The successful East Asian Tigers’ Export-Oriented Strategies versus the Failed Global South Countries’ Import-Substitution Industrialization Model; Lessons to Learn

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In the evolving landscape of global economic development strategies, two contrasting models have emerged as pivotal: the Import-Substitution Industrialization (ISI) that gained traction in the 1960s, and the Export-Oriented (EO) strategies successfully implemented by the East Asian Tigers. Initially popular among several Global South nations, ISI aimed to reduce dependency on foreign goods through domestic production of industrial products. However, its appeal waned due to inefficiencies and economic stagnation, prompting a shift towards EO strategies, which prioritize competitive exports to foster economic growth. This report examines the divergent paths of Brazil and Argentina, which pursued ISI, against Taiwan, which alongside the other East Asian Tigers adopted EO strategies. The success of the East Asian Tigers in transforming their economies through EO strategies offers critical insights, contrasting sharply with the struggles faced by nations adhering to ISI models. This case study is pertinent for understanding the factors that influence the efficacy of economic development strategies in varied political and economic contexts. The primary purpose of this report is to aid developing and post-colonial countries in crafting effective economic policies that blend the best elements of ISI and EO. This approach is increasingly relevant in the face of growing globalization and its occasional backlash, which necessitates a balanced strategy that also resonates with new consumer preferences for locally-made products, driven by climate concerns. By dissecting these models and their outcomes, this report aims to provide actionable insights that help developing countries navigate the complexities of economic progress in a rapidly changing world.

In the latter half of the 20th century, South Korea, Taiwan, Singapore, and Hong Kong, a group of countries better known as the Four Asian Tigers, adopted export oriented strategies. This led to the countries rapidly industrializing and their economy maintaining exceptionally high growth rates. Under an export oriented strategy, a country seeks economic development by opening itself up to international trade. We can see the advantages and pitfalls of adopting this strategy by taking Taiwan as a case study. Taiwan had initially attempted to follow a primary important substitution policy from 1952-57, with real GNP growth rates fell every year during 1952-56, the growth rate of industrial output declining to 11 per cent and that of employment declining to 5 per cent in the second half of the 1950s. Taiwan was unable to save much foreign currency and ran up a trade deficit. These issues caused a reorientation of strategies into an export oriented strategy. The government introduced policies that encouraged saving and investment, to reduce expenditure and to promote exports. The government also reduced tax burdens and simplified licensing procedures. Permanent economic institutions like the central banking system and capital market were also established during this time. At the heart of this policy change were tax incentives for exports, available to both domestic and foreign investors. Additionally, the foreign exchange allocation system was liberalized, a special export loan programme was introduced, and export processing zones were introduced. This switch led to GNP jumping 235 per cent during 1960-67 and total foreign direct investment tripling to US$ 34.2 million in 1960-63, up from US$ 10.9 million in 1952-59. Taiwan was able to build upon these policies and their rapid growth continued into the 1980s. However, there were pitfalls with putting so much focus on an export oriented strategy. One source of Taiwan's export growth before the 1980s was original equipment manufacturing (OEM), and post the 1980s, OEM and original design

manufacture (ODM) orders of personal computers and IT products became the major components of Taiwan's exports. The competition to receive foreign orders made Taiwanese businesses resort to extreme cost cutting, leading to no inroads in product development and lower product quality. Once China came into the market, offering lower cost labour, business flowed out of Taiwan and into China. Due to the lack of innovation in Taiwan due to the cost cutting, low effort approach of the local businesses, new industries failed to bloom and the economy stagnated. This makes Taiwan a great example of how an export oriented strategy can help the economy boom, but also cause it to stagnate if there is an overdependence on exports, with no local innovation or industry growth.

Hong Kong served only as an entrepot to China- a port where goods for import and export were stored without paying import duties. Between 1948 and 1978 however, this function virtually stopped. During this period, Hong Kong developed their manufacturing industries which were heavily labor dependent, and started to export locally produced goods abroad. Eventually, due to the success of the manufacturing units in Hong Kong, local entrepreneurs were able to set up production facilities abroad. Complementarily, China had vast lands and large labor resources, but lacked infrastructure. Therefore, Hong Kong moved to exporting transportation, telecommunication and financial services to China, fostering a close economic relationship between the two, and shifting the sectoral breakup of Hong Kong’s industries, with manufacturing taking up a smaller share.

