



IMPORT REPLACEMENT

Across the Atlantic Provinces there are rural communities looking for paths toward sustainable, secure, self-reliant and enriching futures. Many of these are small towns and villages dealing with the decline of a major industry or the departure of a single large employer, and the concomitant disappearance of local amenities and services. Lately, rural communities, tired of waiting for help from outside, have focused on what they can do for themselves. But their desires for local economic development that truly increases prosperity, in an inclusive, sustainable, and ecologically mindful way, always bumps up against the daunting question of *how* to get there—*where to start?*

Thankfully, a movement has been building around a new economic model, and it has two concrete cornerstones that can help rural communities set goals and develop strategies. Those two cornerstones are *locally-owned* and *import replacement*, and they work together to stem the economic leakage out of local economies.

THE PROBLEM

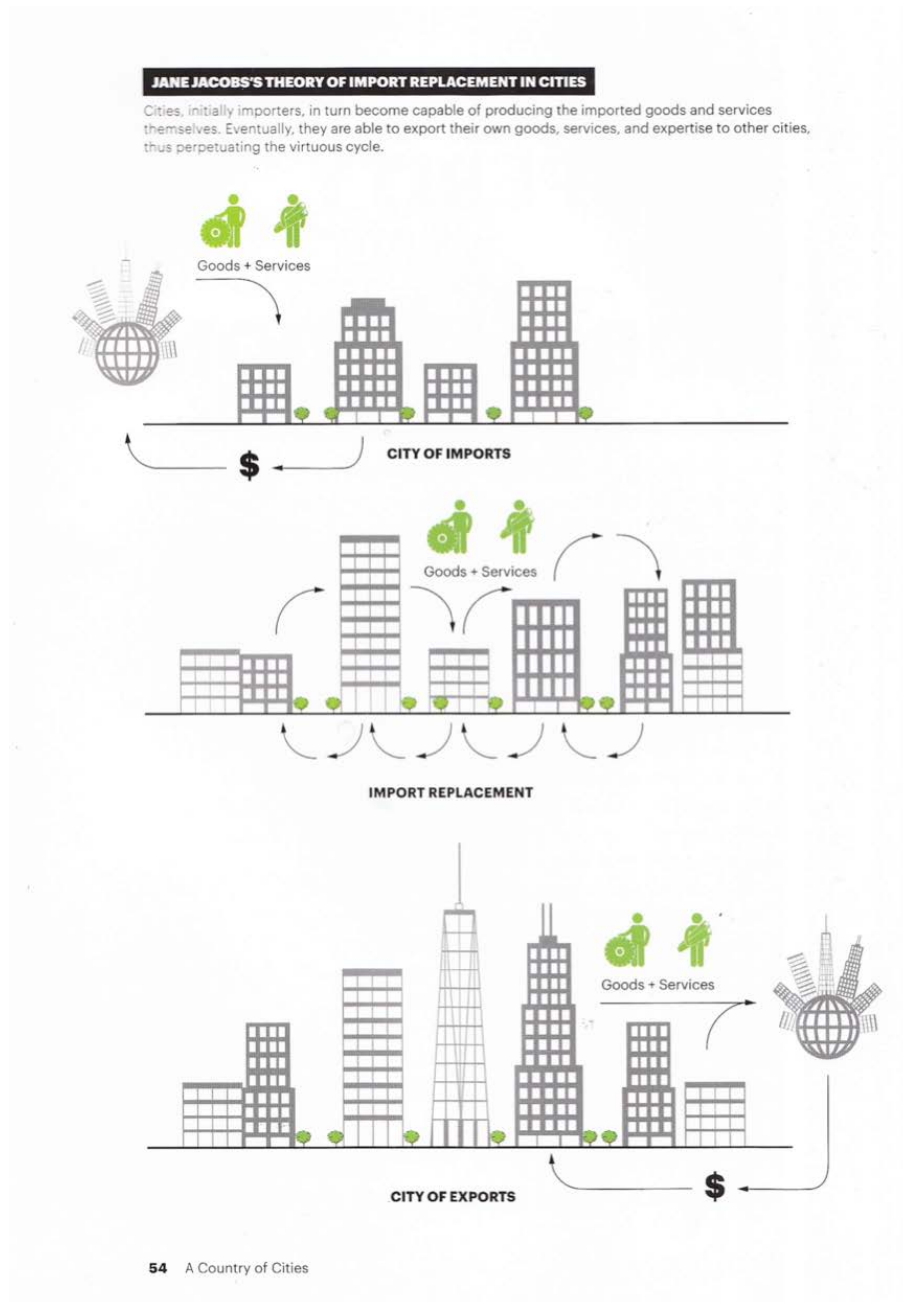
Currently, the majority of goods purchased in rural Atlantic communities are imported from distant countries and shipped across oceans to reach us. Every time this happens—every time a community imports a good or service that it might have cost-effectively produced for itself, it “leaks” dollars and loses the critically important multipliers associated with them. Moreover, unnecessary imports – of food, for example – subject communities to risks of price hikes and disruptions far beyond local control. They also deny communities a diversified base of businesses and skills needed to take advantage of unknown (and unknowable) future opportunities in the global economy.

