is possible with the whole range of factors and conditions including the institutional ones, which include<sup>22</sup>:

- modernization of production capacities and enterprises, which are competitive in the domestic and world markets;
- creation of high-technology industry through increasing the innovation potential of enterprises, whose vectors must be oriented to an objective and comprehensive assessment of the enterprise's resources;
- formation of the institutional environment in order to develop the partner relations between the state, science and business and implementation of the potential of the innovation business;
- creation of the favorable environment, which stimulates the investment activity in relation to the Russian economy;
- stimulation, through improving the tax policy, of the innovation business and support of available models of the associated business including in the form of innovation clusters;
- improvement, within separate regions and between entities within the Russian Federation, of mechanisms of diffusion of the industrial innovations.

The tools of regulating the import substitution can include: simplification of authorization procedures for the domestic production; granting of benefits for paying the VAT and the profits tax, preferences in the government order; introduction of the international quality standards, security management, environmental production management at the domestic enterprises, which will favor the increase in quality, security and competitiveness of the domestic products; development of activities for setting of one's own production of equivalents of the manufacturing products with attracting the state investments; providing of the financial and credit support for the economic entities, which implement the import substitution projects.

In the modern conditions, the economic import substitution policy must be formed in accordance with the following imperatives<sup>23</sup>.

1. In economic terms, the import substitution policy requires a regular assessment of correlation of advantages of the import substituting industrialization and the import substitution expenses. So, the efficiency of implementation of the import substitution policy implies revelation of the branches of the national production, in which it will favor the assurance of the national economic growth.
2. The economic import substitution policy must be based on four key factors – flexibility, selectiveness, coordination and optimality of institutional boundaries of the state regulation.

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<sup>22</sup> O. A. Ischenko-Padukova and I. V. Movchan, "Economic policy of import substitution: institutional conditions and imperatives of efficiency", *Journal of Economic Regulation*, Vol: 8 num 1 (2017): 76-84.

<sup>23</sup> E. Y. Cherkesova and D. D. Mironova, "Formation of organizational and economical mechanism of implementation of the import substitution policy in the Russian Federation". *Science and society: proceedings of the 2nd International conference*, num 17 (2017): 138-145.

3. To efficiently implement the import substitution policy, it is necessary not only to restrict the import, but also to develop a special stimulating mechanism for national producers, which includes the concessional lending, subsidies, tax benefits, efficient tools of the state support for the small business and other institutional stimuli. Thus, the import substitution policy must be based on the “efficient protectionism” principles, which are aimed at maintaining only the economically reasonable productions and branches.

Within the import substitution policy, it is necessary to assist the vertical integration, development of the sectors, which produce the internal intermediate and capital goods for new branches of the production structure, and efficient mechanisms of the know-how transfer and organizational possibilities. The efficiency of the economic import substitution policy can be driven by the following institutional conditions<sup>24</sup>:

1. The economic branches, which have comparative advantages in the world division of labor, are the most efficient to implement the national import substitution policy. Without account taken of this imperative, the closed economy and reduction of the economic growth rate are getting more and more probable. In the modern crisis conditions, in terms of the current level of utilization and putting new production capacities into operation, the productions, which are oriented, above all, to the internal investment and, partially, consumer demand can be the most promising areas of stimulation for the further development. Those branches are the ferrous and non-ferrous metallurgy, the forest-industry complex, chemical and hydrocarbon process industry, food industry, the motor industry. However, in the long term, the sectors will be prioritized, which are oriented to the global competitiveness and which have significant export potential<sup>25</sup>.

2. As a matter of fact, the import substitution policy modifies the whole structural mechanism of the national economy. First and foremost, the industrial and production structure of the national economy is to be transformed, which requires the carrying out of a system institutional reform, which is aimed at forming the conditions for the import substitution (development of the business and administrative potential, creation of an infrastructure)<sup>26</sup>.

