IMPORT SUBSTITUTION AT THE REGIONAL LEVEL: APPLICATION IN THE UNITED STATES[1]

Jinwoo Kwon
Edward J. Bloustein School of Planning and Public Policy
Rutgers, the State University of New Jersey

Abstract

This paper examines whether import substitution can be applied at the regional level. It further explores whether a region may consider import substitution as the sole means of achieving resolution for regional economic development given the contemporary global outsourcing economy. This research is informed by a comprehensive literature review and evaluation of case studies.

The results drawn from this research indicate that import substitution offers great potential as a driver for regional economic development. Advancing an overall awareness of sustainability and regional economic stabilization has indeed increased the need for reconsideration of this strategy. Local-serving industries provide a multiplier effect as valuable as that associated with exporting industries, and substitution of imports may induce the promotion of such local-serving industries. In particular, import substitution has proven to be effective in certain industries, including agriculture, foods, health care, and retail. Exemplary case studies suggest several implementation tools that may be appropriate for regional use. Thus, a region should establish a focus on import substitution in order to improve and stabilize its economy.

However, import substitution does not provide the conclusive answer for regional economic development since the current global outsourcing economy leads most firms to import at least some portion of their necessary inputs from international regions. With that in mind, multiple regions are involved in producing a good or service from the early stage to the final stage of production, thus sharing overall revenues from production. Consequently, the revenues a region may generate from exporting these goods and services are indeed less than the revenues the region might have gained through similar levels of exports in the pre-globalized economy. As neither import substitution nor export base development can stand alone today, a combined approach is necessary. This paper concludes that a region should develop a portfolio strategy for regional economic development and that import substitution should be a significant element of its portfolio. That collection can include substituting imports in some sectors and promoting exports in others.

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1. Introduction

Import substitution refers to local production and consumption of goods and services, as opposed to importing products for local consumption from other regions. This paper contains an analysis of the applicability of import substitution at the regional scale.

First, this paper is intended to help determine whether import substitution can be implemented in the United States. The strategy has traditionally been thought of as a development strategy for emerging countries that have few competitive advantages in the world economy. Although the strategy was widely adopted during the 1950s and 1960s, it has faced internal and external difficulties since the 1970s and has gradually lost influence among policy makers. Despite its decline as an international economic development policy after the 1970s, however, the strategy is presently gaining attention as a regional economic development policy because of increasing interest in sustainability and regional economic stabilization. Castells and Hall (1994) argued that although regions are critical drivers of economic development, studies on competitiveness have been made only at the international level, not the regional level. Import substitution may act as a development strategy for some cities or regions in much the same way it helped developing countries grow at the international level. The purpose of this paper is to examine the case for an import substitution strategy that can be applied on a regional level.

Second, I ask whether import substitution can be successful in the contemporary globalized economy in the same way it was in the 1950s and 1960s. To answer this question, it is first necessary to look at the export base theory. Import substitution has been presented as an alternative to the export base theory and most economists and policy makers have favored the export base theory (Blair & Correll, 2008; Markusen, 2007). However, we need to rethink whether the export base theory is still applicable in contemporary society. The export base theory was effective when the theory was introduced in the pre-globalized economy. A region produced goods and services from the beginning to the end at that time, and this production process supported the export base theory's fundamental assumption that earning from an export boosts local economy. However, globalization has led to a huge change in production processes. Because transportation costs have dropped, goods and services are now commonly outsourced by firms seeking the lowest production costs. For example, a pair of Levis jeans now travels through several countries, such as China or India, before it becomes a final product. The region in which the firm is located is no long the only beneficiary of the export base economy. Rather, the benefits are distributed across several countries. In that, the assumptions surrounding the export base theory no longer stand. In addition, the globalized outsourcing economy also breaks the assumption of import substitution that a region may boost its economy without exports. As stated above, an outsourcing economy requires firms to use inputs – either materials or labor – of other regions. Consequently, a complete replacement of imports is no longer feasible. Thus, another purpose of this paper is to determine a solution for regional economic development given the global outsourcing economy in which the assumptions for the export base theory or import substitution no longer apply.

To answer the two questions, this study contains an examination of the theoretical ideas behind import substitution, presents a discussion of why contemporary societies need to reconsider import substitution as an economic development strategy, and provides examples of how import

substitution has been implemented in the United States. Finally, policy measures that might support an import substitution strategy for economic development and stabilization are also examined.

2. Theoretical Background

What drives a local economy is pivotal in discussions of economic development. To identify the driver of economic development, theorists assume a conceptual framework of a local economy which is called the circular flow diagram (Blair & Carroll, 2008). The circular flow model divides local economic activities into five categories: (a) the resource market between households and firms, (b) the commodity market between households and firms, (c) inter-firm sales, (d) the local financial sector, and (e) the import and export with other regions (see Figure 1). This model implies that the inflow and outflow of savings (Category 4) and the import and export (Category 5) determine the income of a region. As the transactions among households and firms (Category 1, 2, and 3) occur within the region, these do not change the overall income of the region.

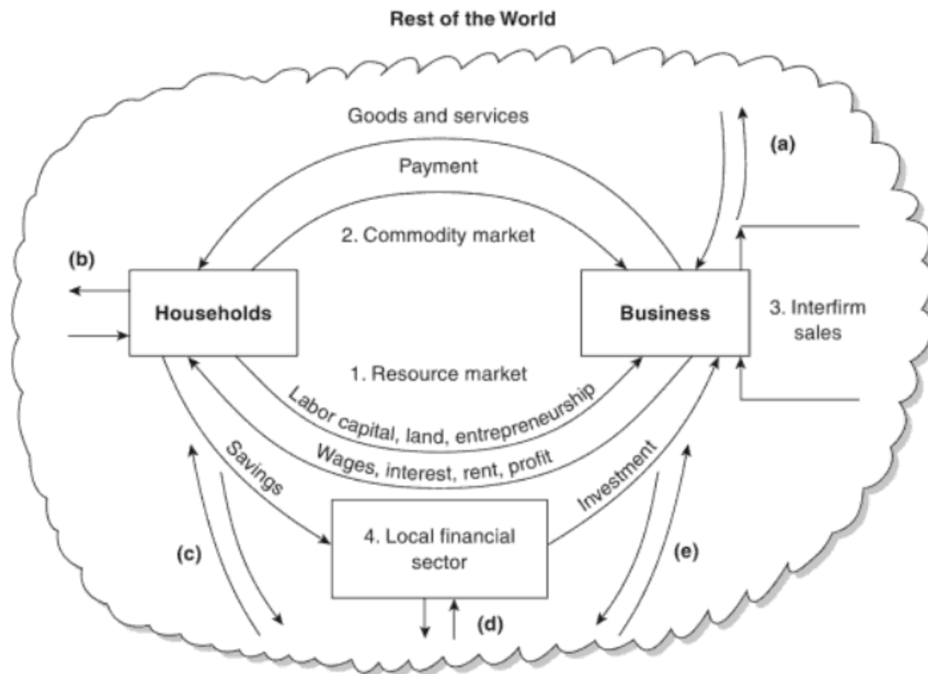

Figure 1 A Local Circular Flow Diagram
Source: Blair & Carroll. 2008. *Local Economic Development*. p. 93.

Among the two critical factors determining the monetary inflow and outflow of a region, this paper emphasizes the imports and exports. Two major theories address the issue of how to promote regional economic development in terms of imports and exports. One is the export base theory and the other is the consumption base theory. These two theories have traditionally been presented as alternatives to each other.

