David Ricardo’s Comparative Advantage and Developing Countries: Myth and Reality

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Abstract

This article examines David Ricardo’s trade theory, which emphasises that if protection is removed, resources would be expected to move away from high cost to low cost products and as a result productivity would rise. His comparative advantage trade theory advocates in favour of a free trade, the argument implied generally to defend laissez faire. This study aims to critically analyse the theoretical and empirical basis for trade liberalisation. It also discusses the mainstream arguments relating to static and dynamic gains from trade liberalisation which seem to be based on weak theoretical and empirical grounds. The study analyses the phenomenon from a historical materialist perspective. It will also briefly discuss free trade and its impact on the industrial and agricultural sectors and how the performance of both sectors could have a long-term impact on local industrialisation, food security, employment and well-being of the people in developing countries. This article builds on this political economy and looks in particular at free trade policies and their impact on the economies of developing countries. Free trade theory, which has wide support among international financial institutions, namely the IMF, World Bank, WTO (World Trade Organisation) draws on David Ricardo’s theory. The study has argued that free trade policy will deepen further the process of uneven development and unequal exchange. The study concludes that free trade policy will deepen further the process of uneven development and unequal exchange.

Keywords: Comparative Advantage, developing countries, capitalist expansion, WTO and free trade.

JEL Classifications: F12, F14, F43

I. Introduction

Ricardo’s argument is that if protection is removed, resources would be expected to move away from high cost to low cost products and as a result productivity would rise. His comparative advantage theory advocating in favour of a free trade model is part of the argument implied generally to defend laissez faire. Protection is seen as interference in the free play of market forces. Ricardo’s comparative advantage theory does not compare between the costs of production in money terms, as generally understood, in domestic and foreign markets, but rather between real costs (in terms of labour time and other resources) of different commodities at home. Unlike the neoclassical economists, David Ricardo based his arguments on the labour theory of value.

This paper intends to critically analyse the theoretical and empirical basis for trade liberalisation. It also discusses the mainstream arguments relating to static and dynamic gains from trade liberalisation which seem to be based on weak theoretical and empirical grounds. The study analyses the phenomenon from a historical materialist perspective. It will also briefly discuss free trade and its impact on the industrial and agricultural sectors and how the performance of both sectors could have a long-term impact on local industrialisation, food security, employment and well-being of the people in developing countries. This article

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The article is structured as follows. The next section reviews the theoretical debate on free trade. The third section provides an overview of the imposition of free trade policies in the colonies. The fourth section discusses the issue of uneven development, while the fifth section analyses structural change and the final section concludes the study.

Ricardo's model assumes that all resources are fully employed. We all know that this is far from reality, especially in developing countries where massive unemployment exists and the potential surplus and resources are under employed. It also assumes that with the adoption of free trade policies, exports will pay for imports so that exports of those commodities in which the country has a comparative advantage will increase. However, the value of exports from developing countries largely depends on world market demands and the prices of other rival suppliers.

Free trade has been a powerful mantra over the last three decades for international organisations such as the IMF, the World Bank and WTO (World Bank, 2002; WTO, 2015). Despite the lack of any empirical evidence and far from reality, mainstream economists and international organisations claim that trade liberalisation and de-regulation have produced benefits (WTO, 2015; Skarstein, 2007).

Free trade theory, which has wide support among international financial institutions, namely the IMF and World Bank, draws on David Ricardo's theory. For example, the World Bank (2002) study highlighted the potential benefits of trade liberalisation. It notes: "faster integration through lowering to merchandise trade would increase growth and provide some US$ 1.5 trillion of additional cumulative income to developing countries over the period 2005-2015… [the result] also shows that labour's share of national income would rise throughout the developing world" (World Bank, 2002: xiii). The study further notes: "measured in static terms, world income in 2015 would be US$ 355 billion" (World Bank, 2002:167). However, the critiques have challenged it and suggest that developing countries would gain very little from WTO led trade liberalization. As Weisbrot and Baker (2002) emphasise: "the removal of all rich countries' barriers to the merchandise exports of developing countries – including agriculture, textiles, and other manufactured goods – would, when such changes are fully implemented … add 0.6% to the GDP of low and middle income countries. This means that a country in Sub-Saharan Africa that would under present trade arrangements have a per capita income of $500 per year in 2015, would instead have a per capita income of $503" (Weisbrot and Baker, 2002: 1).

