



Import Substitution Industrialization (ISI)

*The roll-out of a new Embraer jet.
Embraer is a top 4 global maker of
commercial aircraft,
headquartered in Brazil.*

Background:

- ◆ For centuries, Latin America had participated in the worldwide mercantilist system by exporting raw materials, & importing manufactured goods
- ◆ Great Depression and World War II both interfered with global imports and exports, which required Latin America to create more of its own wealth, and more of its own manufactured goods.

Definition: economic policy designed to replace imported manufactured goods, with domestically produced goods.

Tools to arrive at the goal of ISI:

tariffs & quotas on imports
government loans & investment in new industrial enterprises

Three (planned) stages for ISI:

- (1) The first industries to develop under plan of ISI were light consumer goods, that required only small amounts of initial investment
- (2) Then, more complex consumer goods were produced. During both of these first two stages, “infant industries” would receive tariff protection
- (3) Finally, exports of durable manufactured goods (more expensive) as economies of scale come into effect

Problems/results

1. ISI did not terminate Latin America’s role as supplier of raw materials to the rest of the world
2. tariffs made many products more expensive, and prompted too many different companies to be formed in Latin American countries
3. Because much Latin American production was with outmoded machinery, they were still unable to compete on a global scale
4. These problems were documented by Latin American leaders and economists, who changed from being very optimistic about ISI, to being very pessimistic