

## Export-oriented and import-substitution essay

**Discuss the case for using an export-oriented rather than import-substituting approach to promote industrialisation. [15 marks]**

- Introduction
  - Export-orientation is a policy where the government aims to develop exports by increasing export market through the exploitation of comparative advantage and use of free trade.
  - Import-substitution is a policy where the government aims to replace imported goods with those produced in the domestic economy allowing the industry to grow gaining economies of scale until the firm can compete globally.
  - 'Mission statement' – to discuss the advantages of export-orientation, assess the limitations of the policy and consider how import-substitution deals with these problems before considering the limitations of an import-substituting approach and reaching a balanced conclusion.
- Advantages of import-substitution
  - Aim to allow industries to grow to become large and internationally competitive.
  - Extensive use of protectionist policies, preferential rates of interest on loans, high exchange rates to allow cheaper necessary imports and 'urban bias' typical in planned economies by the government, aiming to allow the industry to first saturate the domestic market then remove barriers and compete internationally.
  - The industry then moves to an export-oriented approach and higher technology industries are focused on for an import-substitution approach.
- Limitations of this policy and how the export-oriented approach deals with these problems
  - Due to subsidies and protected infant industry there is no motivation to improve efficiency.
  - Industry therefore may remain inefficient and not become internationally competitive.
  - Urban bias and not allowing markets to function freely means scarce resources are not allocated efficiently.
- ...and how the export-oriented approach deals with these problems
  - Allow the free market to allocate scarce resources effectively.
  - Use of subsidies but not protectionist policies to allow firms to compete globally.
  - Use of 'open' economy to attract FDI to diversify and improve the areas which the economy holds a comparative advantage in.
- Problems with the export-oriented approach
  - The threat of protectionism not allowing these economies to export.
- Balanced conclusion
  - How import substitution was ineffective in large economies like Brazil and India due to the lack of pressure to become efficient.
  - How import substitution is not appropriate in small economies with very small domestic markets such as the Asian 'tiger' economies.
  - These economies chose to practise an export-oriented approach and have a track record of successful development.

### *Marking*

1-2 marks for knowledge; 3-5 marks for application; 6-8 marks for analysis; 9-15 marks for evaluation.