

on Tariffs and Trade (GATT) was agreed to after the War as a precaution against a return to the inward-looking policies of the inter-war years.

At the same time, in the developing world such trade liberalization policies were not viewed as favourably. Earlier protectionist policies of the developed world did not only affect other industrialized countries, but also harmed developing countries which were largely dependent on Western markets for their raw material exports. This forced retrenchment led many countries to believe that they did not have to depend on the fickle markets of the developed world. More importantly, however, a number of governments, especially in Latin America, felt that close ties to the (mainly) American market could again backfire in the future if the United States became protectionist. Many economists began to believe that trade liberalization was not beneficial for developing countries, and that the only way to promote domestic industrialization was through a policy of import substituting industrialization (ISI), a policy which had been implicitly forced upon countries as a result of the earlier protectionist policies and the general lack of trade preceding and during the Second World War. The argument, based on the independent but related work of Hans Singer and Raul Prebisch, was built on two premises: (1) a secular decline in the price of raw materials would result in the decline of the developing countries terms of trade and would lead to a widening disparity of income between the developed and developing worlds in the absence of a domestic industrialization program; and (2) to industrialize, countries needed to assist emerging (i.e., infant) industries.¹⁸

Another important development occurred at the same time. Namely, the enhanced role of government. Following the success of the Marshall Plan in Western Europe, along with the prevailing Keynesian economic ideology of the day, a philosophy which questioned the ability of markets to fully employ resources in an efficient manner, the policy of ISI gained a great number of proponents, especially in Latin America. Throughout the region, ISI policies were implemented throughout the 1950s, 1960s and 1970s.

¹⁸See Sebastian Edwards, "Openness, Trade Liberalization, and Growth in Developing Countries," *Journal of Economic Literature*, Vol. 31, No. 3 (September 1993), 1358-93. The original thoughts of Singer and Prebisch are contained in Hans Singer, "The Distribution of Gains Between Investing and Borrowing Countries," *American Economic Review*, Vol. 40, No. 2 (1950), 473-85; and Raul Prebisch, *The Economic Development of Latin American and its Principal Problems*, New York: United Nations, 1950. The latter document is often referred to as the "ECLA Manifesto," since it contained the policy position at the time of the Economic Commission for Latin America, the United Nations organization that Prebisch headed.