3. The import substitution has a branch and sphere specific character: some segments (mainly, the non-material sphere) of the national economy are more adapted to the import substitution, while the material production requires significant investments, infrastructure and duration of time lag of the recouperment.

4. The import substitution policy efficiency is determined largely by development of the organizational-management and regulating institutions: decrease in the administrative barriers, simplification of the business institutionalization procedures, the red tape reduction will have positive consequences to implement the national import substitution policy<sup>27</sup>.

<sup>24</sup> I. I. Slatvitskaya; D. D. Mironova; N. M. Zibrova; S. V. Romanova and N. A. Ryabokon, “Import substitution in agrarian sector as the basis of technological breakthrough to innovational production”, *International Journal of Economics and Financial Issues*, Vol: 6 num 2 (2016): 253-259.

<sup>25</sup> E. Y. Cherkesova; E. A. Breusova; E. P. Savchishkina and N. E. Demidova, “Competitiveness of the human capital as strategic resource of innovational economy functioning”, *Journal of Advanced Research in Law and Economics*, Vol: 7 num 7 (2016): 1662-1667.

<sup>26</sup> E. Y. Cherkesova; S. S. Belikova; E. M. Popova; A. A. Sukhova and N. E. Demidova, “Mechanism of development of human capital within human resources management of modern organization”, *Mediterranean Journal of Social Sciences*, Vol: 6 num 5S2 (2015): 399-404.

<sup>27</sup> K.V. Vodenko; E.Y. Cherkesova; L.A. Shvachkina; S.V. Fateeva and I.Y. Eroshova, “The specifics of the socio-cultural determination of the current economic activity”. *International Journal of Economics and Financial Issues*, Vol: 6 num S1 (2016): 206-210.

5. In a number of the import substituting branches of the national economy, it is necessary to develop the public private partnership, to introduce the stimulating mechanisms, to assure an access to the credit resources.

A problem of the state and businessmen's insufficient means for the import substitution is making the issue of their efficient use more important. Great importance is attached to quality of the tools and institutions being developed, which assure the investment support for implementation of the import substitution strategy.

Within the support for the import substitution projects, the state subsidies can be given for development of the infrastructure, Research and Development, technical upgrading and modernization, the interest rates on credits can be subsidized too.

The measures, which the state is developing to support the import substitution projects, are determined, largely, by the branch peculiarities. For instance, if in the agriculture and the food industry it is possible to substitute for a large product mix, in the high-technology and medium-technology economic sectors, to build its own reproduction chains, much heavier time and financial expenses are necessary. In order to develop and to manufacture the complicated products, a relevant scientific-research and production basis and professional personnel are necessary.

We believe that an approach to the state regulation of import substitution must be mixed and include the administrative measures as well as the economic measures.

This is checks on imports of separate goods and commodity groups, and this is active stimulation of making, development and strengthening of competitiveness of the domestic production.

Thus, it is possible to offer the following conceptual sequence of the state policy in the field of import substitution<sup>28</sup>. Firstly, an analysis and revelation, on its basis, of possibilities and potential of the import substitution. For that end, first of all, it is necessary to reveal the goods and commodity groups, on which the dependence on imports of the domestic economy is high, and which have a sufficient potential of the import substitution. It is necessary to exclude the commodity groups and specific groups of the so-called justified import, in other words, for production of which this country does not have possibilities and resources, technologies and without which the internal consumer market and the national economy cannot function. As regards the other goods, it is necessary, in detail, in a historical aspect, to analyze the volumes and tendencies of production and sales the relevant products, and to coordinate those missed opportunities with the resource potential at present, a level of setup of the available technologies and prospects of their import. In accordance with the results of this analysis, it will be possible to sort out the productions, whose products have a high potential of the import substitution.

