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THOUGHTS ON IMPORT SUBSTITUTION INDUSTRIALIZATION (ISI)

As a part of the Export Strategy

INTRODUCTION

BRIEFLY RECAPING:

- Contracting economy for years;
- Triple deficit → Trade deficit;
- COVID19-effect made it much worse;
- External help to weather the storm;

SOME LESSONS:

- Fragile economy (ours and theirs);
- Dependence, under normal circumstances, and now especially under COVID19;
- Economy: How it works and for who it works and for who not;

...And ultimately rebuild, pandemic resilient, shock absorbent, less dependent, more diversified (smart);

INWARD LOOKING (PRINCIPLES)

SOME LESSONS LEARNED FOR FUTURE ECONOMIC POLICY:

- 1. Locally sustainable**
- 2. Circular and local;**
- 3. Decrease dependency on foreign actors for certain products and services;**
- 4. Promote self-reliance on essentials;**
- 5. Build strong local foundation that is also capable of exports**
- 6. Caribbean partners (we are in the same mess).**

FOCUS ON EXPORT (when there is someone to export to), **BUT.....**

On that note I have suggested that we also look at import and on what we can do to substitute (*essential*) import, at least partially, with the aim to:

1. Become less dependent on import, mainly food independence, but also specific vital industries.
2. Stimulate local economy so that it is less burdened by external shocks and is preferable circular and sustainable.
3. Help ease the burden on the balance of payments and the Foreign exchange reserve and ultimately monetary stability.
4. Create more jobs and more consumer spending. Depending on the sector, most of the jobs will be low skilled, and thus will help with the current unemployment-%.
5. Bolster national/regional identity, “Made in Curacao / Caribbean”.

DEFICIT BALANCE OF PAYMENTS

1. **Promote Export (this stays a focus)**
2. **Make selected local industry more attractive compared to imports;**
 1. **Address food security combined with innovation;**
 2. **Select local (vital, circular, sustainable and export capable) industries.**
3. **Change composition of Cashflows in Balance of Payments;**

IMPORT SUBSTITUTION INDUSTRIALIZATION (ISI) - 1

- 1. Trade & Economic Policy that advocated partly replacing imports with domestic production;**
- 2. Premise that foreign dependency will be reduced (most countries will do this; it is natural behavior after a disaster to focus inwardly);**
- 3. Promote self-sufficiency by creating and stimulating the internal market;**
- 4. This means:**
 - 1. Subsidization / Incentivization of selected vital industries;**
 - 2. Increased / decreased taxation;**
 - 3. Protectionist trade policies (within agreement-bounds);**
 - 4. Promoting local exports.**

IMPORT SUBSTITUTION INDUSTRIALIZATION (ISI) - 2

Most nations that have industrialized have followed the ISI-concept. There are initial successes, but as the economy grows other choices are made specialization and international trade (based on competitive advantages) become more important.

- 1. Combine inward and outward looking approaches;**
- 2. Partnering with sister islands;**

Government and social partners have a policy role to play

FOR CLARITY PURPOSES

1. For purposes of clarity, import substitution does not mean eliminating imports;
2. I also do not advocate that we leave capitalism and market-economy (and pressures) behind. We move to a more regulated market-economy;
3. I advocate that we better balance what we do ourselves (essential products and services) and what we let others do for us:
 1. Considering the local and international economy in mind.
 2. Strengthen the local (circular) economy to be better prepared for the future external shocks.
 3. Have more economic pillars, than just Tourism, the Refinery and the Offshore.
 4. Be more self-reliant.
 5. Creating comparatively more jobs (to imports).

RETHINK OUR LOCAL ECONOMY TO BE BETTER PREPARED NEXT TIME

IMPORTS BY MAIN COUNTRY (CBS)

Imports by main country (Excl. Oil products)								
	2015 ¹⁾		2016 ¹⁾		2017 ¹⁾		2018 ¹⁾	
	mIn ANG	%						
U.S.A.	974	45.9%	916	37.5%	852	37.5%	747	30.5%
Netherlands	382	18.0%	757	31.0%	500	22.0%	569	23.3%
Puerto Rico	82	3.9%	73	3.0%	71	3.1%	66	2.7%
Venezuela	83	3.9%	70	2.9%	94	4.1%	80	3.3%
Panama	74	3.5%	75	3.1%	79	3.5%	86	3.5%
Rest of the world	528	24.9%	551	22.6%	679	29.8%	898	36.7%
Total	2123	100%	2442	100%	2275	100%	2446	100%

1) Preliminary Results

IMPORTS BY COMMODITY (CBS)

