

PAPER DETAILS

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IMPORT SUBSTITUTING INDUSTRIALIZATION STRATEGY AND LESS DEVELOPED COUNTRIES WITH A PARTICULAR REFERENCE TO TURKEY

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ÖZET: Bu çalışmanın amacı ithal ikameli sanayileşmenin az gelişmiş (gelişmekte olan) ülkeler açısından incelenmesi ve Türkiye'de 1960-1975 arası uygulanan stratejinin kısa bir değerlendirilmesinin yapılmasıdır. Gelişmekte olan ülkelerin en temel amacının sanayileşme olduğunu söylemek mümkün. Sanayileşmeyi sağlamanın yollarından bir tanesi ithal ikameli sanayileşme stratejisi olmaktadır. Bu stratejinin başlıca enstrümanları korumacılık ve yerli üretimin teşvikidir.

I-INTRODUCTION

The aim of this study is to analyze the import substituting industrialization strategy for the development of the less developed countries in the period 1960 to 1975 with a special reference to Turkey.

Methodologically, at first, in order to provide a comparative perspective, the international context and the contradictions of capitalism at the turn of the 19th century will be discussed briefly. In conformity with the objective of this essay, the emergence of ISI on the agenda of late-late comers in the 20th century will be discussed within this context. Secondly, the politics of import substitution and development relations will be analyzed to some extent. Thirdly, the Turkish experience of Import substitutitug industrialization will be in order.

II-THE EMERGENCE ISI STRATEGY

The economic developments of the 19th century are based on the industrial revolution. It was first Britain which became a producer of low cost finished goods, followed by other West European economies. The gap between the first and the late comers was relatively small in comparison with the late-late comers of 20th century. It is possible to argue about advantages of being late-comer in 19th century. As Barkey argued: "Germany and others benefited from the fact that England had invested large sums of money in industries where production techniques were rapidly changing, thus saddling it with obsolete technologies".[1;4] For the late-late comers such an advantage was not the case and they did not (or could not)

seek a catch up strategy during the first decade of 20th century. They followed some kind of open door policy against penetration of the first comers into their markets. This situation caused a reverse development in the "less developed" countries in this relationship with "developed" countries, in behalf of the latter. The Great Depression constituted a main turning point for late-late comers and forced them to take a second look at their dependent status. At this point it is possible to argue that the contradictions of the capitalism or world economy led to closed and inward-oriented economies. This developments in the world economy is directly related with the emergence of ISI strategy in late-late comers. If it has been put differently, the emergence of inward-oriented economies in the developing world should be seen as a way station and the ISI strategy was the suitable formula which was created by the late-late comers for their development. Otherwise a liberal mode of development was not possible at that conjuncture.

As has been explained above, the emergence of ISI policies in world economy goes back to the Great Depression. Starting in the 1930s and sometimes later, import substitution became the favorite method of industrialization for many countries i.e. Argentina, Turkey, India and Philippines. Each of these countries was seeking to catch up with the developed world in its own way. The international context in the aftermath of Second World War created same impetus to adopt ISI strategy for the development of less developed countries. After World War II, there was a general optimism with respect to the capabilities of the state to carry out effective development policy. The ISI strategy, however, was based on the premise that some previously imported consumer goods could be manufactured locally. It was also projectionist in nature and relied heavily on government interference and initiative.[1;1]

III-THE POLITICS OF IMPORT SUBSTITUTION AND DEVELOPMENT

According to Barkey, ISI was, first and foremost, interpreted and implemented as a strategy to build up the domestic market.[1;5] In order to provide this, ISI strategies of economic development have generally used tariffs and quotas to protect domestic producers from foreign competition and exchange rate to cheapen imported capital goods for use in the domestic industrialization process.[6;66] In this manner, if industrialization is to proceed, it must be on the basis of the domestic market rather than foreign markets.

As has been shown, protection is the key term of ISI strategy. The most common justification for protection is the infant industry argument. In order to overcome the inability to compete successfully against developed nations, the infant industry must be protected until it can attain an efficient scale of operation. It must be noted that a certain degree of industrialization is a precondition for implementation of ISI and that was the case for the ISI countries due to the inward-oriented development schemes of 1930s.

