Beginning in the 1960s, a neoclassical resurgence began to take hold in mainstream economics. Trade liberalization became part of the new orthodoxy in academic circles. In addition to these influences within the economics profession, the success of Japan and the emergence of its Pacific Rim neighbours with their perceived outward-oriented policies did little to bolster the case for ISI. Nor did the way in which ISI policies were implemented in practice. ISI was often managed inefficiently and domestic policies designed to help ISI often hindered the industrialization process. ISI proved to be a net loss for many economies as inefficient subsidized industry drained resources away from the government and consumers were forced to pay higher prices for goods of lesser quality. For example, exchange rates were often fixed and kept artificially high to facilitate the importation of intermediate and capital goods, much to the detriment of exports (of course, export revenues were necessary to import the capital goods needed for ISI). In addition, domestic fiscal deficits often resulted in expansionary monetary policies which fuelled inflation and, given the fixed exchange rate, made domestic exports even less competitive internationally. This threw the trade balance into a deficit position, necessitating foreign borrowing. These factors, in combination with an unfavourable external environment in the early 1980s, are often blamed for the debt crisis. Still, it was often these policies which were intended to be complementary to ISI that proved to be detrimental, not necessarily the policy of ISI itself.

The case of Korea provides an interesting example of positive government intervention in export expansion, mainly since many economists cite the Korean example as particularly illustrative of the export expansion hypothesis.[19] In the decade following the Korean War, the country was much like its other developing country contemporaries: imports were subject to high tariffs and excessive quantitative restrictions and a multiple exchange rate system was in place. In other words, Korea was one of the most inward-looking economies in the developing world. In 1964, prospects for inward-oriented development appeared dim. The government embarked on an export-led industrialization policy. Exchange rates were unified following a major devaluation, import tariffs were reduced and import licenses were eased. An export promotion policy was followed whereby incentives were given to industry through a number of channels including direct cash subsidies, tax reductions, preferential interest rates and tariff

[19] Most of the material in this section is from Larry E. Westphal, "Industrial Policy in an Export-Propelled Economy: Lessons from South Korea," *Journal of Economic Perspectives*, Vol. 4, No. 3 (Summer 1990), 41-59, and Edwards, op. cit.