

# New Lessons from an Old Strategy: Import Substitution, Productivity and Competitiveness

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## **Abstract**

This paper focuses on the relation between import substitution, labour productivity and industrial competitiveness. More specifically this paper tests if the import substitution enhances both labour productivity and competitiveness in Korean and Turkish manufacturing industries. The data used in the analysis are obtained from UNIDO Industrial Demand Supply (2008) ve UNIDO Industrial Statistics (2008) databases and cover the period of 1981-2001. Our results show that Turkish economy has really left import substitution after 1980. However, we found significant share of import substitution in total production in professional and scientific equipment, transportation equipment, electrical machinery, miscellaneous petroleum products, industrial chemicals industries and petroleum refineries in Korea especially in the 1990s. The results based on unbalanced dynamic panel data estimations showed that import substitution did not enhance labour productivity in manufacturing industry of both Korea and Turkey. However, we found that import substitution affects industrial competitiveness positively in both Korea and Turkey. Apart from the positive impact of import substitution on competitiveness, we also found in this study that while Korean manufacturing industry competitiveness is closely associated with labour productivity, competitiveness of Turkish manufacturing industry depends on the other factors such as exchange rates, wage differentials rather than labour productivity.

**Keywords:** productivity, competitiveness, import substitution, manufacturing, Turkey, Korea.

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