

# POLI 332. Politics and Governments of Latin America

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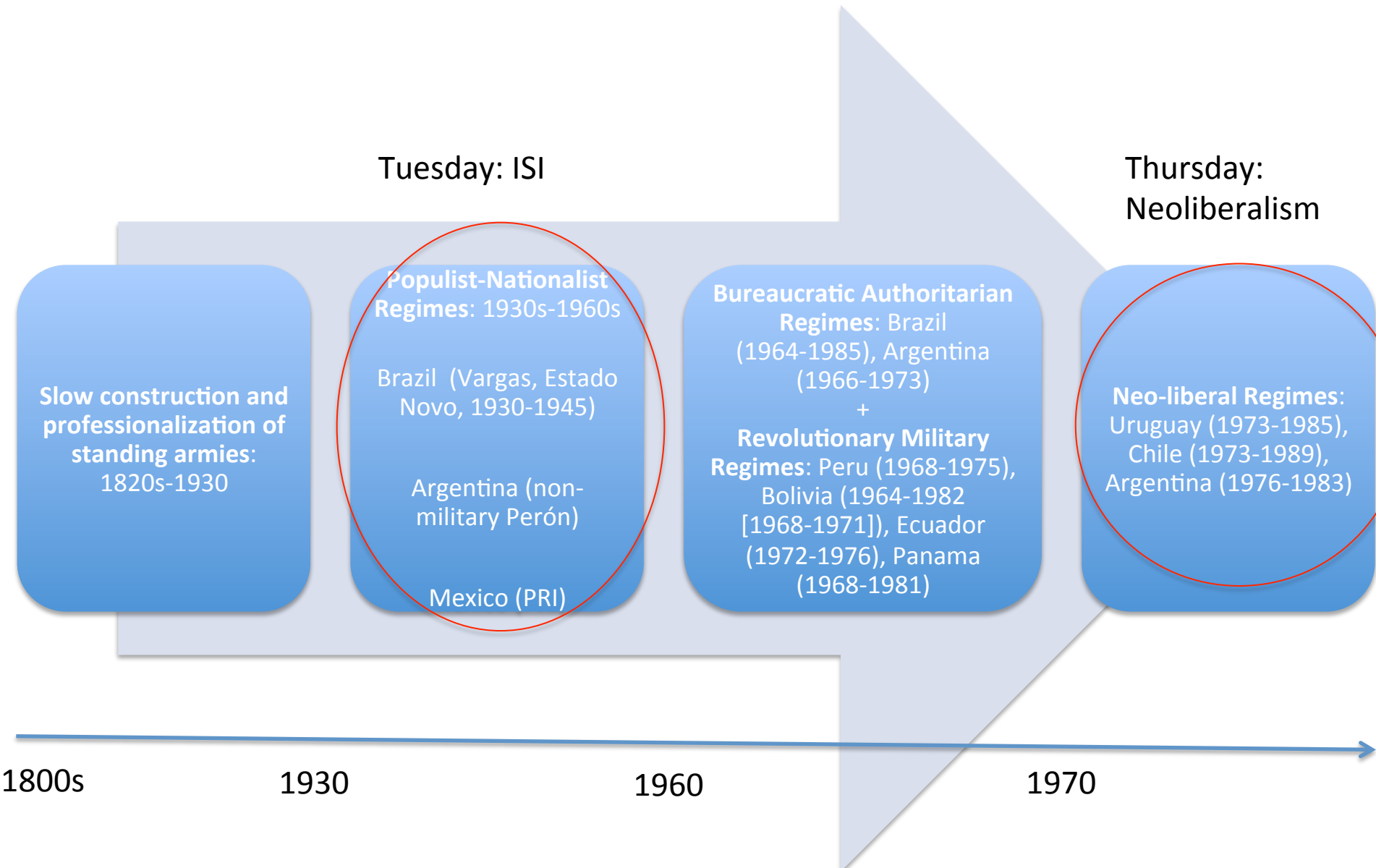
Course website: <http://blogs.ubc.ca/latinamerica/>