Hong Kong too faced the drawbacks of putting too much focus on an export oriented strategy though. The 1997 Asian Financial Crisis hit Hong Kong hard, causing the GDP growth rate to contract from 5.1% to -5.9%. A large part of this is because Hong Kong’s export partners were fellow Asian countries, with 51.94% of Hong Kong’s exports in 1996 going to East Asian and Pacific countries. The financial crisis crippled a lot of Hong Kong’s trading partners, which in turn caused an economic downturn in Hong Kong. Hong Kong’s reliance on an export oriented strategy made them vulnerable to a market shock which affected their trading partners.

In a period now termed the “Brazilian Economic Miracle”, the nation was one of many to adopt a successful export-oriented strategy between 1968 and 1974. However, prior to this, most Latin American countries underwent a period of Import Substitution Industrialization (ISI). ISI was an economic development strategy which aimed to reduce a dependence on imported goods by promoting domestic production. A reliance on foreign capital was prevalent in most Latin American economies prior to the First World War. In Brazil, the early 1870s saw the United States’ attempt to increase its economic role and political prestige in the country. What started as an American railway company building the Rio de Janeiro Railway to ameliorate trade and communications with the US, soon paved the way for the implementation of policies such as the Monroe Doctrine. Disguised as a strategy to deter European colonization in the Western Hemisphere, the US soon revealed its own neocolonialist tendencies. Following the First World War, Brazil borrowed substantial amounts from the US and sustained a trade relation valued at $154 million with America, a significant portion of this attributed to the coffee economy. However, to tackle this

overdependence, the 1930s to 1960s were defined by an implementation of numerous ISI policies including high tariffs. For a short while, this proved to be a success, with the average annual rate of GDP growth exceeding 7% between 1950 and 1961. However, while the ISI contributed to the growth of Brazil's industrial sector, historians and economists consider Brazil's industrialization process a conspicuous example of the failure of a protectionist, import-substituting industrialisation model. Not only did it reduce short-term social welfare but it impeded competition and slowed down technological innovation. From this point of view, economic historians have reassessed Brazil's industrialisation by seeing it as an artificial process, which relied on trade protection, subsidies, and distortive state intervention. This caused a period of stagnation between 1962 and 1967 with the average rate of growth of GDP in the period declining to 4%. Argentina too shares a similar pattern, lagging behind in terms of income per head. Pre-World War I, the nation too was heavily reliant on foreign capital, especially from the British. Even the major banks in Argentina were British owned. This combined with a very low level of domestic saving, called for the soon to be adopted import substitution policies. Unlike Brazil, Argentina's economy was largely cattle and wheat based. Despite this, a fragile Argentinian economy in combination with a corrupt oligarchic, military-backed government meant the First World War had catastrophic effects on the economy. With a massive drop in the level of trade (from around 80% to 20%), as the British opted for Canadian and Australian crops instead, Argentina turned to ISI in an attempt to catalyze domestic production. In contrast to Brazil, there was a heavier political facet that incentivised the implementation of ISI. During the 1920s, Argentina faced major political turmoil. The Italian fascist-inspired League of Republicana emerged, representing a shift to far-right ideologies in Argentina. The far-right nationalist movement in Argentina aimed to assert nationalistic ideals, which gave rise to ISI policies, which by nature is inward-looking. However, this created a rather unsuitably rigid system. The government introduced strict regulations to limit overproduction, but the currency depreciated and with a lack of investment, this greatly distorted the market. In 1946, Juan Peron adopted a variant of left-wing populism now dubbed "Peronism". He advocated a policy of social justice, economic independence and political sovereignty. All in all, it involved a very expensive policy of nationalization that soon led the economy to collapse and the balance of payments to deteriorate.