It seems that 'free trade' policy perfectly suits the interests of powerful and rich countries in the world markets. In the past, during the British colonial period, the imposition of free trade policy on India made it possible for the Lancashire cotton industries to prosper while at the same time ruining the hand loom production in India (Anievas and Nisancioglu, 2015; Bagchi, 2010).

In recent decades, the manufacturing sector has expanded and the developing countries' share of world manufacturing exports increased from merely 4.4% in 1970 to 30.3% in 2005

(Irwin, 2015). This was the reason that mainstream economists claim that trade liberalization is beneficial (UNCTAD, 1994; Bhagwati, 1993). The mainstream economists also argue that under protectionism market prices does not measure social costs, which is due to the divergence or distortion arising from government intervention. And according to them, intervention is the form of trade policies would be far from optimal (Davidson, 2015)

However, the reality is that the increase in manufactured exports was limited to a few East Asian countries and was not widespread among all developing countries and also these exports were largely controlled by MNCs and their production networks. Moreover, such claims ignore that the decline of local import-competing industrialisation led to a rise in imports and increase in unemployment. There is little evidence to indicate technology transfer or building up domestic industrial linkages and finally the exports produced are highly import dependent and thereby are a huge strain on foreign exchange. Such export-led growth makes developing countries increasingly dependent on external markets and their demands (Mathews, 2016; Irwin, 2015).

The role of institutional factors in successful industrialisation and thus, the diversification of economies and increased share of exports of manufactured goods is clearly found in recent examples from South Korea, Singapore, Taiwan and China. No matter, how much such an approach seems logical and convincing, mainstream economists are against it. The success of East Asian economies has little to do with neoclassical orthodoxy. The prescriptions of the World Bank and IMF (also known as Washington Consensus) are against pursuing an active role of the state for industrial policy and in achieving industrialisation in the developing countries (Mathews, 2016).

In 1997 the East Asian financial crisis did not affect China, as the country ignored the Washington Consensus and kept state controls over its exchange rate and helped the export sector to expand its industrial sector based on labour intensive manufactured goods, while steadily driving the restructuring and upgrading of industries with developmental state institutions, as Japan, South Korea, Taiwan and Singapore had done a few decades before (Siddiqui, 2016a). When China joined the WTO in 2001, its economy really took off. It is crucial to understand that in reality institutions which helps countries top bargain about market access as pointed out by Rodrik, "shaped in response to a tug-of-war between exporters and multinational corporations in the advanced industrial countries…., on the one hand, and import-competing interests …on the other. The WTO can best be understood in this context, as the product of intense lobbying by specific exporter groups in the United States or Europe or of specific compromise between such groups and other domestic groups" (Cited in Shaikh, 2007: 61).

Diversifying the economy is crucial to enable a country to export high-value products i.e. industrial goods. To achieve this, the developing countries have to expand their manufacturing sector. However, they developing might encounter various problems. Gerschenkron (1962) analysed late industrialisation and why some countries succeed and others fail to industrialise. His study is based on industrialisation in Europe of the 19th century. Amsden tried to apply Gerschenkron's framework to the East Asian experience. As she emphasises: "The later a country industrialises in chronological history, the greater the economic interventions of its government" (Amsden, 2001:284). She argued that late industrialisation required more state intervention, but the intervention was of a different kind. In case of China for example Mathews (2016: 621) notes: "…the use of exports as a performance standard in Korean and Taiwanese industrialization, whereby government support for firms entering new industries … had to be validated through the firms achieving designated export performance target: failure to meet the targets would lead withdrawal of the favoured status. This proved to be a powerful means of disciplining both sides on relationship, involving government and firms."