# Session 5. Import Substitution Industrialization

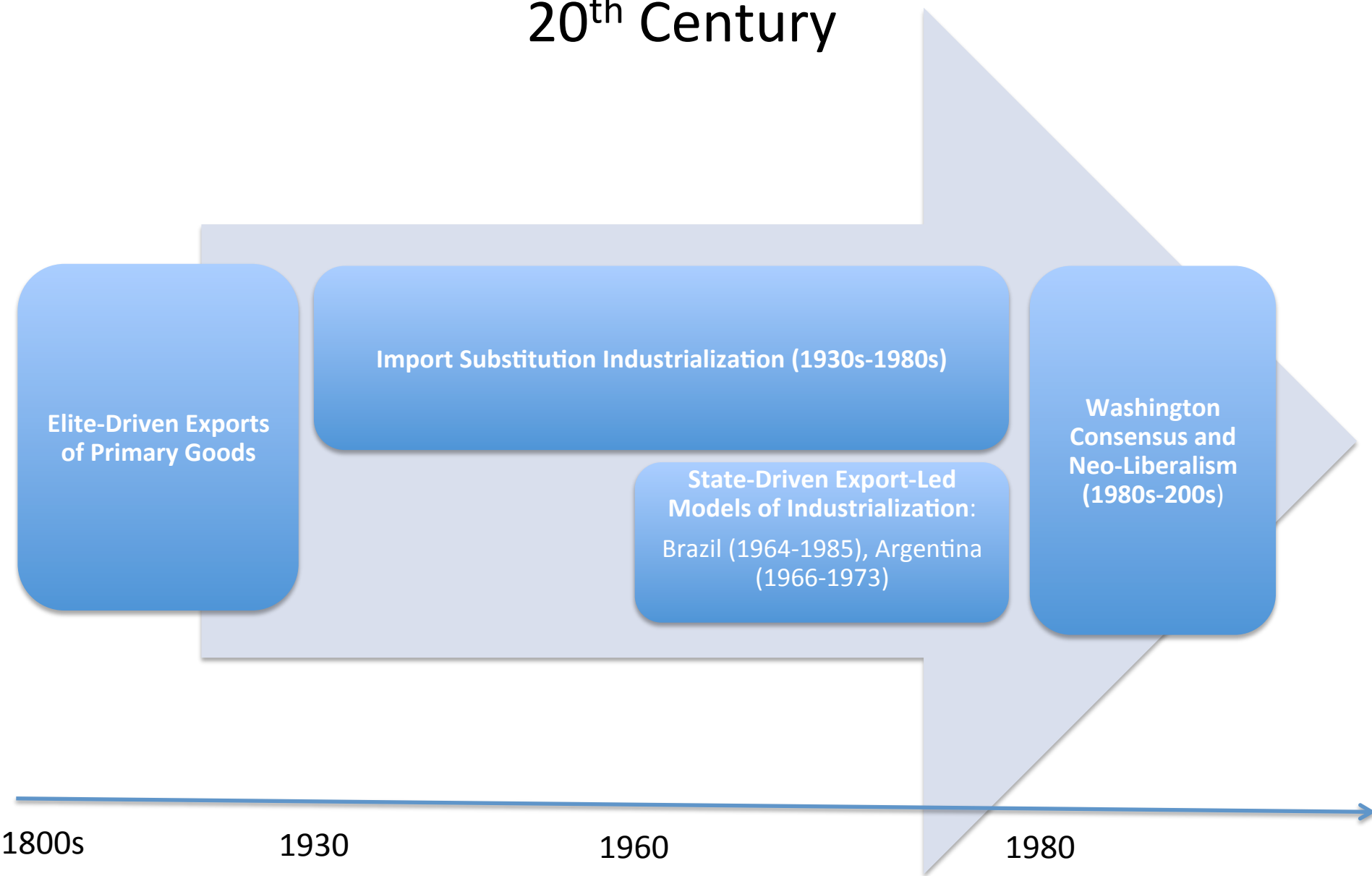
# Plan of the lecture

1. Recap: Stages of Authoritarianism in Latin America
2. Economic Models of Latin America during the 20<sup>th</sup> Century
3. Import Substitution Industrialization
  - Problems
  - Solutions
  - Successes
  - New problems created

# Stages of Authoritarianism and Military Involvement in Latin America



# Economic Models of Latin America during the 20<sup>th</sup> Century



# Identify:

- What were the problems that ISI identified and tried to address? Where were these problems coming from?
- What were the solutions (policies) adopted under ISI to address these issues? Why did ISI reformers think that these policies would solve the problem?
- Which problems did they succeed in solving?
- Which problems persisted despite ISI policies?
- Which new problems were created by ISI policies?

# ISI: Problems

- Adverse terms of trade:
  - Dependency Theory (or World Systems Theory): Industrialized Core v. Agrarian Periphery
  - Money spent on imports of capital goods increases more rapidly than the money earned from exports of primary goods
  - Over-reliance on the production of a commodity makes the economy vulnerable to slowdowns in international markets
  - Economies based on the production of primary goods have a hard time with unemployment in times of crisis
- Lack of Industrialization:
  - Developed countries increased their per capita income as a result of industrialization in the 19<sup>th</sup> century
  - In the absence of industry, there is no economic activity to absorb redundant labour force, generating high unemployment, informality (or, maybe even, criminality?)
  - In the absence of industry, landed elites have a lot power
- Weak Domestic Markets – High Inequality:
  - High inequality means that the majority of the population are not consumers that could feed an inward-oriented economic model

# ISI: Solutions

- Protectionism & Tariffs:
  - High tariffs to industrial imports to protect local industries
  - High subsidies to strategic industries
  - Overvalued exchange rates
  - Regulation of production (licensing, joint ventures, etc.)
- State-Led Industrialization:
  - Nationalization of industries (SOEs-State Owned Enterprises)
  - Forced transfer of resources through taxation and public spending from primary sector to industries
- Social spending and income redistribution:
  - Creating a skilled labour force to join the new industrial sectors
  - Income redistribution to build stronger domestic markets to consume local products



# ISI: Successes

- Improving human development:
  - Literacy rates, life expectancy, access to health services, labour rights, curbing inequality in some places
- Building stronger—albeit inefficient and corrupt—states:
  - Land reform (weakening old landed elites)
  - Incorporating marginalized populations (peasants, indigenous groups, afro-descendants), although often in paternalistic, clientelistic, and not very culturally-sensitive ways.
- Economic growth (3-6% per year on average)
- Industrialization, infrastructural development & urban growth

# ISI: New Problems

- Public debt & overgrown states
- Rent-seeking and corruption
  - Lack of investment in productive activities
  - Capital flight
  - Informal alliances between bureaucrats, elites, and MNCs
- Unproductive industries:
  - Subsidized and protected industries do not need to innovate to face competition
  - Absorption of rural migrants is not fast enough to prevent rise in unemployment
  - Captive markets
  - Difficulties in placing exports in international markets
- Inflation:
  - Prices go up due to the lack of competition
  - Currency manipulation (printing money)