

GENESIS OF IMPORT SUBSTITUTION THEORIES OF OPEN ECONOMIES

ГЕНЕЗИС ТЕОРІЙ ІМПОРТОЗАМІЩЕННЯ ВІДКРИТИХ ЕКОНОМІК

The article deals with the problems of dependent development and the economic essence of the concept of "import substitution" as a form of selective protectionism. The historical aspects of introduction of import substitution in the countries of Latin America and Southeast Asia are considered and the factors which led to the decline or development of the economies of these countries were determined. The consequences of the policy of protection of infant industries in the context of the implementation of the import substitution strategy are summarized. The basis of the theory of import substitution is the theory of development of the peripheral economy. The increase in international trade, the formation of the world market and the deepening of the international division of labor have played an ambiguous role in the life of developing countries. The potential threats of the strategy of selective import substitution implementation in open economies have been identified. The necessity of combining import substitution programs with the strategy of export orientation is substantiated.

Key words: import dependence, import substitution, economic development, protectionism, export orientation.

В статті досліджено проблематику залежного розвитку та економічну сутність поняття "імпортозаміщення" як форму вибіркового протекціонізму.

Рассмотрены исторические аспекты внедрения импортозамещения в странах Латинской Америки и Юго-Восточной Азии и определены факторы, которые привели к упадку или развития экономики этих стран. последствия политики защиты молодых отраслей промышленности в контексте реализации стратегии импортозамещения. Основой теории импортозамещения является теории развития периферийной экономики. Увеличение масштабов международной торговли, формирование мирового рынка и углубление международного разделения труда сыграли в жизни развивающихся стран неоднозначную роль. Охарактеризованы потенциальные угрозы внедрения стратегии селективного импортозамещения в экономиках открытого типа. Обоснована необходимость сочетания программ импортозамещения с стратегией экспортной ориентированности.

Ключевые слова: импортозависимость, импортозамещение, экономическое развитие, протекционизм, экспортная ориентированность.

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У статті досліджено проблематику залежного розвитку та економічну сутність поняття "імпортозаміщення" як форму вибіркового протекціонізму. Під імпортозаміщенням як економічною категорією слід розуміти систему економічних відносин, спрямовану на заміщення імпортованих товарів в інтересах економічного зростання і структурних перетворень відповідно до закономірностей розвитку міжнародного поділу праці на принципах конкурентоспроможності й економічної ефективності. Стратегія імпортозаміщення переважно використовувалась країнами, що розвиваються а відтак, можна припустити, що основою теорії імпортозаміщення є теорії розвитку периферійної економіки. Збільшення масштабів міжнародної торгівлі, формування світового ринку і поглиблення міжнародного поділу праці відіграли в житті країн, що розвиваються неоднозначну роль. З одного боку, зазначені процеси стали основою для включення цих країн у сферу загального економічного розвитку. З іншого – цей процес відбувся у рамках і на базі так званого "залежного типу розвитку". Розглянуто історичні аспекти впровадження імпортозаміщення у країнах Латинської Америки та Південно-Східної Азії та визначено чинники, які призвели до занепаду або розвитку економік цих країн. Узагальнено наслідки політики захисту молодих галузей промисловості у контексті реалізації стратегії імпортозаміщення. Прихильники імпортозаміщення вважають, що країнам, які розвиваються спочатку необхідно створити власне виробництво для заміщення, насамперед, імпортованих споживчих товарів, а згодом вітчизняним виробництвом замінити більшу частину складних промислових виробів, здійснюючи це під захистом високими тарифами й імпортними квотами. У далекій перспективі прихильники імпортозаміщення переслідують двійсту ціль: диверсифікувати місцеве виробництво ("збалансований розвиток") і в майбутньому, після того як у результаті ефекту масштабу, низької вартості робочої сили і набуття виробничого досвіду внутрішні ціни промислових товарів стануть конкурентоспроможними, розгорнути їх експорт. Визначено потенційні загрози впровадження стратегії селективного імпортозаміщення в економіках відкритого типу. Обґрунтовано необхідність поєднання програм імпортозаміщення з стратегією експортної орієнтованості.

Ключові слова: імпортозалежність, імпортозаміщення, економічний розвиток, протекціонізм, експортна орієнтованість.