After more than three decades of pursuing such polices in the developing countries, a number of studies show that globalisation and neoliberal economic reforms have promoted inequality and poverty, increased economic vulnerability and consolidated economic stagnation in several developing countries. Despite the weak empirical evidence, the mainstream are dutifully repeating neoliberal mantra that economic liberalisation promotes growth and prosperity (Mathews, 2016; Siddiqui, 2016b).

Even liberals such as Martin Wolf of the *Financial Times* argue that as protectionism does raise output and employment in import-competing sectors, under such circumstances this will only pull resources away from export sectors (Wolf, 2004). As a result, such effort would lower exports, even as it reduces imports, but leave trade deficits, meaning that such policies have little implication on aggregate demand and employment. His argument is that import-substitution policy is only possible at the expense of export production. However, this ignores that such possibilities could occur only where there is full employment of resources, but in reality developing countries have huge unemployment and unutilised resources.

II. The Myth of Free Trade: Theoretical Analysis

The arguments in support of free trade doctrine come from the theory of comparative advantage. David Ricardo in 1821 in his book *Principles of Political Economy and Taxation* supported comparative advantage theory. Ricardo used two country static models, where Portugal was assumed to be a more efficient producer of cloth than England, but the country is also more efficient in wine production. According to him, Portugal and England would gain by a division of labour in which each country produced and specialised in the goods in which it had greater comparative advantage. Even though England was relatively less efficient than Portugal in both goods, following free trade would mean that Portugal would focus on the production of wine and England on cloth production. The mainstream economists accepted the main points of the Ricardo model, but also added to it (Ricardo, 2004).

Trade has always been considered between equal partners, who have similar levels of development. It also meant that ruling out any political pressure to promote one country's economic interests. David Ricardo's model is based on labour-value prices in each country, there is a uniform rate of profit and a uniform capital to labour ratio in each, and also output per worker of each commodity determines their relative prices within each country.

However, the theory of comparative advantage is based on a number of assumptions: there exists perfect completion; all factors of production are fully employed; labour and capital are fully mobile within a country and do not move across the border; a country's external trade is always in balance and the market prices reflect the real costs of the products produced. Free trade is based on the same assumption as the theory of comparative advantage. These assumptions are unrealistic and far from the reality of the developing countries. For example, the assumption of full employment is incorrect. Another assumption that prices reflect costs is not true. As we know, many product markets are dominated by monopolies and also firms receive government subsidies that influence their production and set up price decisions. Some production activities generate significant negative externalities (such as degradation of the environment). Finally, the assumption that external trade will remain in balance is not true.

David Ricardo's model has two countries producing two commodities and each commodity can be produced in both countries. He implies that trade is between countries of equal weight and who are at the same levels of development. This is the key feature of the free trade theory. In Ricardo's model was Portugal supposed to gain as much from exporting wine as England from exporting cloth. However, Joan Robinson (1974) points out with the Ricardo's famous example that Portugal was to gain as much from exporting wine as England from exporting cloth. However, in reality this did not happen, free trade had benefitted England with increased capital accumulation and investments and growth, while Portugal witnessed stagnation. As Joan Robinson (1974:1) argues that "but in real life Portugal was dependent on British naval support, and it was for this reason that she was obliged to accept conditions of trade which wiped out her production of textiles and inhibited industrial development so as to make her more dependent than ever". She further notes that: "What Ricardo was really concerned about was to abolish the Corn Laws so as to lower the real cost of wage goods and raise the rate of profit… When accumulation is brought into the story, it is evident that Portugal is not going to benefit from free trade. Investment in expanding manufactures leads to technical advance, learning by doing, specialisation of industries and accelerating accumulation, while investment in wine runs up a blind alley into stagnation" (Robinson, 1974:6).

