

**College of Social Studies**  
*Junior Economics Tutorial*  
*Elements of Latin American Economic Development*

Spring 2003

Alberto Isgut

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Week IV: Import substitution industrialization

Readings

- Hirschman, Albert O. (1968), "The political economy of import-substitution industrialization in Latin America," *Quarterly Journal of Economics* 82, No. 1, pp. 1-32 [JSTOR]
- Little, Ian, Tibor Scitovsky, and Maurice Scott (1970), *Industry and trade in some developing countries: A comparative Study*, London: Oxford University Press, Ch. 2
- Perkins et al. (2001), *Economics of Development*, 5<sup>th</sup> edition, Ch. 18 (pp. 677-705 only)
- Vernon, Raymond (1966), "International investment and international trade in the product cycle," *Quarterly Journal of Economics* 80, No. 2, pp. 190-207 [JSTOR]

As we have seen during our first two tutorials, Latin American countries integrated into the world economy towards the end of the XIX century according to the classical principle of comparative advantage. Their comparative advantage in primary products such as wheat, coffee, and tin, originated in their abundant natural resources, fitting the Heckscher-Ohlin model quite well. But such pattern of specialization was interrupted by the two World Wars and the Great Depression. Industrialization then became an option, perhaps the only option, to continue the process of development in several Latin American nations.

The demise of free trade as an organizing principle through which economic activities would be encouraged or discouraged was accompanied by changes in the perceptions about what the role of the state should be. The rise of Keynesianism in the capitalist world along with the practice of central planning in socialist countries led several Latin American to further departure from the classical laissez-faire ideal. In particular, import substitution industrialization (ISI) relied strongly on the role of the state in the allocation of resources.

Both Hirschman and Little et al. take a critical look at ISI. Hirschman's stance is more sympathetic though it still acknowledges some of ISI's problems. His analysis transcends economics and takes some surprising turns along the way. Little et al., on the other hand, is the first of a number of important studies by multilateral organizations (in this case the OECD) that overtly criticized ISI and advocated a larger role for markets in the allocation of resources in developing countries. Vernon, finally, provides a model explaining the increasing importance of multinational corporations, which figured prominently in Latin America's ISI policies, especially since the 1960s.

Assignment

Your task this week is to write a 4-5 paper about ISI. You can choose among a number of different areas of emphasis, but make sure that you explain what ISI is, how it came about, and what are its main characteristics and problematic aspects. Consider this assignment as a background paper for your next week case study on either Argentina or Brazil's experiences with ISI.