The export base theory claims that a region must increase its monetary inflows to grow and exports are the primary source of monetary inflows (Andrews, 1970; North, 1956; Tiebout, 1956). Income earned by exports is in turn spent locally, creating jobs in local-serving sectors. Those who work in the local-serving sectors spend their increased income locally, generating additional jobs (Krikelas, 1992). The export base theory asserts that the multiplier times the change in export employment or income is equal to the total change in employment or income of the region. Proponents state that (a) it explains important economic relations between sectors in practical terms, (b) it clearly explains a specialized region, (c) it shows the effect of a change in the important sector, and (d) it produces goods and services at lower costs due to economies of scale (Rovayo, 2006). However, the export base theory is criticized in several ways: (a) it is a mono-causal theory that says everything depends on exports, (b) it ignores internal economic activities as a source of growth, (c) it ignores other internal factors such as government development programs, (d) it rules out improvement in productivity as a source of growth, (e) it is hard to distinguish export base industries and local-serving industries, which causes difficulty in policy implementation, and (f) its fundamental assumptions, including perfect elasticity of the supply, do not hold in reality (Harris, Ebai, & Shonkwiler, 1998; McCann, 2002; Rovayo, 2006; Blair & Carroll, 2008).

Consumption base theory argues that reducing a region's monetary outflows leads the region to grow and that local-serving economic activities generate as much economic impact on the local economy as export base economic activities. Local investments increase local expenditures by residents, attract tourists and footloose residents from outside the region, and therefore increase regional income (Markusen, 2007). Import substitution is a means of pursuing the consumption base theory. A region may reduce leakages by locally producing goods and services that otherwise would have been imported. This enables the region's monetary flows to remain within the region (Shaffer, 1989). Jacobs (1969) emphasized the importance of import substitution as a development strategy by arguing that a region may export a few products at its early stage of growth but as it evolves it replaces imports. Proponents say that (a) it increases the multiplier and the size of the local economy, (b) it is easy to implement because currently imported goods and services can be identified easily through location quotients, and (c) consumption of locally produced goods and services has a cost advantage due to lower transportation costs (Blair & Correll, 2008; Persky, Ranney, & Wiewel, 1993).

However, import substitution has its weaknesses as well. As this idea was initially developed at the international level, policies to promote substitution of imports included setting overvalued exchange rates and imposing tariffs to give advantages to industries within a nation. This artificial control has raised criticisms from those who believe in market mechanism (Amsden, 2007). Also, import substitution does not utilize resources in the most efficient way from the perspective of the entire society, because it is difficult for a region to achieve economies of scale (Shafaeddin, 2005). In addition, only a few industries, including retail, health care, and agriculture, have been proven to be suitable for its implementation (Shuman, 2006).

These two theories have been advanced as conflicting. Most economists and policy makers have preferred the export base theory to import substitution, although both have their own strengths and weaknesses (Blair & Correll, 2008; Markusen, 2007).

3. History

3.1. 1950s – 1960s

All countries that industrialized after Great Britain passed through a stage of replacing imports. Europe and the United States first adopted the strategy around the 1850s to encourage the development of infant industries, until their economies reached a certain level of industrialization (Baer, 1972). Although a limited adoption occurred in the mid and late 19th century, the strategy was widely adopted in developing countries later in the mid 20th century.

Import substitution in the 20th century started from a consideration of why some countries are poor while others are rich. This initial idea was to compare South America (developing countries), whose economic base was agriculture and mining, and North America (advanced countries), whose economy was already industrialized, and to figure out how to reduce the income gap between the South and the North. As a solution to increase the income level of the South, researchers in the 1950s and 1960s paid attention to three new assumptions: the market may not be the best path to pursue, capital formation plays a key role, and the South should replicate the North. To protect the South's economies, a tariff was imposed and domestic currency was overvalued to keep the domestic products' prices low, and agricultural and mining industries became more industrialized. A pattern of increasing income in developing countries showed that these protections were successful; import substitution enhanced the economic independence of developing countries and continued to spread until the 1960s (Bruton, 1998). In 1969 (and later in 1984), Jacobs introduced the replacement of imports at the national level, asserting that a region should create new industries to replace goods and services that were not produced within the region. She argued that import replacement was "the root of all economic expansion," a prerequisite for a region to grow. Tiebout (1956) was another early advocate for the endogenous growth theory. This strategy was widely applied in Latin American, Asian, and African countries during this period. Developing countries' income grew and the income inequality between developing countries and advanced countries became smaller (Amsden, 2007).

Baer (1972) described the development of the strategy in Latin America during this period more practically. Despite the utilization of import substitution in Europe and the United States during the 1850s and 1890s, politicians of Latin America, Asia, and Africa were not interested in implementing the strategy at that time. Developing countries in Asia, Africa, and Latin America were importing manufactured goods from Europe and the United States and exporting foods and raw materials. In the case of Latin American countries, politicians did not feel the necessity to industrialize their economies because there was demand for their exports and the exports benefited the elites. In addition, Latin American countries did not have sufficient infrastructure, labor forces, or administrative capacity to proceed with industrialization, while the strategy was prosperous in Europe and the United States. However, World War I, the Great Depression, and World War II led Latin America to adopt import substitution in the 1950s and 1960s. World War I resulted in the decline of non-military products in Europe and the United States, causing Latin America to face a decrease in imported manufactured goods and thus an increase in prices of those goods. The Great Depression and World War II aggravated the shortages of imported goods. Latin American countries thought it unwise to rely on imports due to their unstable

supply and decided to utilize their own industrial capacity more intensely to enhance economic independence. Import substitution began in the field of consumer goods like textiles and foods and in fields that required simple skills and low capital. It later expanded to manufacturing industries that required sophisticated skills and higher capital.

In addition to developing countries' own efforts to gain economic independence through import substitution, the United States' permissive foreign policies contributed to the successful evidence of import substitution during the 1950s and 1960s. At that time, the United States' policies toward developing countries were liberal, as the developing countries were having a hard time economically and their growth was not competitive enough to threaten the United States' economy. This circumstance allowed import substitution to create jobs for workers, a market for small businesses, and skills for employees (Amsden, 2007). Amsden asserted that import substitution in countries with manufacturing industries also acted as a basis for mid-tech exports like steel, cement, automobiles, and TVs: By producing goods locally, the developing countries learned skills needed to create high-quality products and this was a stepping-stone for them to produce more and better products and to sell them outside their own borders.

3.2. 1970s – 1980s

Despite its success during the 1950s and 1960s, import substitution faced internal and external hurdles in the late 1960s and therefore has received less attention since the 1970s.