Free trade policy led to the decline of a promising textile industry in Portugal alongside a slow growth in demands for wine in both domestic and overseas markets. While export of cloth for England led to increase in accumulation, investment and mechanisation, and spill over effects on railways and industrial revolution itself. The problem with comparative advantage is that the model is purely static. As Joan Robinson comments, "Ricardo took the example of trade between England and Portugal. He argued that England, by allowing imports of wine from Portugal, would expand the production and export of cloth to pay for it. Ricardo, of course, was thinking of the English side of the exchange but the analysis is perfectly symmetrical; it implies that Portugal will gain from specialising on wine and importing cloth. In reality, the imposition of free trade on Portugal killed off a promising textile industry and left her with a slow-growing export market for wine, while for England, exports of cotton cloth led to accumulation, mechanisation and the whole spiralling growth of industrial revolution" (Robinson, 1979:103).

It is argued that static, once-and-for-all gains arise as the misallocation of resources under protection and import substitution is corrected, and the country's resources then shift from inefficient to efficient sectors and industries (Bhagwati, 1993). However, empirical estimates of the welfare costs of the relative-price distortion is around 2-3 percentage points of GDP. In response to these negligible welfare gains, mainstream economists have also emphasised the possibilities of long-term gains from trade liberalisation.

The comparative advantage model was further developed by Heckscher-Ohlin (H-O), who argued that a country's comparative advantage is based on its resource base, such as the huge availability of labour in developing countries. According to them, these countries should specialize in labour intensive products. The factor-price equalisation model argues that the free market will raise the price of labour until all factor prices are equalised worldwide (Irwin, 2015). The model further argues that with the application of free trade, workers in developing countries will be the greatest beneficiaries (Skarstein, 2007). Their model was further developed by Samuelson and is known as the Heckscher-Ohlin-Samuelson (H-O-S) model (also known as neoclassical) which argues that it will mean an increase in trade, especially those products that embody abundant factors such as labour in the developing countries. The model suggests that they should specialise in the production of labour intensive goods, while the developed countries prioritise the production and export of capital intensive goods and highly skilled capital goods and technology. It is said that following such policy would result in reducing the income gap between low and high skilled workers and also the average income gap between developed and developing countries would be reduced (Pugel, 2007).

It was predicted by the neoclassical trade theory that countries participating in international trade would experience convergence in commodity prices and wages. As a result of the reduction of transportation costs and improvements in communication technology, the prices of both raw materials and finished goods were reduced (Bhagwati, 1993). However, with increased trade and economic integration, only the metropolis and their white settlers colonies' wages went up, while in the Asian and African colonies the economic situation of working people deteriorated due to lack of investment in the rural sector, infrastructure and irrigation to raise food productivity, upon which people overwhelmingly depended for their livelihood. The convergence of wages and commodity prices as predicted by the H-O-S model is not validated when we examine the relationship between the metropolis and their colonies. This model assumes that production conditions ensure a unique relationship between the factor-price ratio and the commodity-price ratio. Neoclassical trade theory emphasises that free trade equalises commodity prices and this will necessarily lead to factor-price equalisation (Anievas and Nisancioglu, 2015; Parkin and Bade, 2006).

Modern Trade theories (also known as New Trade theories) which originated in the 1980s, have attempted to point out the weaknesses of classical trade theories. They incorporate some factors such as: market imperfections, strategic behaviour and new growth theory. Market imperfections and strategic behaviour extend support for state intervention in trade policy, while growth theory favours trade liberalisation because it is supposed to bring skill spill-overs into the host countries. However, interventionist trade policy is rejected by these theorists mainly on the basis of political economy arguments such as rent seeking and efficiency. Mankiw et al. (2006:189) argue that "free trade raises the total welfare". Similar views have been expressed by other mainstream economists: "By engaging in free trade, [...]. We can make ourselves better off and the citizens of other countries better off". (Parkin and Bade, 2006: 786-69)

It is further claimed that if all countries adopt free trade policies then, "the world economy can achieve a more efficient allocation of resources and a higher level of material well-being than it can without trade" (McConnell and Brue, 2005: 696). In contrast to this, Bieler and Morton (2014) found: "Trade liberalisation has often implied deindustrialisation and import dependence. An analysis of the consequences of trade liberalisation in Africa and Latin America during the 1980s and 1990s, for example, reveals widespread job losses, increasing unemployment and declining wages in both continents" (Bieler and Morton, 2014:40). Most of the Latin American countries in the 1990s had substantially reduced government regulation with respect to trade and capital flows. The outcomes with regards to export and investment varied greatly across countries. In fact, only one country i.e. Bolivia export rose, while rest experienced negative growth (Weeks, 2007:134).