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A community (or region) focused on import replacement would seek to locally **produce goods and services that are currently imported in order to keep money circulating in the region**. By developing local production, it would increase its capacity to meet the economic, social, and cultural needs of the people of the region from within the region, not in a spirit of isolationism but in a spirit of self-determination. **Import replacement is not a substitution for exports**, but a way of decreasing a region or community’s vulnerability to external pressures—a story the Atlantic Provinces know too well. Homegrown industries diversify and expand the local economy and they naturally begin to look toward regional, national, and global markets as they expand and grow.

Economic developers often argue that the best way to grow an economy is to “bring in new money,” and the only way to achieve this is through selling more exports. The first part of the argument is correct, but the second part is not. What matters for bringing in new money is not exports but the local trade balance. Greater exports can improve the trade balance, but

so can fewer imports. And as the great economist **Jane Jacobs** argued, “import replacement” may be a better economic-development strategy than expanding exports, because it leads to greater self-reliance, greater diversification, and over time more export industries and more exports. Moreover, it tends to be easier to grow local businesses around local markets (which are well understood) than global markets (which are more unpredictable).



Import replacement is thus not a single strategy, but a different way of looking at and planning economic development. It means putting self-reliance and local ownership first, identifying where money “leaks” from the local economy and plugging those leaks by

fostering new businesses or helping extant businesses diversify their production to meet local demand.

Economist Michael Shuman, an expert on local economic development, uses three examples to help illustrate the potential benefits of Import Replacement:

- Twenty years ago, Güssing was a dying rural community of 4,000 in Austria. Its old industries of logging and farming had been demolished by global competition. Many of today's economic developers would have given up and encouraged the residents to move elsewhere. But the mayor of Güssing decided that the key to prosperity was to plug energy "leaks." He built a small district heating system, fueled with local wood. The local money saved by importing less energy was then reinvested in expanding the district heating system and in new energy businesses. Since then, 50 new firms have opened, creating 1,000 new jobs. And most remarkably, the town estimates that this economic expansion actually will result in a *reduction* of its carbon footprint by 90 percent.
- In autumn of 2008 Marian Burros of the *New York Times* wrote a piece about how the 3000-person community of Hardwick, Vermont, prospered by creating a new "economic cluster" around local food. Cutting-edge restaurants, artisan cheese makers, and organic orchardists were just some of the new businesses that had added an estimated 75-100 jobs to the area at a time when most rural communities were losing jobs. A new Vermont Food Venture Center also was put in place to continue the creation of local food enterprises.
- Even a single, visionary business can lead a community-wide effort at import substitution. Take Zingerman's in Ann Arbor, Michigan. On its first day of business in a college town known globally more for its radicalism than for its food, Zingerman's Deli sold about \$100 worth of sandwiches. That was 1982. It has since grown into a community of ten businesses, each independent but linked through overlapping partnerships that collectively employ 650 people and achieve annual sales of over \$50 million. Over that period the proprietors conscientiously built a food cluster from scratch. They carefully assessed the items going into the deli – bread, coffee, cheeses – and captured profitable opportunities for creating a bakery, a coffee roaster, and a creamery. They looked at the products being sold at the deli – fabulous coffee cakes and high-quality meats – and built new, value-adding businesses with these products, including a mail-order company and a restaurant called the Roadhouse.

These three case examples suggest the importance of a region looking past *existing* clusters of export-oriented business. A smarter approach, especially for rural regions and small towns, is to create *new* clusters based, initially at least, on local demand.

It's important to clarify that import substitution does not mean withdrawing from the global economy. To the contrary, as Jacobs argued, *an economic strategy promoting import-substituting businesses turns out to be the best way to develop exports*. For example, suppose Newfoundland and Labrador wished to replace imports of electricity with local wind-electricity generators. Once it built windmills, it would be self-reliant on electricity but

dependent on outside supplies of windmills. If it set up its own windmill industry, it would then become dependent on outside supplies of machine parts and metal. This process of substitution never ends, but it would leave Newfoundland and Labrador with several new industries – in electricity, windmills, machines parts, and metal fabrication – poised to meet not only local needs but also export markets.

But instead of putting all of a community's enterprise eggs in one export-oriented basket that leaves the local economy vulnerable to fluctuating global markets, import substitution develops myriad small businesses, grounded (initially at least) in diversified local markets, many of which *then* become exporters.

The Centre for Local Prosperity has been advising local communities in Atlantic Canada for over three years with community building methods to identify the opportunities and to get started on Import Replacement.

Resources

<http://centreforlocalprosperity.ca/studies/>

<http://www.centerforneweconomics.org/publications/essays/witts/susan/the-grace-of-import-replacement>

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