Import substitution industrialisation and economic growth – Evidence from the group of BRICS countries

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Abstract

Governments in various countries, irrespective of the country's level of economic growth, seek to initiate macroeconomic policies towards achieving better economic performance in order to advance level of business activities and ultimately, ensure better quality of life for the people. To achieve this, various approaches and interventions are applied in the process, but the outcomes are always different. While some of these policy interventions have culminated in the desired outcomes, quite a few have faltered on the platter of ineptness. This article investigates the importance of import substitution industrialisation (ISI) on the economic performance of the countries in the group of BRICS (Brazil, Russia, India, China and South Africa). Using data from the World Bank Development Indicators from 1960 to 2016 in econometric estimations, this article argues that ISI policy helped to catalyse the industrialisation process of these five countries, with the effects being more convergent in the short run as shown by the GMM, SGMM and impulse response techniques. It is thus recommended that less developed countries should adopt this form of economic integration and home-grown ISI policy to substitute imports in the short run, and embrace liberalisation as higher level of industrialisation is achieved in the long run.

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Keywords: Import substitution industrialisation; Macroeconomic policy; Economic development; Export promotion; The group of BRICS countries; The Washington consensus

1. Introduction

This article is underpinned by Mill's method of concomitant variation. This method is adopted because it identifies a causal connection between two conditions (in this study, import restriction and export promotion) by matching the imperative variations in the conditional parameters. Further, this theoretical basis is considered appropriate because, the regulatory frameworks that restrict imports are largely different from those that promote exports. In addition, the institutional apparatus that are employed in a constricting economic regime are in sharp contrast to those employed in an expansionary system. Creating an avenue to juxtapose these contradicting experiences through Mill's method of concomitant variation helps to situate this study in a novelty space within the body of existing knowledge.

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Economic development involves all the government activities and policy initiatives that are directed towards improving the economic wellbeing of a state, through increases in inflow of investment, trade, and job creation (Shafaeddin, 2006; Adams, 2009). These initiatives and policy interventions are somewhat orchestrated based on the leadership style, country's cultural orientation, economic philosophy, global events and natural phenomenon (Hill, 2017). To cope with these issues and forces, countries review and revisit their macroeconomic policies timeously (De Souza, Burlamaqui & Barbosa-Filho, 2005). Evidence indicates that the road to industrialisation by the developed economies emerged from a series of revolutions, coupled with a series of circumstantial policy interventions (Sugihara, 2007).

Leaning on this experience, the pattern followed by the developing economies, especially economies in the group of BRICS is similar to the one adopted by similar economies in the early days of development. The policy stance of those economies were epitomised by protectionist measures that underlay import substitution industrialisation (ISI). The motivation to investigate the economies in the group of BRICS lies in the strategic importance of these countries as industrialisation pace-setters in the developing world. More importantly, the economies of the group of BRICS developed through a series of policy initiatives that were firmly primed on ISI policy instruments that imbibed high tariffs, subsidies, targeted import control and ultimately, export orientation strategy (Makwiramiti, 2011).

Jim O’Neil of Goldman Sachs originally coined the BRICS concept in 2003. The group was established to recognise countries with the fastest growing economies, growing middle classes and favourable markets. This forum was founded in 2009 in Russia initially as a platform to share views on how to respond to the opportunities and challenges that globalisation presents (Wilson, Burgi & Carlson, 2011; Makwiramiti, 2011). The forum is regarded as being economically important given that they are a combination of rapidly developing countries, with strategically important geographical spread across the Americas, Europe, Asia and Africa (Chaudhury, 2009). Their economic prowess, coupled with the vantage geographical position, projects the group of BRICS as an emerging centre of gravity in the global economy (Qobo, 2011; Shasha, 2011). The five countries represent 42% of the world's total population (Wilson et al., 2011:1), with combined nominal GDP of $13.6 trillion (Financial Times, 2013).

Having briefly discussed the evolution of the BRICS, the rest of the article will be arranged as follows. The second section will look at the conceptual relevance of ISI, while the third section will discuss ISI as practiced by the BRICS economies. Section four will discuss the research design and methodology, while section five will contain data analyses and discussion. The last section will conclude the study. This article distinguishes itself from similar studies by alluding to the economic dynamics of the countries in the group of BRICS as a collective and in unison.

This study is intended to present more encompassing perspectives on academic discourse on ISI policy. Although, there are a few documented studies on ISI, the focus of this study is different in scope and context. For instance, the study of Juarez (1992) investigates the political environment of ISI in Colombia where the import of liberalisation was found to be important. Waterbury (1983) investigates the divergence in the macroeconomic policies of two regimes in Egypt and argues that ISI was less favourable to the country's economic development. In addition, Ramachandra (1982) investigates the trend of economic performance in Brazil in a thesis, where the role of ISI was found to be important. It must be pointed out that all of these studies adopted qualitative approach, and their findings were largely exploratory in nature. Therefore, the following research questions are raised:

i. what are the determinants of ISI in BRICS countries?
ii. What is the direction of causality between ISI and economic growth in BRICS countries?
iii. Is there long run relationship between ISI and economic growth in BRICS countries?

Thus, aforementioned research questions induce the following objectives that the study targets to achieve:

i. To identify determinants of ISI in BRICS countries.
ii. To determine the direction of causality between ISI and economic growth in BRICS countries.
iii. To establish existence of long run relationship between ISI and economic growth in BRICS countries.

2. Conceptual relevance of import substitution industrialisation

The ISI policy initiative has been faced with various criticisms over the past decades. The policy initiative was (and still is) criticised by some neoliberal advocates more noticeably in the 1970s and 1980s (Balassa, 1971;
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