First, import substitution was criticized during the 1970s and 1980s from two perspectives: whether it was an efficient way of using resources and whether it could create direct employment opportunities. The question of inefficiency relates to the decrease in the possibility of achieving economies of scale. Numerous countries allowed the establishment of many firms in the same industry to benefit from (domestic) competition, which reduced the opportunity to achieve economies of scale. Import substitution was a strategy to restrict international competition, but, ironically, domestic competition was encouraged in many countries. For example, there were 19 automobile firms in eight Latin American countries in the late 1960s and each firm produced only an average of 6,700 cars per year. The low efficiency of developing countries' production facilities and their inability to compete with large firms in advanced countries were also criticized. Consequently, the productivity growth rate of developing countries during the 1950s and 1960s was lower than that of advanced countries (Bruton, 1998). In particular, data on Latin American countries show that their growth rates of the total gross domestic product fell from 5.0% (1940-1950) to 4.7% (1950-1960) to 4.5% (1960-1970) and that their growth rates of industrial production also fell from 6.8% (1940-1950) to 6.3% (1950-1960) to 5.4% (1960-1970) (Baer, 1972). When it came to job creation, the labor supply grew faster than the output and investment, which resulted in unemployment. In the case of Latin America, a fast increase in population after World War II, industries' shift toward capital-intensive production stimulated by cheap loans from development banks, and high wages caused unemployment. These pitfalls made many question whether the strategy itself was truly successful.

Second, a change of U.S. foreign policies acted as one of the external hurdles. The United States' permissive attitude toward developing countries during the 1950s and 1960s changed during the 1970s (Amsden, 2007). Arab oil-producing countries increased oil prices through the

Organization for Petroleum Exporting Countries (OPEC), then cash flow "petrodollars" increased around the world, and, as a result, the world faced inflation. To lessen this inflation, Paul Volcker, chairman of the Federal Reserve System between 1979 and 1987, attempted to reduce the cash flow by imposing regulations. He raised the federal funds rate, the rate of interest on overnight loans of excess reserves among commercial banks, of 11.2% in 1979 to 20% in 1981 (Trumbore, 2006). The increase in the federal funds rate led the inflation rate to drop from 13.5% in 1981 to 3.2% in 1983. Consequently, developing countries had to pay high interest rates on loans from banks and, at the same time, the decline in the U.S. economy reduced the demand for products. With high interest rates and decreased demand, businesses in developing countries, which were relatively smaller than those in advanced countries, could not compete with the large businesses. As a result, these countries had to import goods and services from advanced countries.

In addition, success of the export base economy was another external obstacle. The fast growth in South Korea and Taiwan, which focused on exports, grabbed economists' attention (Amsden, 1989; Bruton, 1998). Although some researchers think that import substitution may serve as a basis for the export base economy of countries with growth potential (Markusen & Schrock, 2009; Park & Bae, 2004; Zhou, 2008), the export base economy has been mainly thought of as a strategy in direct opposition to import substitution. Therefore, the appearance of drawbacks to import substitution, exogenous conditions unfavorable for import substitution, and the rise of an export base strategy led to the (interim) end of import substitution.

At the same time, a few researchers expressed their concerns about the undue emphasis on export base development and the importance of endogenous growth. Endogenous growth was a basis for import substitution. Daly (1973) said that pro-growth policies resulting in unstable and unsustainable circumstances need to be changed into new policies that generate a sustainable and stable economy. Jacobs (1984) viewed this issue at the regional level and emphasized the necessity of import replacement after the first introduction of her idea in 1969. This was the start of the reconsideration of import substitution and the application of the strategy at the regional level, but it was not pervasive during the 1980s.

3.3. 1990s – 2000s

Since the 1990s, doubts about the export base economy on a regional level have begun to appear. Within the framework of the export base economy, those who retain competitiveness in the market are large companies that can achieve economies of scale. In turn, they obtain incomparable market power and most of the market share, which leads to conflicting impacts. On the one hand, the economies of scale generate a positive effect from the perspective of the entire world, which is efficiency. On the other hand, from the perspective of individual regions, the undue reliance on a few large firms causes a negative effect, which is regional inequality. First, the inequality is caused by the leakage of capital from one region to another. The spread of large companies' branch stores leads to the leakage of local economic resources (Imbroscio, 1995). Most large companies' profits go to their headquarters instead of remaining within the local economy, while local stores' profits circulate within the area (Christopherson, 2006). Second, large companies' branch stores offer lower wages to their employees, which in turn

deteriorates job markets in the long run (Institute for Local Self-Reliance, 2003; McKibben, 2007; Mitchell, 2006; Shuman, 2006; Ward & Lewis 2003).

Around this time, Daly and Jacobs' arguments began being emphasized in the field of regional economic development in the United States. The belief in pro-market concepts such as perfect competition and economies of scale was gradually being replaced by an interest in endogenous growth (Shaffer, Deller, & Marcouiller, 2006). The focus on "smokestack chasing" in economic development fields was changing into indigenous growth (Perksy, Ranney, & Wiewel, 1993, p. 18). Endogenous growth was able to reduce the leaking of local resources and to increase the self-reliance of regions (Imbroscio, 1995). Studies on endogenous growth have been conducted in various fields, from agriculture to welfare to culture. Shuman (2003; 2006) insisted that import substitution may bring better quality products for residents and better wages for workers and identified industries suitable for endogenous production in the retail sector. A case study of Marshall County, Iowa, revealed that the replacement of grain exports with locally produced foods generated positive impacts on local economic development (Swenson, 2006). Warner (2006) stressed that the child care sector has a relatively high multiplier effect, that child care can be better served if it is operated by local providers, and that high-quality child care services enhance parents' – especially mothers' – working conditions, generating higher wages. Markusen (2004) emphasized the strategy's ability to create jobs in the field of cultural economy and concluded that "local-serving activities may enhance the export competitiveness of other sectors" in that the strategy vibrates the regional economy in a way to promote diverse industries as well as the import-substituting industry.

Because of increasing interest in the theory, several organizations have been formed in the United States to explore and promote the idea of import substitution. The exemplary organizations are the Business Alliance for Local Living Economies, the Institute for Local Self-Reliance, and the New Economics Foundation.

4. Reasons for Consideration

4.1. Sustainability and Regional Economic Stabilization

Increasing attention on sustainability indicates why import substitution should be revisited and highlighted. In contemporary capitalistic society, people have, without any doubt, valued growth. However, we now recognize that undue growth is accompanied by critical problems such as energy shortages, environmental contamination, and climate change. The answer to the questions of whether we should stop growing completely or whether we can live without production is no. Despite problems caused by growth, we cannot stop producing materials because doing so would create other problems such as unemployment. For the future, we need to follow a new concept called sustainable growth. Sustainability is not an easy concept to define, but a widely accepted definition of sustainability is that it is a characteristic of maintaining a state at a certain level. To discuss sustainability, one needs to distinguish between growth, which appreciates the quantitative expansion of material production, and development, which refers to the qualitative improvement of the quality of life. In this way, sustainable growth equates with

development. Daly's argument on sustainable growth, presented in the 1970s, began to be highlighted in the 1990s.

The concept of sustainability is discussed within the framework of economic development as well as at the edge of environmental conservation. Import substitution is described as energy saving and pollution reducing in the category of the environment, as the shorter delivery routes and reduced delivery times result in the mitigation of traffic and less air pollution. Although this effect is meaningful, import substitution is more importantly explained in terms of regional economic stabilization in the category of economic development.

In a global economy, where goods and services are traded worldwide, a few large producers from a few developed countries possess a large portion of market supplies. Despite the efficiency caused by economies of scale, the excessive interdependency results in volatile economy. The current economic crisis reveals that the economic dynamics of developed countries greatly affect those of developing countries and that developing countries suffer more from an economic crisis than developed countries: Nations that require International Monetary Fund (IMF) loans are underdeveloped nations including the Ukraine, Hungary, and Pakistan (BBC News, 2008; Krasnolutska & Martens, 2008). The interdependency increases risks in the world economy and the high risks cause economic volatility. To cope with the volatile economy, the power imbalance between large and small regions needs to be mitigated.