After the failure of several post-colonial economies and the austere Structural Adjustment Programs (SAPs) that these countries were forced to implement in the 1980s in turn for grants by the International Monetary Fund, it seemed that the neoliberal economic system, which prioritizes private enterprise and no governmental intervention, had finally won. Yet, academic research which looks back at the worldwide post-colonial economic development hints that the answer lies in an EO-ISI triangulation. For example, learning and knowledge accumulation are foundations for steady economic development. On one hand, import-substitution industrialization stifled these building blocks by promoting industries in isolation from global market forces, which discouraged a competitive learning environment (Bruton, 1998). On the other hand, export-oriented strategies were also found to sometimes overlook the necessity of internal capabilities and learning processes essential for sustained industrial growth, as the mere exportation does not directly lead to a robust indigenous

learning process. Recent critiques of traditional EOS, in the context of a renewed focus on foundational economic characteristics such as entrepreneurship, institutional strength, and the depth of knowledge application and accumulation, highlight its limitations in nurturing long-term technological and industrial capabilities (Burton, 1998). Therefore, a pure export-oriented strategy is not fully adequate for robust long-term growth, and requires the deliberate integration of on-the-job learning, technological adaptation and innovation within domestic industries (Bruton, 1998). Another point is the role of the government. While today's economic system is wary of governmental intervention in markets, the government can be pivotal in mediating an effective balance between import-substitution and export-orientation. The role of the East Asian governments has often been overlooked, and yet the governments showed strategic intervention and effective coordination between protectionist measures and export incentives, which ultimately led to a synergy that promoted economic resilience and competitiveness (Liang, 1992). Hence, these governments actually employed protective ISI strategies that bolstered their industrial bases in the early stages of development. This approach enabled them to not only protect but also gradually expose their emerging industries to a global competition, facilitating a more sustainable development trajectory (Liang, 1992). Therefore, if the ISI and EO lessons are to be useful for developing economies, governments must not hesitate to act when needed, by navigating beyond minimal intervention and fostering environments that encourage both industry competitiveness and integration into global value chains. This may mean that policies that protect nascent industries in order to prepare them for eventual competition in international markets are needed. Overall, the limitations of a purely export-oriented strategy become apparent when considering the developmental needs of local markets in developing countries. These markets often have distinct characteristics, such as lower purchasing power and unique cultural preferences, that may not be aligned with the demands of international markets. Developing industries solely to compete on global platforms may neglect these local nuances, resulting in an industrial landscape that fails to address domestic needs effectively (Zhou, 2008). Therefore, the optimal strategy for contemporary developing economies is not a choice between ISI and EOS but a triangulation that integrates both strategies. A triangulation would involve nurturing industries with proactive measures initially, with a clear trajectory for these industries to later on, once-ready, to engage in export markets. This would ensure that while these industries are protected in their nascent stages, they are simultaneously geared towards competitiveness and innovation for both local and global markets. An efficient modern economy is one that balances industrial self-sufficiency with global integration, where both import-substitution and export-orientation are seen as complementary, rather than mutually exclusive strategies (Kheyfets, 2018). Furthermore, with growing market trends of buying local and being climate conscious, it is important for developing countries to effectively adapt. For example, the focus on local production in ISI can inform current policies on sustainable manufacturing and reducing carbon footprints, while the global engagement from EO strategies can guide digital market expansions and effective international collaborations.

For developing countries today, the lessons from the past economic strategies are clear: import-substitution and export-orientation are not mutually exclusive. The former is not a

complete failure, and the latter would not have brought the East Asian Tigers success if it had not had used ISI-based protectionist policies. Instead what is needed is a hybrid approach, fostering learning, and providing the opportunity for the government to act as a developmental state. By cultivating industries that are competitive globally yet responsive to local needs, developing nations can create resilient economies capable of navigating the complexities of the global economic landscape. This balance approach not only mitigates the risks associated with globalization and economic backlashes but also aligns with the evolving trends of consumer preferences for sustainable and locally-relevant products. For policymakers in developing and post-colonial countries, merging these two strategies involves leveraging the protective aspects of ISI to build strong local industries while adopting the market-oriented principles of EO to enhance global competitiveness and technological adaptation. This integrated approach should be highlighted as a pragmatic pathway towards achieving sustainable economic growth and technological advancement in rapidly evolving global economy.

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