Similarly Anwar Shaikh (2007) argued on the notion of comparative advantage in the context of free trade, "Unlike in the theory of comparative costs, there are no magic mechanisms that will automatically make all regions (nations) automatically equal. Indeed, persistent trade imbalances covered by foreign capital flows are the "normal" complement of international trade between unequally competitive trade partners. Thus, free trade does not make all nations equally competitive, as is argued within standard trade theory. Rather, it exposes the weak to the competition of the strong. And as in most such cases, the latter devour the former" (Shaikh, 2007:57).

The mainstream trade theory is based on premises that trade is regulated by principle of comparative costs and free competition will lead to full employment in each trading nation. Therefore, there is no need to fear trade as free trade will make each nation equally completive. Anwar Shaikh in his more recent study further emphasises that, "The notion of universal full employment becomes a cruel jape in the light of the fact that there were a billion people in the world who were unemployed or underemployed even at the height of the global boom preceding the 2007 global crisis. The claim that a fall in the terms of trade will eventually improve the balance of trade has long been dogged by the infamous "elasticities problem". And the claim that a trade deficit will automatically lower the terms of trade until the deficit is eliminated is bedeviled by the simple fact that balanced trade simply does not obtain anywhere, not in the developing world, not in the developed world, not under fixed exchange rates, not under flexible exchange rates. On the contrary persistent trade imbalances are the rule." (Shaikh, 2016: 26-27)

By the early 1980s, food consumption of basic staples reached saturation point in Europe and the US. And soon after, a new development took place with the rise of non-traditional exports such as exotic fruits and sea foods from the developing countries to the developed countries, while at the same time, with higher demographic growth rates and urbanisation, the demand for foods increased sharply. As a result, foreign investment rose sharply in the agriculture sector in Latin America in the 1980s and 1990s (Siddiqui, 1998). For instance, taking advantages of expanding markets, some countries such as Argentina, Brazil and Thailand, the domestic companies found it profitable to invest in exports related to the agricultural sector. This gave rise to domestic agribusiness companies such as Sadia and Perdigao in Brazil and Charoen Pokphand Group in Thailand. By 2010 Brazil became a leading producer and exporter of coffee, corn, soybeans, sugar and soya oil (Siddiqui, 2016c).

In the late 1980s and 1990s, most of the Latin American countries adopted 'Structural Adjustment Programme' (i.e. neoliberal reforms) (Siddiqui, 2012; Perkins, 2006), while China in the 1990s was not a member of the WTO and thus was able to maintain greater control over trade and in foreign capital investments. The Chinese government was able to encourage foreign investors to establish joint ventures with local companies and agreements on technology transfer. In China also rapid urbanisation and higher growth resulted in a sharp rise in the domestic market. And in 2010 China became a net importer of food and also the largest importer of soy and accounted for half of the world's total imports (Siddiqui, 2015a).

The rules of the GATT were constructed for a global economy in which goods are manufactured in one country and then exported to other countries. But rapid changes in technology and a sharp reduction across borders meant offshoring became more profitable from developed economies to lower waged developing countries. The flow of goods and services and capital investments that used to move between the developed countries now moved around the international economy and across the globe (Gray, 1999). New sets of rules were put in place to protect intellectual property rights and foreign investment and regulatory steps were undertaken to protect the interests of MNCs (Wade, 2013). As a result, now the WTO focuses on the design, implementation and enforcement of the procedures. Many developing countries are doing every possible thing to attract this offshoring activity and be part of the global value chain.