To increase regional resilience, regional development strategies should be changed from hierarchical to equal; top-down to bottom-up; centrally controlled to empowerment; and material-oriented to a quality of life orientation. Import substitution, which meets these requirements, may be a solution to reduce problems caused by undue interdependency. Regions are encouraged to utilize their indigenous resources to increase self-reliance (Imbroscio, 1997). Through import substitution, a region replaces goods and services produced outside the region with locally produced goods and services (Basu, 2005; Kinsley, 1998). Advantages of this approach include an increase in local employment, resilience in global economic dynamics, reduction in delivery traffic, environmentally friendly development, and an increase in community identity.

Some advanced countries used import substitution as a development strategy until they reached a certain level of development, but the strategy was implemented mainly in developing countries during the 1950s and 1960s (Bruton, 1998; Chang, 2002; Narula, 2002). The United States, an advanced country, has not paid much attention to the strategy since the late 19th century. Vietorisz (2009) argued that import substitution needs to be revisited, especially in the United States, saying that "a sustainable United States does not necessarily lead the global economy to be sustainable. However, if the United States is not sustainable, the world is left unsustainable."

4.2. Effectiveness

The discussion of regional economic stabilization links to the consumption base theory, the multiplier effect, and the leakage theory.

First, the consumption base theory is another basis for enhancing the import substitution strategy's effectiveness. Consumption base theory indicates that regional economic growth can be enhanced with the indigenous sales of locally consumed goods and services, rather than by exporting these goods and services. Several researchers apply the consumption base theory in various fields, including brewery, welfare, and cultural industries. Cortright (2002) posited that local consumption is a critical driver of economic growth for small towns. His case study on microbreweries in Portland revealed that the efforts to sell microbrews in the local market generated remarkable economic benefits to the region. Wenzl (2003) focused on rural areas and argued that investments in local nursing homes, senior housing, or health care clinics reduce the out-migration of residents looking for better services. Markusen (2007) stressed the importance of the consumption base as a growth driver. Local consumption-serving economic activities such as health care services and cultural centers generate jobs and tax revenues in small towns and rural areas where economic competitiveness is relatively low. If small towns and rural areas increase their investment in these sectors, residents spend money that could have been spent outside the region within the region. In addition, the improved quality of life may attract footloose artists who can generate exports by themselves and tourists who can increase local revenues. Markusen supported her assertion with case studies of small towns in Minnesota.

The multiplier effect is a more quantitative expression of the consumption base theory. The multiplier effect of import substitution has gradually drawn attention. If an investment is made in a certain sector, part of the investment goes to workers' wages, part goes to the owners' revenues, and part goes to other resource suppliers. Thus, its effective demand spreads out to other sectors. Consequently, the amount of income growth in the society as a whole becomes much larger than the amount of the initial investment. The ratio of the income growth to the initial amount of investment is called the multiplier and its effect is called the multiplier effect. The multiplier effect has been used largely to demonstrate the effectiveness of promoting exports, but not for the explanation of import substitution. However, substituting imports generates a multiplier effect as impressive as promoting exports (Elvin, 2008). The multiplier effect that import substitution generates can even be higher than that of export expansion (Davis, 1987). As locally consumed services are labor intensive, the investments in these services go directly to employees' income, resulting in a larger multiplier effect than export base economic activities (Markusen, 2007). A survey of Massachusetts shows that the number of jobs created during 1997 and 2001 in the non-basic sector was 10,274, while that in the basic sector was 535 (Porter, 2003). This survey indicated the potential that import substitution has for creating new jobs. Another study of retail stores in Maine, conducted in 2003, revealed that local stores spent 45% of their sales revenues locally while big-box stores spent 14% of their revenues locally (Institute for Local Self-Reliance, 2003).

In addition, the leakage theory is often used in the field of import substitution, and it is often illustrated as a bucket that is assumed to be a local economy, with the water in the bucket thought of as capital flows within the region. The bucket has several holes from which water flows out of the bucket, and the water flowing out is money leaking out through the purchase of exports (see Figure 2).

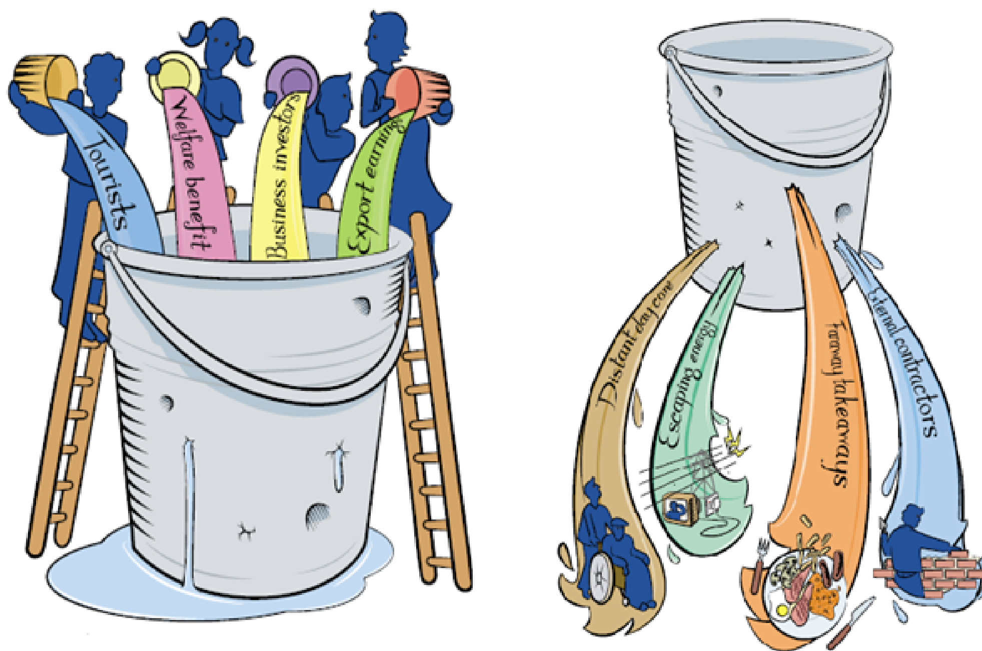

Figure 2 Leaky Bucket Framework
Source: Ward & Lewis. 2003. *Plugging the Leaks*. p. 17.
http://www.pluggingtheleaks.org/downloads/plm/plm_ptl_handbook.pdf

Today's fast globalization trend causes "regional economies to leak too much" (Basu, 2005). The question for the region is how to keep more water in the bucket: how to maintain more money within the local economy to increase regional wealth. One way is to continuously draw new outside investments, and another is to retain the money that the region already has. For small towns and rural areas, the former method is often difficult, as most government and private investments tend to go to metropolitan areas. However, small towns and rural areas can utilize the latter method by reducing leakages and increasing the circulation of money, and import substitution may stem the leakages.

4.3. Equity

Import substitution can be approached from the perspective of community building. The community-building challenge is to bring different groups together so that common interests can be identified, understanding can be promoted, creative problem solving can be generated, and the participatory decision-making process can be promoted (Frug, 1999). How can our society serve all members, not only large firms but also small businesses, not only export base industries but also local-serving industries? Import substitution can be an answer to encourage diversified society.

