Chapter 4: Economic Development Strategies

Export Promotion Strategy

After the failure of the import substitution strategy in most countries that implemented it due to its negative effects, a call for a new development strategy emerged, focusing on manufacturing for foreign markets. The names given to this strategy varied from "Manufacturing through Export" to "Directing Industrial Development towards Foreign Markets" to "Building Industries for Export." However, the intended meaning is to concentrate on establishing specific industries with the objective of directly exporting a portion or the entirety of their products.

The first comprehensive expression of this call was included in the report by Raúl Prebisch, the Secretary-General of the United Nations Conference on Trade and Development, during the first session of the conference in Geneva in 1964. This call did not arise out of thin air but rather from an analysis of the new realities in economic relations between underdeveloped countries and advanced capitalist countries, including the following:

- The increase in important import needs for underdeveloped countries, whether in terms of capital goods or food. This phenomenon was a result of the import substitution manufacturing pattern, which led to an increase in capital and intermediary goods, neglecting the agricultural sector and subsequently leading to food imports as well.
- The decline in the quality of consumer goods manufactured in underdeveloped countries due to the high and continuous protectionist barriers under the guise of "infant industry." At the same time, there was a transfer of some industries from advanced capitalist countries to underdeveloped countries.

In the face of these two realities, the promotion of this strategy was based on two main arguments:

• Establishing export-oriented industries would force them to enhance their competitiveness in the global market, enabling increased focus, specialization, and achieving economies of scale. This would improve the quality of products and ensure the economic efficiency of industries.

• Export-oriented manufacturing is a means to obtain new foreign currency resources by increasing exports, reducing imports, and consequently improving the balance of payments and the debt position of underdeveloped countries.

Several countries implemented this strategy. It was first implemented by Denmark and Norway, followed by countries in Southern Europe, Japan, and Southeast Asian countries such as Korea and Taiwan. Latin American countries like Argentina, Colombia, and Mexico also adopted it.

To ensure the success of this strategy, various measures were taken, including supporting exporting producers, reducing tariffs on imported resources for production, establishing free trade zones, and enacting laws to encourage foreign investment. Particularly, establishing export-oriented industries in developing countries and creating joint ventures between local capital and international companies became necessary to obtain the technical expertise of these companies in design, production, operation, maintenance, management, and ensuring the market penetration of the output in the countries controlled by these companies.

The application of the strategy of industrial development for export has allowed both advanced and developing economies to achieve several advantages, including:

1. Realizing the principle of comparative advantage and international specialization (according to the Heckscher-Ohlin theory).

2. Overcoming the problem of a small domestic market size, enabling developing countries to benefit from economies of scale.

3. Increasing trade surplus and foreign currency reserves.

4. Improving the quality and competitiveness of exported products, leading to the acquisition and adoption of modern technologies.

However, this strategy has disappointed the hopes of developing countries, particularly due to the negative aspects it has brought, such as:

1. Deepening the dependency on the global capitalist system in various areas: a. In the production field: Manufacturing processes have been limited to partial and

preliminary manufacturing of raw materials, assembly industries, and polluting industries that heavily rely on energy and labor. b. In the technology field: Manufacturing has relied on importing technology from advanced capitalist countries, or producing it domestically to meet the same specifications, in order for the products to compete in the global market. c. In terms of movements of foreign private capital: Export-oriented manufacturing has emerged through the initiative of foreign private capital, particularly American capital, resulting in the expansion of horizontal, vertical, and radial development, and the continuous inflow of external capital. d. In the field of trade: The development of manufacturing and its potential for future expansion has become dependent on the extent, strength, and trends of demand in the consuming centers of those export industries, which are advanced capitalist centers.

2. Deepening structural imbalances: Just as colonialism in the past focused on extractive industries and the cultivation of certain crops necessary for its factories, directing all investments towards them, which worsened the conditions of the rest of the national economy sectors, the focus in this strategy shifted to the manufacturing industry, which multinational companies dominate as a tool of the new colonialism, resulting in the underdevelopment of other sectors. Economists have referred to this type of strategy and its consequences as "development of underdevelopment," as it deepens the phenomenon of underdevelopment, changes its forms, and reinforces its effects. Argentina serves as a vivid example in this context.

3. Deepening class inequality and social injustices: Advocates of the aforementioned strategy claimed that manufacturing would lead to increased income for capital owners and return on investment, and eventually, the fruits of growth would trickle down to the lower social classes. However, the opposite has happened, and Mexico is a prime example of this.