Imports by Commodity (Excl. Oil products)				
	2015 ²⁾	2016 ²⁾	2017 ²⁾	2018 ²⁾
SITC-Sections ¹⁾				
0. Food and live animals	428	432	442	450
1. Beverages and tobacco	98	97	100	106
2. Crude materials, inedible, except fuels	21	20	18	13
4. Animal and vegetable oils and fats	12	10	10	10
5. Chemical products	302	301	285	256
6. Manufactured goods	265	253	279	356
7. Machinery and transport eq.	641	640	802	901
8. Miscellaneous, other art.	341	303	320	341
9. Commodities not classified	15	386	19	13
TOTAL	2123	2442	2275	2446
1) Standard International Trade Classification - Revised 4				
2) Preliminary Results				

IMPORTS BY COMMODITY USING SITC

		842	Women's or girls' coats, capes, jackets, suits, trousers, shorts, shirts,
		542	Medicaments (including veterinary medicaments)
		851	Footwear
781	Motor cars and other motor vehicles principally designed for the transport	554	Soap, cleansing and polishing preparations
764	Telecommunications equipment, n.e.s., and parts, n.e.s., and accessories o	699	Manufactures of base metal, n.e.s.
553	Perfumery, cosmetic or toilet preparations (excluding soaps)	533	Pigments, paints, varnishes and related materials
598	Miscellaneous chemical products, n.e.s.	874	Measuring, checking, analysing and controlling instruments and apparatus,
054	Vegetables, fresh, chilled, frozen or simply preserved (including dried le	012	Other meat and edible meat offal, fresh, chilled or frozen (except meat an
098	Edible products and preparations, n.e.s.	634	Veneers, plywood, particle board, and other wood, worked, n.e.s.
793	Ships, boats (including hovercraft) and floating structures	821	Furniture and parts thereof; bedding, mattresses, mattress supports, cushi
784	Parts and accessories of the motor vehicles of groups 722, 781, 782 and 78	759	Parts and accessories (other than covers, carrying cases and the like) sui
017	Meat and edible meat offal, prepared or preserved, n.e.s.	792	Aircraft and associated equipment; spacecraft (including satellites) and s
893	Articles, n.e.s., of plastics	024	Cheese and curd
057	Fruit and nuts (not including oil nuts), fresh or dried	894	Baby carriages, toys, games and sporting goods
778	Electrical machinery and apparatus, n.e.s.	782	Motor vehicles for the transport of goods and special-purpose motor vehicl
642	Paper and paperboard, cut to size or shape, and articles of paper or paper	059	Fruit juices (including grape must) and vegetable juices, unfermented and
713	Internal combustion piston engines and parts thereof, n.e.s.	742	Pumps for liquids, whether or not fitted with a measuring device; liquid e
011	Meat of bovine animals, fresh, chilled or frozen	872	Instruments and appliances, n.e.s., for medical, surgical, dental or veter
111	Non-alcoholic beverages, n.e.s.	691	Structures and parts of structures, n.e.s., of iron, steel or aluminium
597	Prepared additives for mineral oils and the like; prepared liquids for hyd	112	Alcoholic beverages
752	Automatic data-processing machines and units thereof; magnetic or optical	741	Heating and cooling equipment and parts thereof, n.e.s.
081	Feeding stuff for animals (not including unmilled cereals)	022	Milk and cream and milk products other than butter or cheese
048	Cereal preparations and preparations of flour or starch of fruits or veget	056	Vegetables, roots and tubers, prepared or preserved, n.e.s.
743	Pumps (other than pumps for liquids), air or other gas compressors and fan	845	Articles of apparel, of textile fabrics, whether or not knitted or crochet
		661	Lime, cement, and fabricated construction materials (except glass and clay
		897	Jewellery, goldsmiths' and silversmiths' wares, and other articles of prec

IDEAS FOR IMPORT SUBSTITUTION

- **FOOD**: Agriculture, Fisheries, Cattle breeding;
- **HEATH & SAFETY**: Soap, disinfectants, toiletries, alcohol, liquids, etc;
- **TEXTILES**: Clothes, towels, etc.;
- **TRANSPORTATION**: Improve public transport to lower car import and improve environment;

DISCUSSION POINTS

1. **Self-reliance should be spearheaded in the new normal economy, by providing more incentives for selected sectors / local industries. The chosen sectors / industries must be sustainable and significantly circular (regionally).**
2. **An inwardly focused circular economy should be an integral part of the new export strategy. Inwardly focused can also mean regionally focused.**
3. **Food-security and innovation should be an integral part of import substitution policy?**
4. **What industries do you see for import substitution?**
5. **By lowering entry barriers and providing incentives, the private sector will move. What should these incentives be?**