The neoclassical economists vigorously began to argue that protectionism draws resources into activities with high real costs compared to others that are seen as wasteful and inefficient (Little et al., 1970). The neoclassical model assumes that once free trade is adopted, it would be possible to develop a manufacturing sector and exports without protective policies. They argue that the exchange rate provides better support than protective policies (Little et al, 1970). However, they ignore that exports of primary commodities usually suffer from inelastic demand in the world markets, so that if a currency is devalued it gives only one country competitive advantage over others, while all together lose foreign earnings.

India and China began their modern industrialisation journey only after their independence, despite the former having some modest beginning during the inter-war period. But overall developing countries' economies remained largely based on the production and export of primary commodities. Of course, since the 1980s many East Asian countries have witnessed a radical change in their economic outlook. They began to export manufactured products to the world's economy. If a country protects its industries and has sufficient large home markets, it is able to take advantage of increasing economies of scale and lower costs and if the government is willing to support it, then the country most likely would be able to develop a viable industrial sector. Therefore, it is possible to build industries under government protective policies (Kaldor, 1967).

Due to globalisation and no barriers to entering other countries' markets, they are in constant pressure to reduce costs and save money. As was reported in *The Times* (London) three decades ago but seems still relevant, "If Hong Kong want to provide them [social services], taxes will go up and investment will go down. More medical services, for example, would reduce the competitiveness of Hong Kong industry. […] Hong Kong has no form of unemployment compensation, and most companies pay their staffs only when there is a day's work to perform. The hardest hits are construction and other outdoor workers, who daily travel to their job sites, but work if weather permits. When it does not, they go home unpaid. There is no minimum wage law, and child labour restrictions apply only to anyone under the age of 14" (cited in Robinson, 1979:108).

The developed economies have very similar economic structures, resources and technology. Under such situation comparative advantage suggests these countries should not trade with each other. But in the real world a wide and extensive trade is taking place among developed economies. As Pugel points out, "Over 70% of exports of industrialised countries go to other industrialised countries [...] these facts appear to be inconsistent with comparative advantage theory" (Pugel, 2007:88). Pugel (2007) explains that such behaviour is due to product demand, as consumers seek to buy different varieties and also, on the supply side, the producers have managed to reduce costs and average costs of production have fallen as output expanded, i.e. economies of scale and learning-by-doing have consistently added these advantages.

The United States and European Union (formerly EEC) signed the General Agreement on Trade and Tariff (GATT) in 1947, but managed to get their agriculture sector exempted from it. In Marrakech, Morocco, in 1994 after difficult negotiations, agriculture trade was included in the WTO. It aimed to liberalise world agricultural markets by removing subsidies to inefficient producers, tariffs and the practice of holding food stocks by the government. As a result, it was claimed agricultural commodity prices would rise and a de-regulated market would benefit farmers. The increased competition would mean greater efficiency, which was supposed to bring down prices to benefit consumers. However, such assumptions ignored that agriculture trade is in fact characterised by large economic, social and political inequalities.

Despite a number of promises with the signing of the Agreement on Agriculture (AoA), in reality, the rules did little to contain government subsidies to farmers in the developed countries and a number of programmes provided subsidies to farmers and agribusinesses, both directly and indirectly.

Developed countries do not have local production of coffee, cocoa or banana but want these commodities for their food processing industries. In the cotton and sugar market distortions exist because of subsidies given to producers in both the US and EU and these products are being protected from liberalisation. With the signing of AoA liberalisation, the developing countries got little access to new markets in the developed countries, and were required to accept considerably greater quantities of imports; this depressed local investment and production and ultimately exacerbated food deficits and undermined food security in the developing countries.

In the global market all agricultural commodity prices fell by 53% between 1997 and 2003, which meant imports became cheaper. The farmers in the developing countries were worst affected due to the fall in global prices. With the imposition of SAP by the IMF and World Bank and pressure from the WTO, many developing countries eliminated their public food stocks. However, such policy did not take into account commodity markets which were dominated by a small number of oligopolistic companies (Shaikh, 2007). As a result, the total imports rose nearly 37% in 2010 (Rodrik, 2012).

