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IMPORTANCE OF IMPORT SUBSTITUTION POLICY

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ANNONTATSION

Import substitution industrialization (ISI) was pursued mainly from the 1930s through the 1960s in Latin America—particularly in Brazil, Argentina, and Mexico—and in some parts of Asia and Africa. In theory, ISI was expected to incorporate three main stages: (1) domestic production of previously imported simple nondurable consumer goods, (2) the extension of domestic production to a wider range of consumer durables and more-complex manufactured products, and (3) the export of manufactured goods and continued industrial diversification.

The theoretical foundation for deliberate, government-promoted ISI emerged from critiques of the international division of labour, in which less-developed countries largely exported primary products and imported finished manufactured goods from Europe and the United States. In the 1950s, critics such as Argentine economist Raúl Prebisch claimed that this division of labour would ensure continued poverty for primary-product producers. Prebisch and others argued that developing countries must promote industrialization through practices that encourage domestic manufacturing. Promotion policies involved both protection of "infant industries" for imports and incentives to encourage capital and technology imports. Tariffs were often used in addition to exchange controls, exchange-rate manipulation, and import licenses for particular products necessary for manufacturing.

Key to the implementation of the policies was an alignment that emerged between three actors in these societies: the government, including state-owned firms; domestic private enterprises; and transnational corporations (TNCs). This "triple alliance" involved government investment in intermediate and capital-goods sectors to support industrial expansion, domestic production of import substitutes, and TNC production of high-tech goods needed for manufacturing that could not yet be produced domestically. Although promoters of ISI anticipated that this alignment would last only until access to capital improved and production spilled into additional industries, the interactions between these actors were often mutually reinforcing.

Shortcomings and critiques of ISI By the 1960s, ISI strategies were seen to have significant drawbacks. Although results varied from country to country, general trends included production that often did not extend into industries other than consumer goods, slow employment growth, agricultural-sector decline, and minimal productivity growth. Social strife also emerged and was seen in part as resulting from increased internal migration and greater inequality. Although large countries such as Brazil and Mexico produced at least short-term growth with ISI policies, smaller countries, including Ecuador and Honduras, were less successful.

Critics within Latin America, particularly at the Comisión Económica para América Latina (Economic Commission for Latin America) and the University of Chile in Santiago, condemned ISI's dependence on TNCs and its failure to promote egalitarian development. These scholars, and others in Mexico, often pushed for socialist models free of TNC participation.

Promoters of free trade instead decried ISI's protective measures, arguing that they created distortions in capital appropriation and prevented developing countries from pursuing their comparative advantage in international trade. New, protected industries and government planning were deemed inefficient in comparison with those encouraged through market-led development strategies. These critiques, supported in part by early observations of export-led growth in East Asia, produced a strong emphasis by economic and development agencies on export promotion beginning in the 1960s.

A third perspective highlights the relevance of national social and political histories to the success, or lack thereof, of ISI strategies. The ability of the government to learn and adapt production strategies to local conditions depended highly on the character of local institutions and social organization. Also, even though the producers of consumer goods may have been initially successful, they had little incentive to support industrial expansion, because this would require protection of those industries on which they relied for their production tools, thus potentially limiting their supply of high-quality inputs. In addition, the opportunities available to expand domestic production into new industries were limited by the lack of support by TNCs for domestic technological development, compounded by low levels of technical training in the domestic population. In each country, the opportunity to expand industrial production often depended on variations in these social and political constraints.

These critiques raise important questions about development strategies and the role of the state in the 21st century. Although ISI policies are seen not to have accomplished their developmental goals, market-led and export-driven growth have also been criticized. In the context of international trade and with some recognition of a role for the state in development, the way for national governments to pursue development remains a critical if unanswered question.

Jennifer Bussell

A third definition of regulation moves beyond an interest in the state and focuses on all means of social control, either intentional or unintentional. This understanding is commonly applied in anthropology, sociolegal studies, and international relations because it includes mechanisms such as voluntary agreements or norms that exercise social control outside the reach of a sovereign state and not necessarily as an intentional act of steering.

Thus, different strands of regulation studies share an agreement on the subject of regulation (the state), the object (the behaviour of nongovernmental actors), the instruments (an authoritative set of rules), or the domain of application (e.g., the economy). However, they do not necessarily agree on all those elements. The concept of regulation points to the rules that structure the behaviour of individuals within a given context without postulating where the rules come from and how they are imposed.

Regulation and Free-Market Interactions

The diversity of meanings of regulation has led to controversy and misunderstandings between scholars, most notably on the topic of deregulation. In the economic tradition, deregulation refers to the elimination of specific controls imposed by the government on market interactions, in particular the attempt to control market access, prices, output, or product quality. However, if regulation is conceived of more broadly as a form of economic governance, it is difficult to imagine the total elimination of state intervention. Moreover, the relationship between regulation and competition has been transformed. Regulation used to be depicted as the enemy of free-market interactions. However, many scholars came to believe that some regulations facilitate competition whereas other regulations impede competition. Thus, regulation is not necessarily the antonym of free markets or liberalization (relaxation of government controls). In this perspective, many scholars preferred using the terms reregulation or regulatory reform instead of the term deregulation. (See also competition policy.)