In accordance with the identified prospects of specialization of the import substituting production on the goods at this stage of sequence of implementation of the state policy it is necessary to diagnose a potential and resource possibilities in relation to expansion of the production capacities, not separately, but in totality – by types of the economic activities and

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<sup>28</sup> I. I. Slatvitskaya; D. D. Mironova; N. M. Zibrova; S. V. Romanova and N. A. Ryabocon, "Import substitution in agrarian sector as the basis of technological breakthrough to innovational production", *International Journal of Economics and Financial Issues*, Vol: 6 num 2 (2016): 253-259.

economic branches, within the clusters and other local integrated production-industrial systems, sectors of small, medium-sized and big business<sup>29</sup>. A result of this stage of the analysis is substantiation of conclusions about promising areas, on which it is necessary to develop the domestic production, which will show which specific production sectors should be developed and will make it possible to form the registers of innovation projects by types of activities and economic entities. Those projects must be prescribed in the target state and regional programs of the import substitution. For their implementation, it is necessary to provide for sources of the resource allocation and financing, to hold fair and transparent competitions and to decide their winners, on the basis of which the projects will be implemented.

The second fundamental stage of implementing the state import substitution policy is a recovery of positions and making the domestic production more competitive.

First of all, it is necessary to assure a comprehensive and system support for the local goods producer, especially the entities, which are able to implement the investment projects and programs within fulfilling the target programs of import substitution. This is not only a financial and investment support, but also organizational, economic, institutional, resource, scientific and research and other types of support.

The authors believe that the third stage must deal with the fastening and, in the future, the strengthening of the positions in the internal market of the domestic products in a greater degree by a system of good distribution and institutional infrastructure of the trade. It is reasonable for the measures within the third fundamental stage of implementation of the import substitution policy to deal with the development of the wholesale and retail network of the internal market subjects on popularization and promotion of the domestic goods. It is necessary to stimulate and to support the chain stories, which specialize in the sale of only local goods, and the creation of facilities for procurement, processing, warehousing, storage and sale of the domestic products, which are difficult to promote to the market.

The authors believe that the above-mentioned aggregate of measures, which were implemented in such a succession, will make it possible to significantly strengthen competitive positions of the domestic goods and to oust the uncritical import goods from the goods circulation sphere.

It is also important to introduce the permanent monitoring, whose outcome will reveal the changes of the tendencies in the internal consumer market in relation to a problem of the dependence on imports, and the output from the measures and used resources, which are realized by the state and other subjects of the import substitution policy, to characterize the efficiency of policy of development of the domestic manufacturing of the import substituting products. The monitoring's conclusions are necessary to adopt and to substantiate the management decisions in relation to the adjustment of further fundamental approaches and specific measures in the import substitution sphere.

The import substitution policy will be successful if it is implemented within the common economic policy. However, for that end, it is not enough to form the branch plans for the import substitution, which contain an enumeration of the products substituted, time

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<sup>29</sup>E.Y. Cherksova; K.V. Vodenko; N.E. Demidova; S.A. Maryanova and A.I. Novikov, "Regional economic clusters in the context of management of technological leadership". *International Journal of Applied Business and Economic Research*, Vol: 15 num 13 (2017): 213-221.

and a level of substitution. It is necessary to determine the tools and mechanisms of implementing the comprehensive program of the import substitution: mechanisms of the strategic planning, the public private partnership, a target project approach with entrance to the development and implementation of the investment projects for development of new productions in different branches of the industry, and the advanced technologies, which can be sold to the businessmen on the basis of the investment agreements. Implementation of the comprehensive program of the import substitution is designed to create the conditions for the accelerated industrialization of the country's economy, to favor the development of the productions with a high share of the added value, to assist the formation of the receptive internal market, which is able to accelerate the country's economic growth.

## Discussion

A review of statistical sources, which cover the import substitution in the RF industry, showed that in a qualitative sense, a level of the import consumption by the Russian industrial companies is relatively low and does not exceed the Western European figures, and often is lower than them. Meanwhile, to a greater or lesser degree, most of industrial companies depend on the imports.

The main reason why the companies are using the import products, technologies and services is there are no Russian equivalents in the market. In the opposite situation, the insufficient quantity of the Russian offering and its non-compliance with the companies' technological requirements are coming to the fore. The issues of prices, conditions of supplies and payment, quality of the maintenance and service, as a rule, influence upon the choice of the Russian enterprises in favor of the import in a less degree.

