Last time

• Development and colonial Latin America
• Political Independence
• Neo-colonial (post independence) development
TODAY

• Industrialization in the late 19th Century — up through WWII
• Import Substitution Industrialization (ISI) (1940s — 1970s)
• Export Promotion Industrialization
Industrialization
late 19th Century — WWII

• Export Processing Industrialization
  -smelting, perishable processing
Industrialization
late 19th Century — WWII

• Low technology manufacture of basic consumer goods
• WW I-WW II: low demand for raw materials from Europe during depression. Imports hindered during wars.
Import Substitution Industrialization (ISI) (1940s — 70s)

• Legitimized by Argentine economist Raul Prebish in 1940 and adopted as official policy by the UN after WWII
• How does ISI work?
ISI

• Imposed quotas or tariffs to increase the price of imported manufactured goods
• Idea is to stimulate local industries
• NOT a new idea
Consequences of previous rounds of industrialization

• A legacy of: Colonial; 19th C; and especially ISI industrialization
• Spatially uneven: largest states benefit most
• Smaller states forced to band together
Boundary dispute between Peru and Ecuador, fighting in 1990's.

Territorial and resource conflict among Chile, Peru, and Bolivia.

Boundary conflict between Bolivia and Paraguay.

Economic Trade Blocks:
- LAFTA
- CACM
- Andean Group
- Mercosur
- NAFTA
- Mercosur Associates
Economic & other assumptions of ISI

- Presumes that “under development” is partly the result of uneven terms of trade
- Isolating the country’s economy from the wider world’s economy will allow it to develop
- Attempt to recreate a mini-model of the economy of more developed states
- Strongly involve the state in economic activities via state enterprises etc.
Problems with ISI

- Modern technology
- Changed imports
- Foreign control
Problems with ISI

• Role of role of governments in ISI results in inefficiency. Why?

• Loans for ISI not easily repaid => demands to “restructure” economy” -privatization movements of 1990s
Growth Pole Industrialization (1950s–60s)

• Concentrate on key parts of economy
• Develop specific locations
  ➢ E.g., Arica Chile
  ➢ Ciudad Guyana
Export Promotion Industrialization 1970s-present

- Due to failures of ISI and need of countries to satisfy lender demands
- Based on “neo-classical” economic ideas
  - Assumes that markets manage best
  - Exploit comparative advantage
  - Thus, open markets best (lower or eliminate tariffs)
- Global free market: lower barriers to trade and open markets to international investment to stimulate exports.
Main advantage of LA in world economy (in addition to availability of some raw materials and agricultural products) for manufacturing is

- location near USA mkt.
- the low cost of labor => labor-intensive (assembly) industries
- But...
Export Promotion Industrialization

• Mexico and Brazil early leaders due to existing industrial infrastructure
  ➢ E.g., auto factories initially designed for ISI changed to export
Export Promotion Industrialization

• This pattern is greatest in the sphere of small-scale assembly of finished goods or parts – often in special zones

• E.g., Guate and San Pedro Sula: clothes
Maquiladoras

- Created in 1965 after Bracero program
- Initially started as a zone along the border
  - special incentives
  - geographic restrictions removed with time
  - Mexican ownership restrictions also relaxed
Maquiladoras

- >4k plants with >1.3 million workers
- increase in non-US owned companies
- largest fraction of Mexico’s foreign earnings
- high female employment

Problems
- lax enforcement of environmental laws
- problems in sanitation, service provision, etc
- weak local economic connections
- loss of manufacturing jobs in the developed world
- no living wage, no unions, mandatory overtime
- Competition from China
Current pattern of industrialization

- Mexico + Brazil ~ $\frac{1}{2}$ of Latin American population but > 70% of industrial output
- Brazil ~ 1/3 of pop but has ~ $\frac{1}{2}$ industrial output by itself
- Argentina, Peru, Venezuela have ~ 25% of industrial output in LA
- Thus, ALL the rest of LA combined has less than 10% of all industrial output
Ciudad Guyana
GDP PER PERSON, 1998, $:

- Below 1,999
- 2,000–2,999
- 3,000–3,999
- 4,000–4,999
- 5,000–5,999
- Above 6,000

Average GDP per person: $4,311

4.51 Population, m
Total population: 93.6m
Auto train near Saltillo, Mexico
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Las Haciendas

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