Problem statement. Import substitution strategy is one of the forms of trade protectionism, the purpose of which is to promote the development of local production in selected sectors of the industry, that satisfy the domestic demand for imported goods. It was predominantly used by developing countries and, therefore, it can be assumed that the basis of the theory of import substitution is the theory of development of the peripheral economy. The increase in international trade, the formation of the world market and the deepening of the international division of labor played an ambiguous role in the life of developing countries. On the one hand, these processes have become the basis for the inclusion of these countries in the field of general economic development. On the other hand, this process took place within the framework and on

the basis of the so-called "dependent type of development". Depending on the interests and needs of the post-industrial countries, developing countries are "on the trajectory of overcoming development".

The lack of a strategic approach in solving the saturation of the domestic market due to the corresponding increase in domestic production on the basis of the development of import substitution products leads to the formation of a high dependence of the domestic market on imports, as well as the need to increase exports to cover the current account deficit of the balance of payments. The openness of the national economy strengthens the vulnerability of the domestic market to fluctuations in the external environment and unfavorable world trends. Consequently, there is a need to reduce the import dependence of com-

modity markets, to create conditions for mitigating the connection with the situation of foreign markets, ensuring the positive impact of imports on production, strengthening on this basis the competitiveness of the domestic economy.

Analysis of recent research and publications.

In recent years, the problem of choosing an economic strategy for the country and for the enterprise has been widely outlined in domestic and foreign literature. In the works of I. Dunaev, V. Heits, Y. Zhalilo, F. Liszt, A. Mazaraki, R. Prebisch, S. Pazizina, L. Shynkaruk and others the general theoretical and practical problems of the import substitution strategy are studied. However a lot of the aspects of this problematic a still not enough researched.

Formulation of purposes of the article. Therefore, the purpose of the article is to synthesize and analyze theories of import substitution of open economies.

Research results. There are a number of empirical studies by foreign authors on the phenomenon of import substitution policy as part of an economic growth strategy (late XIX –early XX centuries). The problem of import dependence was first analyzed in the 1950s. The leader of the so-called "structuralist" direction of economic thought was R. Prebisch and subsequently, his British counterpart H. Singer formulated a provision on the existence of a long-term trend of deterioration in the terms of trade for countries exporting raw materials and importing manufactured goods. R. Prebisch substantiated the thesis that unbalanced development and hypertrophied export orientation of less developed countries with reference to the economy of developed countries in combination with twisted institutions and domestic economic structures give rise to dependence on the "first world" (developed countries with market systems). In his analysis, R. Prebisch used terminology corresponding to the "center-periphery" relationship, which was subsequently actively used in the theory of dependence and the theory of world systems [6, p. 255-263]. In his opinion, the determinants of the deterioration in the terms of trade should include, in particular, the peculiarities of the international division of labor, the discriminatory trade policies of developed countries and the changes resulting from scientific and technological progress [5]. The main idea of the model of R. Prebisch is that import substitution as a form of selective protectionism can counteract the problem of deterioration in the terms of trade and provide adequate development for an adequate policy. As a result, import-substituting industrialization-based industrialization became the major idea of the economic theory of development during the 1950s and 1960s.

The policy of import substitution is a component of the policy of protection of "infant industries" – one of the most controversial arguments in favor of protectionism. The arguments in favor of the development of infant industries (infant industry protection)

were at one time justified by F. Liszt in the work "The National System of Political Economy" and became the basic principles for the development of the economies of most of Latin America and Southeast Asia (new industrial countries), which in the middle of the twentieth century began import-substituting industrialization.

The essence of the argument for the protection of infant industries is motivation of the imperfections of exclusively market mechanisms; under the conditions of institutional imperfection, they are not capable of adequately accumulating and directing or relocating resources towards potentially competitive industries. The economy at the same time falls into the circle of dependence on its current state, when an insufficient level of current competitiveness does not allow investing resources in long-term projects, and this, in turn, further worsens the current state of competitiveness. However, it should be noted that the temporary protection of young industries contains the danger that such protected industries, become "forever young" and require indefinitely long protection from competition and will be deprived of incentives for technological improvement due to guaranteed income [2, p. 94-95].

The policy of protecting infant industries, according to L. Shynkaruk [1, p. 96-99], does not justify itself in the absence or insufficiency of such factors as:

- openness, impartiality and protection against corruption in relation to procedures for adopting government decisions on granting preferential regimes;
- high level of qualification and moral qualities of government personnel who are able to correctly identify industries with promising comparative and competitive advantages;
- availability of high-quality market information on the relative costs of production and their dynamics, which allows to make informed decisions about relative competitiveness;
- focus of society on the values of development, self-improvement, rather than material consumption.