Economists have valued the market-based approach by supporting efficiency, competition, and economies of scale. In this context, some planners like Webster and Lai (2003) viewed the role of cities as a spontaneous market. Their fundamental contention was decentralization of urban hierarchy. When they argued that power from the federal government should be conferred to

cities, they accentuated how to allocate costs and benefits. They valued efficiency with minimum transaction costs as the most critical factor in decentralization. To become more efficient, cities need to simplify every aspect of the characteristics of their members, such as bringing together people with common interests, establishing paths of communication to avoid individual action without dialogue, and promoting the role that closed boundaries play in cities. These traits of cities result in the concept of a club, which focuses only on its members' benefits while excluding free riders. Webster and Lai argued that cities, like a fitness club, should guard the benefits of their residents, who pay taxes for local services, at the expense of their neighbors. This flow of thought leads cities to play a role as a local autonomic entity. Webster and Lai considered cities as rational individuals and cities which trace their own benefits as ideal because they are believed to bring efficiency to society. This way of thinking allows metropolitan areas to develop a reason to push to compete with small towns and rural areas. Under a market economy, large firms in metropolitan areas can easily conquer small businesses in small towns and rural areas, resulting in the undue independence of a few large companies and, therefore, regional economies that are vulnerable to crisis. To prevent un-resilient regional economies, an approach that is not completely pro-market is needed.

As opposed to market-appreciating planners, Frug emphasized how to redistribute resources and find the role of cities through cooperation rather than self-interest. Instead of the concept of clubs, which are selfish bodies (the centered self), he viewed cities as inter-locally connected subjects (the situated self). Taking into account the regional considerations in decision making would help make cities interact. This collaboration would not be limited to the one with other cities, but would spread out to become one between cities and regions. Frug concluded that cities should play a new role as community builders. His ideal image of cities was a heterogeneous community in terms of economic, racial, and ethnic status due to the benefits that the heterogeneity can generate: stimulations in learning, growth, adventure, and fun. Thus, community building, which is described as an acceptance of difference and divergence, is the main role cities play. According to this approach, economic development policies need to be considered more broadly as all cities are interconnected. If the economies of a few (metropolitan) regions grow while the economies of other (small and/or rural) regions decline, it is not productive progress. Regionalism is another reason for implementing import substitution.

The two approaches to identify where cities should go – the market-based approach and community building – are vulnerable to criticism in terms of policy implications because of their less realistic extreme solutions. Ideally, a balanced answer between the two solutions would be the best for individuals, cities, and society as a whole, recalling the concept of convexity, which is one of the six axioms in the preference relation (reflexiveness, completeness, transitivity, monotonicity, continuity, and convexity). People prefer a middle point to two extreme points. To be more specific and realistic rather than to just suggest an ideal solution, however, contemporary cities should adopt Frug's notion as a permanent goal and Webster and Lai's theory as a supplemental means to achieve that goal. The more the attention to social capital increases, the more knowledge sharing is necessary. To enable a high-quality and broad-content knowledge spillover, communication through regional channels is indispensable, and then the breakdown of boundaries is inexorable. In addition, as the welfare of people improves, the distribution of resources (equity) becomes more important than their allocation (efficiency). To

accompany this current trend, Frug's understanding is more worthy of consideration than Webster and Lai's.

One might say that from a broader perspective the replacement of an import by a region means that another region experiences the decline of an export. This is true to some extent, but contemporary society depends largely on a few large firms whose headquarters are located in a few large metropolitan areas. Thus, the large portion of the decline in exports of some regions is from a few metropolitan areas whose economic base is large enough not to be affected greatly by the replacement of some imports. The worries about the side effect of import substitution should rather be viewed as questions about its ability to mitigate the regional disparity of wealth.

5. Policy Implications

5.1. Candidate Regions

As discussed in Section 4, since there is increasing recognition of the necessity to adopt the import substitution strategy, the question becomes how the strategy can be adopted. It is worthwhile to identify candidate regions to achieve better implementation. As this topic has not been of major interest in economic development fields, studies on candidates – especially quantitative analyses – are rare. Therefore, it is too hasty to conclude, based on the available literature, that certain regions are suitable for implementation while others are not. However, a trend among researchers may act as a helpful suggestion.

Because the import substitution strategy has been used in developing countries primarily at the international level, research on suitable regions for implementation at the regional level is scarce. At the international level, developing countries that implemented import substitution during the 1950s and early 1970s were those that had difficulties in economic activities. They lacked the skills needed to produce internationally competitive products at the time of the initial implementation of import substitution, but the strategy acted as a basis for exporting and was a stepping-stone for future development (Amsden, 2007). Lenovo, the Chinese computer company, gained its understanding of the market and its training by running a business in China. Its achievement in the domestic market was the basis for its global success (Zhou, 2008). This creates an assumption that import substitution may act as an effective development strategy for small towns and rural areas in the United States in much the same way it helped developing countries grow at the international level.
At the regional level, a few researchers have identified candidate regions, marking a changing trend. When Jacobs introduced import replacement in 1969, she said that cities should reach a certain size so that they can have diverse industries for effective import replacement. She said that if cities are smaller than a certain size, the replacement cannot be effective. However, recent researchers favor the opposite or the balanced view. McCann (2006) argued that as the size of a city increases, the growth of the city depends more on the growth of export base economic activities (basic sector industries). In other words, local-serving economic activities (non-basic sector industries) may result in more effective outcomes in small towns than in metropolitan areas. Markusen (2007) stated that every city regardless of its size may benefit from

implementing import substitution, but she also claimed that the strategy may be most effective in small towns and rural areas, where capital investments are relatively small.

5.2. Candidate Industries

Studies on which industries are candidates for implementation of import substitution are scarce. More studies need to be conducted to confirm that certain industries are suitable for implementation while others are not. However, import substitution has already been proven to be effective in some industries, including agriculture, foods, health care, and culture.

First, certain sectors are better served locally. Health care facilities, housing for the elderly, and nursing homes are examples of these sectors (Markusen, 2007; Wenzl, 2003). Child care, which generates a high multiplier effect, cannot be provided outside the region (Warner, 2006). With increasing concern about health and high-quality foods, the import substitution strategy may be implemented through businesses that deal in locally produced agricultural products and locally supplied foods. A case study of Community Supported Agriculture, described later in Section 6, revealed the successful outcome of providing substitutes for agricultural imports.

Second, considering contemporary changes in production processes, industries that produce value-added goods and services are another fit for import substitution. In the global outsourcing economy, businesses that are mostly interested in minimizing costs cannot help but purchase inputs from other regions. To compete with these businesses that have price competitiveness, a region needs to produce specialized value-added goods and services. Something that can only be produced in the region may be attractive to local consumers and further help the region brand itself as an attractive place to visit or live. Cultural activities are a good example (Markusen, 2007). Arts and performances with local characteristics may use materials and facilities produced outside the region but are unique products that have competitiveness. In addition to local residents, these cultural activities attract visitors from other regions, creating tourism benefits, and increase the region's residents in the long run, creating tax revenues. Increased quality of life is another advantage.

5.3. Financial Resources

The availability of and access to capital is critical in implementing a policy. Policies to promote substitution of imports also need financial support. However, when it comes to policies for empowering enfranchised cities, like the import substitution strategy, capital and regions usually have conflicting purposes. While capital wants profits, low wages, and fewer environment-related regulations, regions want development, well-paying jobs, and a sustainable environment (Gunn & Gunn, 1991). Several organizations play key roles in bridging the needs of capital and the needs of enfranchised cities. Among them, credit unions and development banks are major players that bring capital to regions and recycle it within the regions.