Regulation as State Activity

The theoretical debates around the concept of regulation reflect different disciplines and research agendas and can be broadly divided into approaches to regulation as an act of government and perspectives on regulation as governance. Regulation as a governmental activity has been studied extensively, including the reasons for regulation and the process by which it is effected.

Public Versus Private Interests

The original justification of government intervention in economic interactions was public interest. This perspective considers the market as an efficient allocation mechanism of social and economic welfare while also cautioning against market failures. Market failures commonly include natural monopolies, externalities, public goods, asymmetric information, moral hazard, or transaction costs. Regulation was considered necessary to overcome those difficulties.

Conceiving regulation as a tool for overcoming market imperfections, however, has been criticized on a number of points. First, with the evolution of economic theory, several scholars have questioned the understanding of market failure underlying the explanation of government regulation. Second, economists have pointed out the often considerable transaction costs of imposing regulation, which might make it an ineffective policy tool and harmful to social or economic welfare. Finally, the market failure approach argues that regulation is put into place with the goal of achieving economic efficiency. However, this makes it hard to account for other objectives, such as procedural fairness or redistribution at the expense of efficiency.

The Chicago school of economics, known for its advocacy of laissez-faire economics, focused instead on private interests as the source of regulation. The principal aim of this perspective is to understand how private interests and public officials interact. A central claim made by theorists following this approach was that policy outcomes are most often contrary to societal or public interest because industry representatives lobby the government for benefits they might gain through protectionism or other forms of economic controls. Politicians are susceptible to these demands because they are interested in financial contributions that business actors can offer. Thus, interest groups compete for specific policies in a political market for governmental regulation. As long as interest groups exist, regulation can be expected, which impedes the achievement of maximal social and economic welfare.

The theory of economic regulation has been criticized for its risk of tautology. Regulation is in place because private interests lobbied for it effectively, and, as a consequence, one can only know who asked for it by determining who benefits from it. Therefore, a particular industry advantage is the cause and effect of regulation. Furthermore, if regulation is defined in a narrow sense as specific economic policies aimed at the control of prices or market entry and access, the decrease in regulation of several industries in the United States during the 1970s and '80s seemingly refutes the theory. Nonetheless, as a model of business-government interactions, the theory of economic regulation directly or indirectly informs a large number of studies in the field of political economy.

Pragmatic-Administrative Analyses

A large number of studies have also grappled with the empirical fact of regulation. Such pragmatic-administrative perspectives shed light on regulation as an act of policy making. The study of the politics of regulations is informed by the tools of public policy analysis, organizational sociology, and political science. In the 1950s American economist Marver H. Bernstein described the rhythm of regulation as a life cycle of regulatory commissions, with phases of gestation, youth, maturity, and old age. This view facilitated the analysis of the initial activism in the formulation of a regulatory policy approach and the specific management problems that occur in the course of its lifetime. Regulation had been classified as a specific type of public policy, indicating that policies should be categorized according to the degree and application of governmental coercion and that regulatory policy should be separated from distributive and redistributive policy making.

Other studies of regulation have aimed at characterizing different policy regimes or, more ambitiously, state capacity. The predominantly European literature on the regulatory state sought to show that governmental action was increasingly based on the use of authority, rules, and standard setting, rather than distributional or redistributional tasks, such as public service provision. In an extension of this debate to the European level, it was argued that the governmental capacity of the European Union (EU) was strongly biased toward regulation. As a political system, the EU could therefore develop into a regulatory state but not into an interventionist welfare state.

Regulation as Governance

In the context of economic globalization, regulatory studies moved away from focusing on independent agencies and governmental control of the economy only. Scholars recognized that some interactions of market participants, product standards, or processes were no longer regulated through state intervention. Rather, they were regulated through international agreements or even self-regulation arrangements between private actors. Because it seemed pertinent to address these new modes of economic governance, it became common to address regulation in the absence of direct governmental authority. Other studies pointed at patterns that govern the behaviour of certain actors without reference to a unitary subject of regulation.

Regulation Without the State

As in the context of the EU, scholars of regulatory reform also became interested in regulation at the international level. In certain sectors, such as e-commerce or telecommunications, international agreements had become decisive for controlling the market behaviour of individuals. Moreover, many studies pointed out the effect of self-regulation of firms or various sets of public-private partnerships for the elaboration, monitoring, or implementation of targeted rules. They showed how different forms of private authority structure the economic behaviour of firms in sectors as diverse as maritime transport, mineral markets, or financial services.

It is often difficult to identify exactly who or what leads to the rise or fall of regulatory reforms. While regulation and deregulation in the United States can be identified closely with specific political leaders and parties, a growing literature investigates what mechanisms lead to the diffusion of regulatory reforms across countries or policy contexts. Animated by the desire to understand regulatory emulation, this research agenda connects the study of regulation with the ongoing debate about the roots and consequences of liberalization and globalization.

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