In our opinion, the policy of protecting infant industries and the policy of import substitution can't be considered as a panacea for long-term and sustainable economic growth. Their effectiveness essentially depends on a wide range of development conditions, including an active policy of institutional and infrastructural development, active formation of human and intellectual capital, balanced macroeconomic policies, the fight against corruption, and the creation of an effective state apparatus.

In the work "Did Import Substitution Promote Growth in the Late Nineteenth Century?" [3] D. Irwin tried to figure out how to explain the empirically proven positive correlation between economic growth and high tariffs among the countries of the world. As a result of his research on data for 27 countries from 1870 to 1913 the following conclusions can be drawn:

– studies based on the regression model of the dependence of economic growth on the level of the customs tariff rate, one of the regressors in which the initial level of income was, establishes a positive correlation between these two variables, is most characteristic of 1890-1913. In the 1870-1890, economic growth was also positively correlated with the indicator of democratic institutions of government;

– rapid growth at the end of the XIX century occurred in those countries where there was a decrease in the proportion of people employed in agriculture;

– the effect of tariffs on reducing the share of people employed in agriculture depends on the nature of the country's comparative advantages. Thus, some countries slowed down the flow of people employed from agriculture to industry by introducing tariffs on import of agricultural products, while others, on the contrary, accelerated this process by imposing import duties on industrial goods;

– rather, economic growth in Argentina and Canada (both countries were characterized by a high level of import tariffs and GDP growth per capita) was due to the export-oriented production of food, rather than due to industrialization based on import substitution.

Despite the fact that import-replaceable industrialization in Latin America did not yield the expected results, new branches of economic activity emerged in the countries, their own technological base was formed, additional jobs appeared, enterprises were able to compete internationally and enter new markets using their own technologies.

Most economists considered that the main mistake of the policy of import substitution in Latin American countries was the start of this process in light industry and basic industries and, unlike Korea and Taiwan, not using export opportunities, which caused a high autarky level. It should, however, be noted that a wide export of light industry products was not possible until 1960 for the operation of the trade rules established by developed countries (which were the only possible consumers) for this industry. Only exporting equipment, raw materials and agricultural products was economically viable. Since equipment was not produced in Latin America, the course for import substitution until the 1960s couldn't be quite justified. The problem of this region was that the governments of the countries failed to establish intra-regional integration, and after 1960 failed to change the strategy of import substitution for export orientation. Asian tigers began industrialization much later, but immediately adopted a more promising way of industrialization through export-oriented development.

According to many scientists on problems of import dependence, the model of import substitution in the short term creates barriers to the movement of goods and services, reduces the motivation level of business leaders in increasing productivity and reducing production costs, limits the specialization of enterprises,

leads to monopolization of the market, and also leads to inefficient use of budgetary funds aimed at the development of import-substituting industries.

However, already since the 1970s the policy of import-substituting industrialization became the subject of sharp criticism, and in the late 1980s – 1990s most countries have developed, abandoned it in favor of restrictive unilateral trade liberalization (Table 1).

Some scientists are negatively assessing the role of import substitution, considering that market is the universal regulator in the open economies. The main negative consequences of import substitution are indicated here:

– lower efficiency of import substitution production;

– the flow of most of the income and profits to foreign companies, expanding domestic production of their own products;

– the deepening of import dependence and the outflow of foreign currency as a result of the use of investment-technological support and intermediate goods of imported origin;

– the slowdown of development in those segments of the real economy, where import substitution is being implemented, as companies fail to build up sufficient potential for competitiveness due to excessive use of customs restrictions [8, p. 56].

Conclusions. Import substitution is considered as a process of domestic production of competitive substitutes for imported products through the implementation of a state policy of progressive structural reform, which enables to meet the needs of the domestic market and increase exports of goods with high added value in order to balance the trade balance of the country.

Effective import substitution can be a factor in economic growth both through the creation of new jobs, the development of modern production and management technologies, and the production of profits that can be converted into investments. For the development of import-substituting industries, it is first necessary to attract foreign or national investments to enterprises manufacturing products – a substitute for imports, to borrow foreign technology or use domestic production for its manufacture. The result of these actions may be the ensuring of import substitutes of the domestic market and exporting of goods outside the country.