First, credit unions are not-for-profit, tax-exempt, cooperative financial institutions (WOCCU). Credit unions are designed to provide credit and other financial services to their members at rates that are not higher than market rates. While banks and other financial institutions are operated by investor-owners, credit unions are run by a board of directors elected by and from among its

members. Members are offered saving and loan products at a cheaper cost at credit unions than at banks. The size of credit unions varies from a small business to one with several billions in assets, but the average size of U.S. credit unions is smaller than that of U.S. banks in terms of assets (Schenk, 2007).

The form of current credit unions was established in Germany in 1850 (NCUA, 2009). Herman Schulze-Delitzsch established the "people's bank" in 1850 to help German people recover from crop failure and famine, and Friedrich Raiffeisen organized the Heddesorf Credit Union in 1864 to help German farmers buy farming-related products such as equipment and seeds. Starting with the establishment of the St. Mary's Cooperative Credit Association in Manchester, New Hampshire, in 1909, credit unions spread throughout the United States. Credit unions served to provide consumer credit, in which most commercial banks were not interested. By 1930, the number of credit unions in the United States was 1,100 in 32 states. With this fast increase, the federal government felt the need to supervise credit unions and thus formed a national system to charter federal credit unions in 1934, which was developed into an independent federal agency, the National Credit Union Administration (NCUA), in 1970. At the same time, the National Credit Union Share Insurance Fund (NCUSIF), a federal fund backed by the "full faith and credit of the United States Government" was formed to insure members' deposits. Currently, there are about 7,950 federally insured credit unions with 90 million members and $679 billion on deposit (NCUA, 2009). For instance, Santa Cruz Community Credit Union (SCCCU), established in 1977, was designed to give credit to residents denied credit by traditional financial institutions. Since 1977, SCCCU has provided locally owned small and microenterprise businesses from $500 to several million dollars. In 2006, by lending $6.5 million to local small businesses and $1.5 million to microenterprise businesses, SCCCU created and retained 936 jobs (SCCCU, 2006).

Second, development banks are not-for-profit financial institutions operated with federally insured deposits. Development banks help disenfranchised communities regenerate by helping their residents build their assets, financing local businesses, and promoting real estate redevelopment (ShoreBank, 2009). Although their purpose is the same as credit unions, development banks are not run by their members. While other financial institutions pursue a single goal of maximizing stakeholder return, these alternative financial institutions pursue two goals at the same time: maximizing shareholder return and promoting community development.

An exemplary development bank is ShoreBank, the first development bank in the United States. It is owned by approximately 70 shareholders including individuals, financial institutions, foundations, religious organizations, and insurance companies (ShoreBank, 2009). In addition to the two goals of general community development and shareholder return, ShoreBank has another purpose, that of preserving the environment. To achieve its "triple bottom line" initiative, ShoreBank evaluates its performance based on three criteria: regular financial performance; the amount of investment in poor communities, minority-owned businesses, and nonprofit organizations; and the amount of loans to finance environment-conserving activities. The investment of ShoreBank has been increasing over time (see Table 1).

Table 1 Increasing Investment of ShoreBank ($ in millions)

	2003	2004	2005	2006	2007
Total mission investment	279	351	411	433	445
Triple-bottom-line lending	51	123	150	134	156
Community development credit	259	315	370	365	415
Environmental conservation credit	71	159	188	202	185

Source: ShoreBank. 2007. Leading the Way: 2007 Triple-bottom-line Report. p. 10.

To fund the loans, ShoreBank issues development deposit accounts that are standard, market-rate, federally insured bank deposit accounts to customers. Unlike regular deposit accounts at other financial institutions, development deposit accounts are used by ShoreBank's borrowers to expand small businesses, regenerate deteriorated buildings, and upgrade homes. Ronald Grzywinski, the chairman of Shorebank Corporation, and Mary Houghton, the president of Shorebank Corporation, emphasize the necessity of low-interest loans for disenfranchised communities. Microcredit organizations are sometimes questioned about their borrowers' ability or willingness to repay their debts. However, all Shorebank's projects, except one, have been successful in terms of repayment rates: The rates have been not less than the rates of traditional financial institutions (Grzywinski & Houghton, 2007).

5.4. Role of Local Government

The local government's role is critical for success. Considering that relative inefficiency in production is often mentioned as a limitation of import substitution, the local government should act as an active promoter of the policy to help import-substituting industries overcome their relative inefficiency. Essential actions by local governments include establishing an organization that acts as a catalyst, providing continuous administrative and financial support for the organization, creating an innovative milieu among producers, and promoting a supportive environment among producers and consumers.

First, a local government should establish or help establish an organization that brings local businesses together. Unlike the market-based solution, the government needs to intervene in the process, and this process starts with the initiation of the program. A local government may initiate a program by itself with its own funding, like the City of Littleton, Colorado, establishing the Economic Gardening program. A for-profit or non-profit organization or an individual may launch a program with support from the local government. Possible supports from the government in this case include partial financial support, legal assistance, and administrative help. For instance, the Neighborhood Economic Development Corporation in Lane County, Oregon, was established with a combination of private and public funding (Davis, 1987).

Next, the government's policy direction in promoting import substitution should be consistent over time. Policies are often changed as political leadership changes. However, the local government should be aware of the potential negative impact that change may bring. The Home Grown Economy Project in the City of St. Paul, Minnesota, was designed to offer business resources to small businesses in St. Paul so that the growth of the local businesses might create a

higher regional multiplier effect. However, this initiative did not last more than two years due to the reduction in funding caused by the change in the local government (Elvin, 2008; Imbroscio, 1995). Thus, the local government may need to create legally binding ordinances that can help prevent frequent changes of its policies, resulting in successful implementation.

Furthermore, the government should promote an innovative milieu among producers. If the supply of several goods occurs within a region, it is easy for the region to gain positive external economies (urbanization economies). External economies, achieved by virtue of suppliers being concentrated together, generate benefits such as a decrease in transportation costs, diverse skill sets, and face-to-face contact among workforces. People and firms located in the same place generate the potential for efficient interpersonal translation of tacit knowledge between the actors. Firms in a region are intricately connected to each other and their relations create the entrepreneurial milieu, and this culture distinguishes the region (Gray et al., 1998; Saxenian, 1994). Producers should be aware of synergic effects of urbanization economies. It is the government that needs to and that can inspire this understanding in producers.

Lastly, the most important but difficult task is to create a supportive environment between and among producers and consumers. Infusing the advantages and necessities of the approach in producers and consumers is fundamental in creating a cooperative environment. Producers may benefit from the increase in sales as the local demand for their products increases. Producers of secondary industries, who purchase resources from primary industries to produce goods and services, may purchase higher quality resources at lower prices with a short delivery time (Davis, 1987). Consumers may benefit from the increase in the number of jobs and stable economy. When community members are aware of the potential benefits, they will voluntarily and actively participate in the program.

