

poor management or a genuine change in a country's comparative advantage is, however, questionable.

A more sophisticated version of the infant industry theory was the basis of many developing countries' industrialization policies from the 1940s through the 1970s. It was argued that to break out of their dependence on low-growth, low-value industries such as agriculture and resource extraction, countries needed to industrialize. As developed countries already had the lead in manufactured goods, it would not be possible for competing industries to become established in the home market of developing countries without protection. This strategy became known formally as *import-substitution industrialization* (ISI)—substituting domestically produced manufactured products for imports—and was particularly popular in Latin America, including Mexico. Many inefficient industries were established as a result. These industries were unable to compete internationally and, once the growth potential of the domestic market was exhausted, these industries acted as a brake on further economic development (Flanders 1964).

One of the most often expressed arguments, but the least sophisticated, is the *cheap foreign labor* argument. According to this argument, workers in developing countries are paid much lower wages than is the case in developed countries. Hence the developed country will be swamped by less-expensive foreign imports, domestic businesses will be bankrupt, and workers will be unemployed. While this can be true for any individual firm or even industry, it cannot be true for the whole economy. Imports have to be paid for. Over the long run, the only way imports can be financed is through export sales. This means that other industries in developed countries must expand. Of course, this is simply the normal manifestation of resource reallocation to take advantage of shifting comparative advantage and the benefits that specialization provides to the nation as a whole. These theoretical advantages, however, provide little comfort for those who face unemployment as a result of foreign competition. They will lobby hard to protect their livelihoods. As a result, when dealing with declining comparative advantage, most governments follow policies that are combinations of assistance for adjustment, social welfare benefits, and protectionist policies.