The current level of dependence on imports worries most of the companies consuming the foreign products, technologies and services and impels them to reduce such dependence. Here the most typical strategy is a change of the purchases structure – most of all, in favor of the domestic suppliers, more rarely - in the form of the import diversification.

On the whole, the Russian companies acquire the imported machines and equipment the most actively, it means that the companies depend on them to the maximum extent. This situation is driven, on the one hand, by a high level of obsolescence and depreciation of the basic production assets of many enterprises, on the other hand – by frequent lack of the necessary domestic equipment in the market, its low quality or its incomplete meeting to the modern technological requirements.

The common feature of all the manufacturing branches is a high demand for the use of the foreign machines and equipment, but profiles of dependence on imports of the separate branches differ significantly.

A strong dependence on imports, on all the categories of the products, is typical of the high-technology companies, which, more frequently than other companies, suffer a shortage of offering of the required products, technologies and services in the domestic market and which face a low quality of the latter or non-compliance with the technological requirements.

Almost all examples of the successful import substitution policy abroad are connected with the orientation to the world market, more open national economies, development of their export potential, attraction of strategic foreign investors. So, the efficient import substitution policy requires a coordinated solution of tasks of building the Russian producers into the global chains of the added value formation, stimulating the inflow of the advanced knowledge and competences to the domestic economy, creating the international technological alliances.

When developing the import substitution policy, alongside with the macro data, it is necessary to take into consideration a micro level scale – at a level of enterprises, when analyzing, among other things, their possible reaction to some measures. It is necessary to take into account the motives of the companies, which prefer the foreign products and technologies to the domestic equivalents (if any). This will make it possible to determine the main “bottle necks” of the internal offering, at removal of which the government’s efforts must be aimed within the import substitution policy.

When developing and implementing the import substitution policy it is critically important to be guided by the quantitative indicators, which reflect volumes of import and its share in the visible consumption, as well as qualitative characteristics of dependence on the imports. In practice, even the significant level of import does not always reflect a high dependence on imports authentically as well as on the contrary: a formally low volume of the import can be critical in the case of the lack of accessible equivalents of the consumed products, technologies and services.

As the key reason for the use of import products, technologies and services is the lack of domestic equivalents in the market – even considering the fact that some respondents may not know that there is an alternative to the import, today it is impossible to fully solve the import substitution problem by means of switching over to the Russian offering. In this connection, the emphasis in the import substitution policy must be laid to creation of new competitive productions, and not to quick frontal reduction of the imports share in the consumption structure of the Russian companies.

The Russian import substitution policy is, as a rule, connected with an effort of recovery, modernization, building of the missing production elements of the national economy, in other words, it has, in the main, a vertical direction. However, with the lack of connection with horizontal measures of development of some critical technologies, formation of new fields of knowledge, recreation of missing scientific competences, it will be inevitably restricted in time of its “value-added use”, it will be behind systematically, when focusing, mainly, on the price competitiveness, which gives rise to extension of the economy, which is particularly sensitive to the currency fluctuations. On the contrary, it is necessary to pursue a policy of preemptive import substitution, which is oriented to the emerging new markets, which is aimed at improving the economic security of the Russian economy in the global market’s segments.

## Conclusion

Thus, the innovation import substitution should be considered as a component of the industrial policy, which implies a package of measures to organize the production and to promote, to the internal and external markets, the domestic products, which is analogous to the imported products and excels them in terms of consumer properties and efficiency of the technical solutions. When building its own reproduction chains, it is necessary to assure a



high level of the research and development, to solve the engineering problems, to supply the productions with qualitative materials, and with skilled personnel. So, the efficient import substitution policy can be implemented successfully only in transition to a new model of the economic growth, which implies not only increase in the investment attractiveness, but also strengthening of the country's positions in the world markets.

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