6. Cases in the United States

Import substitution began in developing countries and has been widely thought of as an international policy, but some regions in the United States have adopted the strategy. Community Supported Agriculture, which has spread to several places in the United States, the Economic Gardening program in the City of Littleton, Colorado, and the Oregon Marketplace, in the State of Oregon, suggest directions for practical implementation of the strategy. Community Supported Agriculture shows the success of traditional approaches to import substitution with agricultural products. The City of Littleton reveals the advanced application of the strategy in contemporary society where networking is important. The Oregon Marketplace confers a new understanding of import substitution: In the global outsourcing economy, import substitution is no longer an alternative to the export base economic activities. Rather, it should be considered as a development strategy that can work in association with export.

6.1. Community Supported Agriculture

Community Supported Agriculture (CSA), introduced in New England in 1986, is a means of marketing local agricultural products. The CSA stems from the idea that a group of people buy a

farm, hire a farmer, and share each year's farm products. This self-sufficiency has developed into a form of marketing based on a mutually supportive relationship between producers and consumers. The CSA enables local producers to sell their products directly to local consumers. A consumer buys a share of a farm through a form of membership or subscription, and in exchange for the share, the consumer regularly receives a box of locally produced farm products throughout the farming season. The consumers pay for the farm products in advance and the shares purchased by the consumers are used as operating expenses by the producers. According to Local Harvest, 2,500 farms have been affiliated with CSAs over the past 20 years, and the affiliation rate has increased. Five hundred fifty seven new farms joined in 2008, and another 300 farms joined during the first two months of 2009. Furthermore, in some regions, the demand for CSA products is higher than the supply of the products (Local Harvest, 2009).

When the CSA was first started, every consumer was offered a standard box of products. As the size of the CSA grew, farmers developed this model into various approaches in favor of consumers. One is the "mix and match" that allows consumers to pick up various products to fill a given box. Farmers sometimes establish certain limitations such as "one basket of strawberries per family." A second approach is to cooperate with other farms that are affiliated with the CSA. A farmer who produces vegetables may allow his consumers to choose fruits, eggs, or other products that are produced by other farmers in addition to the vegetables from his farm. Neighboring members of this partnership create a drop-off point such as a farm, a shop, or a booth at regular farmers markets so that consumers may choose a variety of products with a single trip. As this type of partnership is proven to be profitable, in some regions, non-farming individuals have established a subscription business similar to the CSA by collecting farm products from various suppliers and selling the products to members. These variations lead to higher consumer satisfaction and an increase in subscriptions. While famers increase their profits with this marketing channel, consumers have nearby access to a wide variety of fresh local foods.

The website of Local Harvest provides effective two-way communication between suppliers and consumers. Consumers may check nearby CSA farms by using an interactive GIS map (see Figure 3); many suppliers operate their own blogs to post news about production so that consumers may regularly check the process of farming; all users actively support forums to ask questions and share information; events such as a farm summer camp are posted by the website manager; and a short monthly newsletter offers a glimpse of current farming. Another important role of the website is to allow suppliers and consumers to sell and purchase various goods online.

The CSA offers advantages for both farmers and consumers. The major advantage for farmers is that they have a financial source in advance of production, which helps ease their financial burden; in particular, small farms that have difficulty in finding financing are major beneficiaries. Advance payments guarantee farmers a market for their products and help them estimate the proper amount of products to produce to avoid over- or under-production. Farmers may also reduce expenses by reducing packing and transportation costs. Consumers may enjoy fresh products and a healthier life. They also usually have an opportunity to visit farms where they can buy goods, which provides an educational experience for children. Children may learn appropriate and healthy eating habits by helping their parents choose fresh locally grown products.

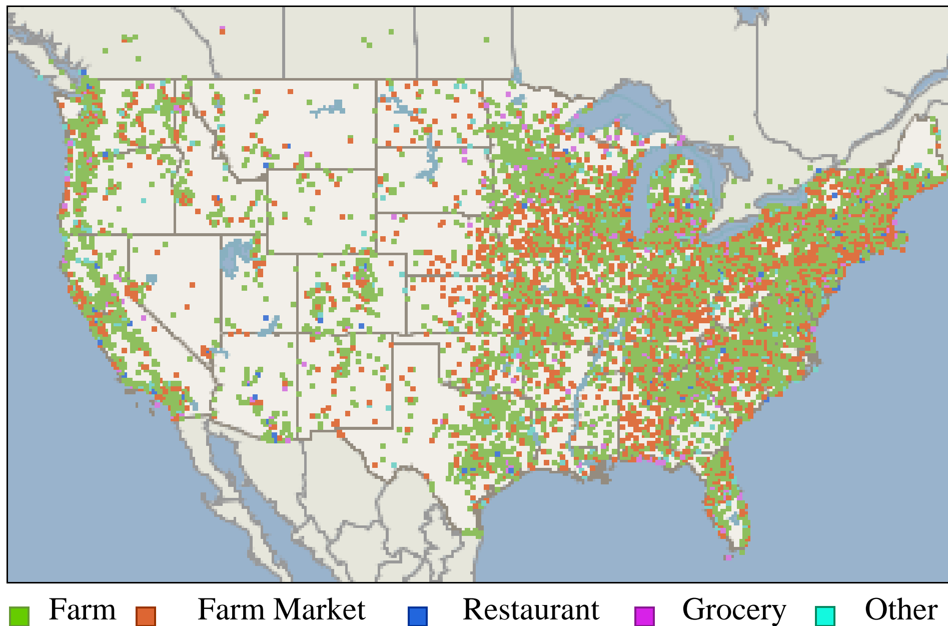

Figure 3 Location of Participating Farms
Source: Local Harvest. http://www.localharvest.org

Furthermore, the CSA strengthens the relationship among community members. The local cooperation among the CSA farmers creates a supportive milieu within a region, which acts as a community builder. This environment stems from the concept of shared risk. By making advance payments, consumers share the risk that results from unpredictable weather conditions with producers. The few complaints from CSA members indicate that consumers have a long-term perspective and are willing to bear a possible fluctuation in the amount of production caused by the inevitable (Local Harvest, 2009). The shared risk leads community members to think of each other as one. From a community-wide perspective, this strategy prevents local money from being spent at big-box stores like Wal-Mart. The reduction in the capital outflow of the local economy results in an increase in regional resiliency. In that, consumers' spending is circulating within the region.

6.2. Economic Gardening, City of Littleton, Colorado

The promotion of locally produced goods and services is not limited to primary industries but stretches to small businesses as well. The Economic Gardening program in the City of Littleton takes a broader approach toward import substitution. The City of Littleton is the county seat of Arapahoe County, Colorado, and a suburb of the Denver-Aurora Metropolitan Statistical Area. The population is 43,741 and most (90.3%) of the population is white (U.S. Census Bureau, 2005-2007 American Community Survey). The total area of the city is 13.9 square miles and the median household income is $55,742. Agriculture dominated the local economy until the 1940s, but manufacturing – such as electronics, pneumatics, munitions, and aerospace – increased its share since the1950s. Chris Gibbons, then the director of the Business/Industry Affairs office, focused on the characteristics of the city when devising economic development strategies and found that most businesses in the city hired fewer than 10 employees and earned less than

$200,000 a year. To promote these small businesses in the city, Littleton introduced the Economic Gardening program in 1989, which promotes existing local businesses instead of making efforts to recruit outside firms with incentives and tax breaks.