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The positive influence of foreign trade on economic growth is determined by the fact, that on the one hand foreign trade helps in using resources more efficiently and on the other hand, opens new sales markets (especially for countries, which have a favorable balance of trade). In other words it allows people, regions and nations to specialize in the production of what they

Countries that have changed the industrialization strategy on the basis of import substitution for unilateral trade liberalization

Country	Reforms
Argentina	In 1988, tariffs were reduced; import licenses have been abolished, with the exception of article 22; in 1991, a three-tier tariff structure was introduced (0%, 11%, 22%)
Bolivia	In 1985, the trade regime was revised and all quotas were lifted; in April 1990, 2 basic tariff rates were introduced: 5% for industrial goods and 5% for other goods
Brazil	Major trade reforms began in March 1990 to replace all quotas with tariffs; average tariff rates were reduced from 37% to 25% in 1990 and to 14% in 1994
Chile	From 1973, all tariffs were reduced and a total tariff of 10% was introduced for all goods except automobiles; the tariff was increased to 15% after the economic crisis of the early 1980s.
Ghana	Import licensing has become more liberal and a single tariff has been set for most imported goods.
Indonesia	Trade reforms began in 1986; by mid-1988, only 20% of import were subject to special licensing.
Jamaica	Quotas were removed and tariffs reduced to 20 and 30% for most goods
Mexico	By 1988, tariffs were reduced by an average of 11% at a maximum tariff rate of 20%.
Morocco	A significant weakening of protectionism has occurred since 1983; maximum tariffs were reduced from 400% to 45%.
Nigeria	Trade liberalization began in 1986; import licensing and tariffs have been significantly reduced
Pakistan	Reforms began in 1986 to replace non-tariff regulation with tariff regulation; maximum tariffs were reduced from 22.5% to 12.5%
Peru	Reforms began in 1990; quotas were removed and tariffs were simplified to three rates (15%, 25%, 50%); in 1991, the top rate was reduced to 25%
Senegal	In 1986-1988, most quotas were removed and some tariffs were reduced.
Tunisia	By mid-1990, import licensing was canceled for most import items.
Turkey	Since 1990, quotas and some non-tariff trade barriers have been significantly reduced.
Venezuela	Comprehensive import liberalization began in 1989; most import bans were lifted and tariffs reduced from the maximum level of 80% to 50%

Source: conducted by the authors according to [4; 7; 8]

do best, to enjoy the economies of large-scale production and to buy more cheaply those things that others do best. The negative influence of foreign trade on the economy appears when import displaces domestic producers (concerns the countries with unfavorable balance of trade). Thus, according to many scientists on problems of import dependence, the model of import substitution in the short term creates barriers to the movement of goods and services, reduces the motivation level of business leaders in increasing productivity and reducing production costs, limits the specialization of enterprises, leads to monopolization of the market, and also leads to inefficient use of budgetary funds aimed at the development of import-substituting industries. Consequently, import substitution is the type of economic strategy of the enterprise, aimed at suppressing the competitive import goods by producing similar goods in the country.

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GENESIS OF IMPORT SUBSTITUTION THEORIES OF OPEN ECONOMIES

The relevance of research. The proposed article is devoted to the issue of import substitution strategy and its effectiveness in open economies. Consideration of the problem is based on the analysis of theories of import substitution.

The purpose of research. Review of the latest researches in this area indicates that scientists conducted discussions on the potential consequences of import substitution on economic development. In a small number among the existing works the impact of macroeconomic processes on import substitution development and mechanism of regional import substitution development are investigated. However, in the most part of works the import substitution vectors are researched only from the point of resources possibilities; besides the theoretical statements are not enough systematized. Therefore, the purpose of the article is to synthesize and analyze theories of import substitution of open economies.

Research results. The article deals with the problems of dependent development and the economic essence of the concept of "import substitution" as a form of selective protectionism. Import substitution as an economic category is a system of economic relations, aimed at replacing imported goods in the interests of economic growth and structural transformation in accordance with the laws of the development of the international division of labor on the principles of competitiveness and economic efficiency. The historical aspects of introduction of import substitution in the countries of Latin America and Southeast Asia are considered and the factors which led to the decline or development of the economies of these countries were determined. The consequences of the policy of protection of infant industries in the context of the implementation of the import substitution strategy are summarized. The basis of the theory of import substitution is the theory of development of the peripheral economy. The increase in international trade, the formation of the world market and the deepening of the international division of labor have played an ambiguous role in the life of developing countries. The potential threats of the strategy of selective import substitution implementation in open economies have been identified. The necessity of combining import substitution programs with the strategy of export orientation is substantiated.

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The practical value of the article. The practical significance of the obtained results is the possibility of using the theoretical and practical developments for improving the regulation mechanism of import in Ukraine.