Stage 2 Industrialisation: strategies and performance

Comprehension

Pre-questions

Before you read the passage, read the following questions. Do you know the answers already? Discuss them with other students to see if they know the answers. The questions will help to give a purpose to your reading; it is not necessary to write the answers.

1 What is the main difference between import-substituting industrialisation (ISI) and export-led industrialisation?
2 What are some of the criticisms that have been made of ISI policies?
3 How important are manufactured goods in LDC exports?

A broad distinction may be drawn between strategies of industrialisation based predominantly on the production for the domestic market of manufactured goods previously imported (import-substituting industrialisation – ISI), and strategies based on the production of manufactured goods for overseas markets (export-led industrialisation).

These are not mutually exclusive strategies, and elements of both may well be present in specific industrialisation efforts. In addition, individual industries and industrial activities have varying characteristics, and alternative classificatory systems can be adopted – for example, large-scale versus small-scale, capital-intensive versus labour-intensive, urban-based versus rural-based, a dependence on local capital versus foreign capital.

In practice, the individual industry-mix and its associated characteristics tend to be determined by the overall strategy adopted. For example, the strategy of ISI, widely adopted by the majority of LDCs in the post-Second World War period, typically involves the establishment of large-scale, capital-intensive, urban-based industries, catering largely to the needs of middle- and upper-income groups (see Unit 4). These are not the inevitable characteristics of ISI *per se*, but rather the outcome of a strategy of industrialisation which takes as given existing economic, political and institutional structures and the extensive penetration of the economy by foreign capital and technology (both process and product – see Unit 8).

Many economists, especially those of the neo-classical school (see Unit 3) now argue that ISI has failed both as an industrialisation and as a development strategy. Excessively high tariff barriers and other protective devices have encouraged the overdevelopment of import-substituting industries, and the absence of foreign competition has permitted the development of high-cost, inefficient, monopolistic and over-diversified industrial sectors. Widespread government intervention in these economies, it is alleged, has led to distortions in both product and factor markets, turning the domestic terms of trade against the agricultural sector and encouraging the use of capital-intensive technologies (see Unit 8). Over-valued exchange rates have discriminated against exports and, combined with the generally 'inward-looking' nature of ISI, have contributed to the continued balance of payments problems of the LDCs (see Unit 9).

Structuralists and dependency theorists are also critical of the consequences of the strategy of ISI. They argue that industrialisation, once seen as the solution to the problems of underdevelopment and poverty, has now become part of the problem itself. ISI has created, *inter alia*, a 'dependent' industrial structure, dominated by foreign capital and technology and lacking a capital goods (that is, a machine-making) sector.

The neo-classical critique of ISI has produced an influential set of policy prescriptions. Trade restrictions should be lowered and rationalised, the exchange rate devalued and greater freedom should be given to the market, allowing it to generate the 'correct' price signals which will ensure a more efficient allocation of resources. It is argued that domestic industries should be promoted, rather than protected. That is, the government should implement policies which eliminate or offset the disadvantages from which domestic industries suffer, through, for example, training programmes aimed at alleviating the shortage of skilled labour in the LDC. In general, government policies should be such as to provide equal incentives for production for both the domestic and foreign market.

The experience of the export-led industrialisers appears to provide strong support for the neo-classical case. Between 1960 and 1977, the average real growth rate of manufactured exports from LDCs was 12.3 per cent *per annum*, over twice that of their total merchandise exports (World Bank, 1980, Table 3 A.4). As a result of this trend, there has been a significant change in the composition of LDC exports, with the share of manufactured goods in total merchandise exports (excluding mineral fuels and related products) rising from 25.4 per cent in 1965 to 45.1 per cent in 1976 (UNIDO, 1979, Table V.1).

The four economies that are generally regarded as the most successful examples of export-led industrialisation – Hong Kong, Singapore, Republic of Korea and Taiwan – together accounted for over 60 per cent of all LDC manufactured goods exports in 1976. A number of other countries (Brazil, Mexico, Argentina, Malaysia) have also increasingly adopted 'outward-oriented' strategies and have raised their share of LDC manufactured exports over this period, whereas the share of the more 'traditional' exporters, such as India and Pakistan, has dropped significantly (although in absolute terms these two economies remain important exporters of manufactured goods).

An important change has also occurred in the composition of manufactured goods exports from the Newly Industrialising Countries (NICs – as the successful export-led industrialisers and the 'post-ISI' or 'transitional' economies such as Brazil and Mexico are sometimes referred to). The share of finished products (for example, clothing) and more technically sophisticated goods (for example, machinery and transport equipment, electronic goods, etc.) has increased dramatically and, *ceterus paribus*, this is a trend that is likely to continue.

The NICs are held up as models of development that other LDCs should follow. They have undoubtedly experienced high rates of growth of output and employment, but the export-led strategy of industrialisation is not without problems. Their continued export growth is highly dependent on the economic performance of the advanced capitalist economies which absorb approximately two-thirds of their manufactured exports (World Bank, 1980, Table 3.3) and they are highly vulnerable to the increasingly widespread 'new protectionism' in those economies ('orderly' marketing arrangements, 'voluntary' export restraints, support for domestic industries faced with high import penetration, etc.).