The plan to help small businesses increase their competitiveness consists of three parts (Hamilton-Pennell, 2004). First, Littleton purchases high-powered databases that small businesses usually cannot afford – such as Lexis/Nexis, Dialog, Dun & Bradstreet, InfoUSA, Claritas, Experian, Tactician, Dodge Construction Reports, and GIS – on behalf of these businesses. By analyzing data, the city can identify competitors and their strategies, industry trends, market trends, prospective partners, and resources. Then the city gives this information to small businesses and also offers video conferencing and training to convey knowledge. Second, Littleton invests in infrastructure to create business-friendly environments. The local government spends its budget on the improvement of roads, the revitalization of the downtown business district, and the provision of cultural facilities. Third, Littleton builds industrial clusters to promote knowledge spillovers among clusters and cooperation between businesses and institutions. Littleton now serves 200 to 300 businesses a year.

A few cases show how a small business benefits from economic gardening. Tony's Meats is a high-end grocery and deli retail store. It planned to expand its business and asked the city to help it find strategies to promote its competitiveness. Littleton formed two focus groups with current and potential customers to examine market trends and used various databases to analyze industry trends. The city provided a list of potential customers to Tony's Meats for future advertising and suggested a list of potential locations for a new store.

Another example is Artistic Edventurest, which offers art instruction to children and adults. Its management asked the city to help improve its marketing strategies for children. Littleton provided a list of local home schooling associations and a list of associations for high-income residents with children by using GIS so that Artistic Edventurest could contact them. An intern from a local college graphic arts program, sent by the city, designed a new marketing brochure. Littleton conducted literature reviews on the relationship between arts and education to provide helpful quotations for brochures and presentations.

The Economic Gardening program yielded remarkable results in terms of job creation and tax revenues. From 1989 through 2004, the number of jobs increased from 15,000 to 30,000 and sales tax revenues increased from $6.8 million to $19.6 million. At the same time, the city could reduce its expenditure by not providing incentives or tax breaks to outside firms. During the same period, the population rose by 30% even though the United States experienced two recessions. This case confirms that empowering local business (substituting imports with locally produced goods) has at least as large an economic impact as recruiting outside firms (importing products produced outside the region).

6.3. Oregon Marketplace, Oregon

A study of Lane County, Oregon, conducted by the Neighborhood Economic Development Corporation (NEDCO) in 1981, showed that businesses had to pay a high cost to gain market information and that the high cost was a critical barrier for many potential and existing

businesses. Local businesses were too young or too small to sell their products outside the county, but they were believed to offer high-quality products and timely services locally. However, local buyers were not aware of the existing local suppliers who offered products that they needed. Therefore, the county was losing jobs. To solve this problem, NEDCO initiated a Buy Oregon program in 1983 and linked local buyers and suppliers through the program. Since the Internet was not widespread during the 1980s, the connection was made by a member of NEDCO, Alana Probst (Kinsely, 1998). She asked 10 different local businesses to list 40 items that they imported from outside the state, and then found local businesses which produced similar products more cheaply. In this way, local buyers and suppliers were linked to each other. The City of Eugene, U.S. National Bank's Oregon Economic Action Council, and the Lane County Private Industry Council conferred $35,000, and these funds generated $1,858,470 within the first 11 months (Davis, 1987).

In 1985, the Buy Oregon program was expanded as a computer-based state-wide program, the Oregon Marketplace. Businesses are encouraged to sign up to a database that is used for matching suppliers and buyers. The State of Oregon funds each region whose plan for operation is approved by the state on a yearly basis. Although each region runs its own program, a headquarters in the City of Eugene, Lane County, offers guidance and technical assistance. Oregon Marketplace generated $2.5 million and created 100 jobs within its first year (Kinsley, 1998).

A linkage between an airline meal company and local poultry growers is an example. There were several poultry growers near Eugene. However, an airline company in Eugene had purchased chicken broth from Arkansas. Oregon Marketplace organized a deal between local poultry growers, the airline meal company, and a local bank so that the bank could lend money to establish a poultry processing facility in Eugene. As a result, 85 jobs were created in addition to 100 construction jobs (Nozick, 2000). At the same time, the equipment used in the facility was bought from Illinois and the steel needed for producing the equipment was bought from Indiana, as the equipment was not produced in Eugene (Kinsley, 1998). In this way, the replacement of imports in Eugene helped economies not only in Eugene but also in Illinois and Indiana. In other words, import substitution does not necessarily isolate a city from the trading economy but makes the city a contributor to the trading economy by promoting a new industry in the city (Kinsley, 1998). Oregon Marketplace also linked a hotel that had imported order forms from Boston and local printers that could provide the same products at a 40% lower price (Nozick, 2000). The hotel could purchase what it needed directly from local suppliers through Oregon Marketplace.

Like Markusen suggested, the Oregon Marketplace may act as a stepping-stone for exporting local goods and services in the future. The Oregon Marketplace is now attempting to match suppliers in Oregon with buyers from regional, national, and international markets (Rives, 1998). This case confirms that import substitution in contemporary society does not attempt to block imports in all sectors and to pursue a completely closed economy. Rather, the strategy can be part of a mixed economic development strategy.

7. Conclusion

The literature review indicated an increasing need for the substitution of imports. Moreover, the studies consulted posit that import substitution can be at least as effective as export base economic activities. In addition to its existence as a theory, import substitution has indeed proven effective in practice. Cases in the United States show that import substitution has the potential to become an alternative to pro-growth economic development strategies, especially since import substitution encourages local money to circulate within the region rather than being sent to large corporations. The application of import substitution is expected to provide benefits both to producers and consumers. Additionally, it is expected this application will introduce a more sustainable future, to include higher regional resiliency, which will help regions overcome current and future economic crises. Here, the financial resources from credit unions and development banks are critical in promoting the successful implementation of import substitution. Further, participation by local governments in developing, operating, and managing the program is essential. Political, financial, administrative, and institutional support from the government will maximize these programmatic benefits.

This study does not seek to determine whether import substitution is superior to an export base economy or vice versa; rather, it aims to revisit the benefits associated with import substitution for certain regions. In fact, import substitution is closely connected with an export base economy. Domestic markets provide "the most favorable training ground" for companies, and a firm's global success stems from an understanding of and success in the domestic market (Zhou, 2008). The coexistence of import substitution in certain areas of Southeast Asia with the export base economies of other sectors indicates that both strategies contribute positively to a region's economic development strategy (Webber & Rigby, 1996). In fact, they act as complementary strategies rather than substitute policies. Thus, the solution for regional economic development is a portfolio strategy in which import substitution can play an effective role.

Suppose that the director of a region's planning department is considering how to allocate available funds in an effort to improve the region's overall well-being. In these deliberations, the director may consider various criteria to assess regional prosperity, including residents' income, sustainability, resiliency, efficiency, and equity. The region may thus decide to offer incentives to a national or global firm to open or expand its branch stores in the region, thus demonstrating confidence in the export base economic theory. Alternatively, the region may offer these funds to local businesses, thus substantiating its belief in the import substitution theory. In this case, this paper suggests that the region should create a more sophisticated portfolio as opposed to allocating all of its funds either to the large firm or local businesses.

The cases cited in this research are drawn exclusively from the United States; however, other countries may apply this regional level import substitution strategy to achieve greater economic stability in their respective regions. To ensure that policy makers gain confidence in the reliability of the import substitution approach, and to maximize its application throughout the United States and worldwide, the strategy must overcome its limitation; specifically, the difficulty it experiences in estimating its sole impact despite the simultaneous implementation of other policies. Data on population, income, and employment change, as well as employment distribution, will provide a firm basis for increasing the trustworthiness of the policy.

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