The ISI strategy may be explained with a two stage formula. In the first-stage import substitution the key industries involved are simple, more labor intensive goods such as textiles and foodprocessing. In the second stage the key industries involve consumer durables and intermediate and capital goods, all of which are more capital intensive and technologically complex. According to Grabowski, "important-substitution policies accompanied by exchange controls have tended to promote the use of more capital-intensive techniques of production. The exchange controls themselves have resulted in a vast increase in the rent-seeking activities of private interest groups, dramatically increasing the costs of production." [1;5] Obviously, the problems discussed mostly occurred in second stage import substitution rather than first stage import substitution. For that reason the view taken earlier regarding the efficacy of government policy may cause to ignore the very possibility of government failure.

As another important fact which must be kept in mind, the inward-looking and economically expansionary attributes of ISI were well suited to populist leaders and coalitions. With an ISI strategy governments are free to engage in policies that can distort the domestic economy in an attempt to guarantee the availability of the domestic market for domestic producers.

With an apparent failure of ISI, the alternative of outward-oriented development moved to the forefront. Indeed, in the 1960s and 1970s, many countries which had experienced ISI strategy faced serious economic crisis. For that reason some argued that ISI seemed to have exhausted itself. But they miss the point that the decline in effectiveness of ISI does not necessarily constitute an evil prospect for the developing countries. As Hirschman argued the rapid expansion in world economy created export possibilities for some of the new manufacturers.[5;152-153] In more recent times a number of East Asian countries have also successfully used import substitution as a springboard to outward-oriented growth.[2;536] The key factor here is that East Asian countries have also found to have governments that are highly effective in carrying out government policy.

In sum, import substitution would seem to be a necessary step at least in the establishment and evolution of labor-intensive industries in developing countries. This step allows entrepreneurs to import foreign technology and innovatively adapt it to local circumstances in the next stage. In that process, the rate of growth of domestic market has a vital importance. If the rate of growth of domestic market along with the cost reduction and quality improvement does not reconcile with the needed scale of operation in accordance with the norms of international competitiveness, the transition to export-based growth could not be achieved smoothly. The essential point here is export in order to accelerate this process.

IV-TURKISH EXPERIENCE

The 1960 Coup created a new, liberal constitution. Under this new atmosphere democratic constitutions began to flourish. The newly created State Planning Organization(SPO) which was assigned to prepare five-year economic and social plans, charted a new course in Turkey's economy. The new economic policy, "import-substitution industrialization" (ISI), was initiated by the Five-Year Plan(FYP) which was drafted in 1963. The aim of the ISI development policy was to avoid the difficulties of the 1950s, caused by the disastrous foreign exchange problem and economic mismanagement, by producing domestically what had been imported earlier.[4;57]

The few years of export-led growth based on widespread agricultural expansion during the early 1950s had created in Turkey all the preconditions for the successful pursuit of an ISI strategy. There was an accumulation of capital in private hands, a sufficiently large internal market, largely resulting from transformation of the agricultural sector, an infrastructure,

and a technological background on which new industrial investment could be based. Additionally, labor was available to supply the demands of the urban industrial sector.[2;538]

Turkey has witnessed a high rate of economic growth during the 1960s and 70s which equals average of 6 percent for per year. This high rate of growth was the result of expansion in the manufacturing sector at the expense of agricultural sector.

Sub-periods	[Growth rate for per year (%)]			Share of import in GNP(%)	Share of manufacturing in GNP(%)
	GNP	Agriculture	Manufacturing		
1. 1947-53 Agriculture based development	8.7	11.5	6.5	9.3	8.8
2. 1954-82 Crisis and return to import substitution	4.0	2.1	7.6	6.0	12.0
3. 1963-70 Rapid import substitution based on domestic savings with scarce foreign exchange	6.4	2.6	10.4	6.8	16.0
4. 1971-77 Industrialization based on foreign sources with ample foreign exchange.	7.2	4.3	10.1	10.9	16.8
5. 1978-79 Crisis	1.3	2.8	-0.9	9.4	19.7

Table 1. Industrialization in Turkey: 1947-79. Source: Şevket Pamuk, "İthal İkamesi, Döviz Darboğazları ve Türkiye, 1947-1979," in Boratav, Keyder and Pamuk, *Kriz Gelir Dağılımı ve Türkiye'nin Alternatif Sorunu*, 1987, p.53.

