

Import substitution and economic development of South-East Asia (SEA) countries

Import substitution usually implies economic policy aimed at substituting import products for merchandise domestically assembled, and in a more distant perspective at industrial growth rate increase and diversification in terms of national economies of the newly independent states. However, as for SEA countries and for some other developing countries, the import substitution strategy was not confined to industries, but it also encompassed other economic fields, including agricultural production. Thus, in the countries of the region under consideration, particularly in Malaysia, Indonesia and the Philippines, import substitution presupposed a considerable increase in food production and therefore a solution to the problem of food shortage at the expense of own resources.

Import substitution programme was implemented by virtue of old production methods expansion in the first run and, secondly, due to renewal of the existing assortment and thirdly, thanks to establishment of new industries and modernisation of the existing ones. As a rule, import-substituting production of a significant amount of traditional consumer goods rests within the domain of small- and medium-scale production. Thus, development of these industries in SEA countries was combined with the support allotted to small- and medium-scale commodity producers. At the same time, the production methods being new for these countries were established and this had modernised the economy with institutional and financial support of the state, as well as with the assistance of foreign capital, public and private, predominantly by loans.

At the first stage, import substitution in the countries of the region had covered primary consumer goods production, allowing the setup of cheap everyday goods production with small expenditures in conditions of skilled labor shortage. Textile, shoe, food, tobacco and other industries were developing at priority rates. Almost simultaneously construction materials, metals and metal goods needed for production and infrastructure facilities, for construction and reconstruction were also put into production.

The next stage of import substitution in SEA countries was going on amid the transition of these countries and primarily of Singapore, Malaysia, Thailand, Indonesia and the Philippines to a new economic development strategy, i. e. export orientation. This stage was marked with appearance of all the more sophisticated and high-priced modern industries in these countries, such as chemical industry, electronics, transport engineering and some others, the products of which could be sold not only at the domestic but also at the external markets, thus enlarging the nomenclature of export-oriented industries. In the same countries of the region, where an import-substituting model presupposed just

simple substitution of traditional consumer goods from being imported, as for example the case was in Myanmar (Burma), an outdated economic structure was conserved while the overall engineering level of production lagged behind. No less if no more, the total economic, structural and technological underdevelopment of some SEA countries was strengthened in their economic isolation due to the 'self-reliance' strategy or due to the external sanctions regime introduced against them, as it was in Myanmar and Cambodia. Herewith, the intention of some countries of the region as Malaysia to set up machinery and some other industrial equipment production with a view to reduce economic dependence on foreign supplies was not implemented because of the excess expenditures and limited domestic market, together with lacking perspective to independently entering the monopolised international market with their own high-priced pioneer products. In any case, this import substitution stage as opposed to the previous one had required much more absolute and relative involvement of foreign financial, material and technical resources and intellectual assets, mainly from private sources.

In the beginning, import substitution practice in SEA countries was accompanied by reduction, if not absolute, but very substantial of imported products in the total national supply. Thus, import ratio to the total volume from 1960 to 1970 had reduced in Thailand by 1.4 pp, in Indonesia by 2.8 pp and in Malaysia by 14.6 pp [1]. Thanks to import substitution in the Philippines, where their import substitution strategy got its development a little earlier than in other neighbouring countries, nearly 100 per cent of textile, almost 70 per cent of steel, over 40 per cent of metal goods was produced from 1955 to 1960 [2, p.148].

Importsubstitutionindustriestablishment, diversification and modernisation in such countries of the region as Singapore, Malaysia, Thailand, Indonesia, the Philippines and later in Vietnam presupposed an increasing afflux of investment goods, as well as technologies and user permits, etc. With transition of these countries to a new import substitution stage and export oriented production growth, the need for machinery and equipment, knowledge and know-how, as well as details, components and raw material for subsequent use in the production process had just increased. At last, together with import growth in terms of technical and intellectual services, other services also spread their import- that was the case in transportation, trade intermediary, financial, realtor, tourism services, etc. By 2015, the total share of services in the combined import of goods and services reached 3.6 per cent in Vietnam, 6.1 per cent in Malaysia and Laos, 10.4 per cent in Thailand, 17.1 per cent in Cambodia, 20.6 per cent in Indonesia, 32.3 per cent in Singapore, 32.4 per cent in the Philippines and 38.8 per cent in Brunei. This sometimes altogether encouraged rather considerably an accelerated growth of the countries' import trade. Hence, the total goods and services imports from 1970 to 2015 had increased in 2005 prices in Singapore (since 1980) by 16.8 times, in the Philippines 23.7 times, in Thailand (to 2014) 24.6 times, in Indonesia 29.9 times, in Vietnam (since 1990) 33.7 times and in Malaysia 34.9 times, while in the world economy only 8.8 times. As a result, against

the market saturation with own products not so much reduction as increased contribution of imported products to the domestic total supply took place, i.e. it went up from 14.8 per cent to 20.9 per cent in Indonesia, from 21.9 per cent to 31.3 per cent in the Philippines, from 18.6 per cent to 67.1 per cent in Thailand, from 41.4 per cent to 74.1 per cent in Vietnam (from 1990 to 2010) [1].

At the same time according to the estimates¹, for the most of the period under consideration i.e. from 1960 to 2015 import substitution factor in SEA countries was characterised by negative indicators, which was due to prevailing demand-side and export expansion factors in the GDP growth. Even in the period from 1960 to 1970 that was the most intense in terms of the import-substituting model implementation at the first stage in most countries of the region, positive values of the factor were recorded only in one of them – namely in Malaysia (12.0 per cent).

The importance of import substitution as a GDP growth factor in SEA countries got increased only at the beginning of 2000s. The very same estimates testify that in the years specified, the performance indicators for import substitution began to show positive values, notably not only in one country of the region as it was the case in the period from 1960 to 1970, but in several other countries. So in 2000–2010, the performance indicators for import substitution showed positive values not only in Malaysia (19.1 per cent), as it was at the beginning of the period under consideration, but also in the Philippines (3.9 per cent), and in 2010–2015 in another SEA country – in Indonesia (6.9 per cent). Herewith, if in the Philippines in 2010–2015 the performance indicator for import substitution as a GDP growth factor remained almost the same as in 2000–2010, it was in Malaysia when for the first time in the region it has turned into the key growth factor in terms of public production and amounted to 56.1 per cent [1].

Therefore pursuant to the facts referred, the marked increase of import substitution efficiency in the countries specified has become manifest only at the second stage of import substitution oriented towards pivotal economies restructuring, introduction of new modern production methods and the rise in general level of technologies. That presupposed considerable investments and in particular foreign investors' large-scale involvement assuring not only financial, but also technological sufficiency of emerging innovative import substitution projects, together with their fast and effective retargeting at export-oriented production. In such a way, import substitution presently has a favourable forecast but only in case of active support to import substitution industries becoming an increasingly appealing for foreign investors as is the case with investment in export-oriented industries.

¹ Calculation made by formula $\Delta Y = d_1 \times \Delta S_1 + \Delta X + (d_2 - d_1) \times S_2$; ΔY – GDP growth, S_1 and S_2 – domestic resource supply ($Y - X + M$) at the beginning and end of the period, d_1 and d_2 are shares of domestic production at the beginning and end of the period in the domestic resource supply $(Y - X) / (Y - X + M)$; Y – GDP, X – export, M – import. [3, p.104]

References:

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