In addition, export-led industrialisation does not automatically solve the balance of payments problem (domestic industries are import-intensive; exports are heavily subsidised), nor does it eliminate poverty and unemployment (the costs of labour must be kept low in order to maintain the competitive advantage). It may well induce a dependence on foreign capital and technology very similar to that exhibited by the ISI 'model'.

The 'structuralist' policy prescriptions which follow from their critique of ISI include, as a minimum, the regulation of TNCs, the development of a domestic capital goods sector and the encouragement of indigenous technological development, and the creation of mass markets for the output of domestic industries, via income and asset redistribution (for example, land reform) and increased government expenditure.

In an ideal world, some combination of neo-classical and structuralist policies would perhaps make the most sense, but that would presuppose a degree of political harmony and commitment to shared objectives that is not likely to be found in many LDCs at the present time.

References

United Nations Industrial Development Organisation (UNIDO) (1979), *World Industry Since 1960: Progress and Prospects*, New York.

UNIDO (1982), *A Statistical Review of the World Industrial Situation 1981*, Vienna.

World Bank (1980), *World Development Report 1980*, Oxford University Press.

Comprehension

Post-questions

After you have read the passage write brief answers to the following questions. Try to express your answers in your own words if possible.

1 What are the typical characteristics of import-substituting industrialisation as demonstrated by many LDCs after 1945?
2 What do the critics of ISI who are structuralists and dependency theorists consider have been the consequences of ISI policies?
3 How important have manufactured goods been in exports from LDCs after 1960?
4 Has the export-led strategy of industrialisation been completely successful in the Newly Industrialising Countries (NICs)? If not, explain why.
5 What is the 'structuralist' approach to some of the problems created by ISI?

Word study

Exercise 1A
Alternative vocabulary

Below is a list of words (and line numbers) from the text (1–20). Next to them is a list of synonyms or explanations, in mixed order (a–t). Match the words from the text with their synonyms.

1 broad (1)
2 predominantly (2)
3 mutually exclusive (6)
4 overall (13)
5 catering to (16)
6 takes as given (19)
7 penetration (20)
8 permitted (26)
9 over-diversified (27)
10 widespread (28)
11 alleged (29)
12 discriminated against (32)
13 rationalised (42)
14 offset (47)
15 alleviating (49)
16 merchandise (55)
17 adopted (65)
18 sophisticated (75)
19 induce (93)
20 exhibited (94)

a declared, claimed
b compensate for, balance
c mostly, mainly
d taken over, chosen and followed
e shown, demonstrated
f separate and unable to exist together
g discouraged
h total
i cause, bring about
j general
k complex
l making provision for, supplying what is required
m goods
n influencing, controlling
o reducing
p extending over a large area
q reorganised efficiently
r takes for granted, assumes
s too varied
t allowed, made possible

Exercise 1B
Explanation

The following words are taken from the text (line numbers are given). Can you explain their meaning as used in the text? Use a dictionary if necessary.

1 tariff barriers (24)
2 monopolistic (27)
3 terms of trade (30)
4 balance of payments (34)

Language use

Exercise 1
Cause and effect

In economics writing, cause and effect occur quite frequently, even though these two words themselves may not be used. *Cause* may be equivalent to *reason* or *purpose*, and *effect* may be synonymous with *consequence*, *result* or *solution*. The relationship between the two may be expressed in a number of ways. Some examples are shown below.

cause (or reason)	**connective**	**effect** (or consequence etc.)
Demand has increased.	Therefore, As a result, As a consequence, Consequently, Because of this, Thus, For this reason, Accordingly, So,	prices will rise.

Similarly:

An increase in demand often	causes results in leads to produces	higher an increase in } prices.

Note: The 'effect' may come before the 'cause', as below:

<table>
<tr><th>effect</th><th colspan="2">connective</th><th>cause</th></tr>
<tr><td rowspan="3">Prices will rise</td><td colspan="2">because of
as a result of
on account of
owing to
through</td><td rowspan="2">an increase in demand.</td></tr>
<tr><td>because
since
as</td><td>there is</td></tr>
<tr><td colspan="3">because the demand has increased.</td></tr>
</table>

In the Stage 2 text there are a number of examples of the cause/effect relationship:

'Excessively high tariff barriers and other protective devices . . . the overdevelopment of import-substituting industries.'

For the symbol '. . .', the words *have encouraged* are used in the text, but we could also use the following words: *have caused* or *have resulted in* or *have led to* or *have produced* etc.

1 Some sentences have been taken from the text and slightly shortened. They are separated into the parts of 'cause' and 'effect'. Find the sentences in the text and write down the appropriate verb or phrase (connective) that links them.

a The absence of foreign competition ______ the development of high cost, inefficient, monopolistic and over-diversified industrial sectors. (26)

b Widespread government intervention in these economies ______ distortions in both product and factor markets. (28)

c Overvalued exchange rates ______ the continued balance of payments problems of the LDCs. (31)

d Export-led industrialisation ______ a dependence on foreign capital and technology. (84)

Now look carefully at the following sentence: it is organised differently from the sentences above. Find the connective, and say which part is the 'cause' and which part is the 'effect'.

e As a result of this trend, there has been a significant change in the composition of LDC exports.

2 Open exercise Complete the following sentences by first adding an appropriate connective and then the remainder of the sentence.

a A rapid increase in urban population . . .

b Increased employment opportunities in LDCs . . .

c Low incomes . . .