This rapid industrialization was financed with foreign exchange provided from different sources. US economic and military aid provided the single most important credit item for the needed foreign exchange(after exports) until 1969. After 1969, as described in the table 1, particularly with the 1970 devaluation, workers' remittances rose to the top of the list.

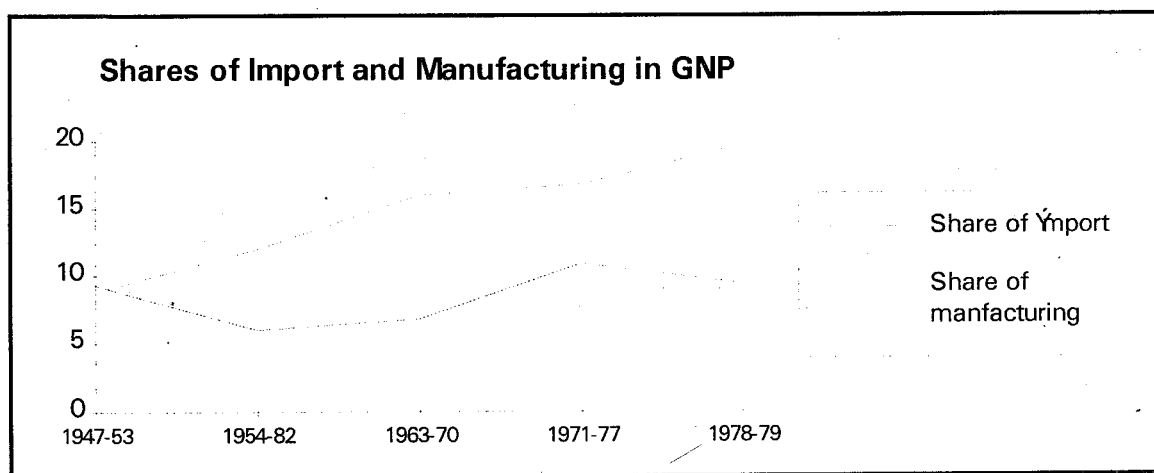


Chart 1. Based on the data given in table 1.

In the first stage, the adaptation of standart technologies and commodities was a pattern of production which requires the importing. Commonly used term for this process was montaj in Turkish. In the second stage, establishment and evolution of capital intensive and technologically complex process of industrialization created some problems. According to Pamuk, the policies implemented for the success of ISI in the first stage led to serious problems in the progress of second stage of ISI.[2;545] Turkey, at the end of the 1970s, fell into a severe foreign exchange crisis which put an end to ISI in Turkey.

The ISI strategy was the only appropriate and serious formula for the development of Turkish economy in the aftermath of the Second World War. Despite its bad effects which created a dependent and problematic situation in Turkish economy, Turkey achieved high rate of growth for a long time. Additionally, due to inclusionary nature of ISI, Turkish working class obtained certain privileges and rights in comparison with the other less developed countries.

V-CONCLUSION

In this study, the import substituting industrialization strategy for the development of the less developed countries in the period 1960 to 1975 have been discussed with a special reference to Turkey. The main conclusion drawn from this study is that ISI strategy was the suitable formula which was created by the late-late comers for their development. This study also argues that import substitution played an important role in the development of some countries which had successfully used ISI as a springboard to outward-oriented growth.

As related with the Turkish experience, the main axis of this study is built on the idea that ISI itself is not responsible for the failure of Turkey's industrialization efforts. In other words it points out "the state and its ability to successfully implement the development policy." [3;74]

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