It is also assumed that increased levels of competition are sufficient to generate innovations and raise productivity across all sectors of the economy. Mainstream economists argue that relative-price distortions such as import tariffs could adversely affect technology transfer and learning (WTO). In short, it is assumed that a high level of competition promotes technological change, but this assumption lacks empirical evidence and a number of researches on market structure and innovation indicate that there is no clear positive relationship. In industrialised countries the strategic policy is oligopolistic firms dominating world markets, but this may be of limited relevance to the developing countries. The empirical evidence shows that imperfect competition is worldwide, although the evidence on economies of scale is much more limited (Shaikh, 2007).

III. The Imposition of Free Trade in the Colonies

In 1750, the Indian textile industry was producing more than one-quarter of global textile output. However, the basis of production was handicrafts and artisans (Mukherjee, 1967). Despite, the major technological breakthroughs that came in Britain's first industry, namely cotton textiles, in the second half of the 18th century, productivity growth in British industries only began in the early 19^{th} century rather than the 18th century as is widely perceived (Maddison, 1982). It was mainly achieved by the British government policy of protecting their domestic textile industry, while discriminating against the industries in the colonies and semi-colonies. I will elaborate further on this later in this section.

India was the world's key producer and exporter of cotton textile in the 18th century, but by the mid-19^{th} century the UK had replaced India. How did this happen?

At the height of the British Empire, one-fourth of the world's population lived under British rule and Britain imposed free trade in the colonies and semi-colonies. By the end of the 19^{th} century, Britain was the world's largest capital exporter and from 1870 to 1913, the proportion of British capital that was invested abroad increased from 17% to 33%, which was much greater than any other country at that time (Anievas and Nisancioglu, 2015; Siddiqui, 1990).

The question arises why Spain, in spite of the treasures of the Latin Americas, would suffer from exporting its raw materials and importing manufactured goods from England. Throughout the early modern period, economic policy emulated through an ongoing process of change and espionage around political needs to encourage domestic industry in England as a means of securing wealth, power and domination over neighbouring countries. This provides an important explanation for why industrialisation was becoming an existential necessity.

Britain's cotton textile industry emerged as the most efficient and successful by the mid-19th century, which was made possible by the adoption of protectionist policy in Britain, while undermining the same industries in colonial India. Britain in 1701 imposed tariffs, known as First Calico Act, which banned imports of dyed painted or printed fabrics from India. In 1702, the Second Calico Act was imposed to put a further ban on textile imports from India. The aim was to promote British woollen and textile production. Hargreaves' Spinning Jenny and later on the Arkwright spinning frame greatly enhanced the quality of cotton produced in Britain in the 18th century (Parthasarathi, 2011).

However, British cotton producers could still not compete with Indian cotton on prices. As a result in the 1780s, the British cotton producers demanded increased measures of protection for their industries and soon after the tariff were increased on cotton goods imported from India. As Alavi argues, "It was the wall of protection that made possible the survival and growth of the British cotton textile industry in the face of Indian competition and facilitated large capital investments in the industry. Without it, the English industry would have found it impossible to get a foothold in the home market, let alone abroad". (Alavi, 1982:56) A similar point was also made by Das, who said that cotton textiles "could be sold in the British market at a price between 50% and 60% lower than those fabricated in England. It consequently became necessary to protect the latter by duties of 70% to 80% of their value". (Das, 1946: 313) Joan Robinson also argued that: "The British cotton industry grew up under protection from superior India imports. When it was sufficiently developed, free trade was imposed on India, but now that Indian textiles can once more undersell Lancashire the British turn to protection again" (Robinson, 1974:1-2).

Later on in the 1830s, with the application of the steam engine, the British textile industry was able to reduce the costs. Cotton textile both as production and exports was very important for the British emerging industrial sector. In 1830, more than half of Britain's total exports consisted of cotton textile goods and Britain replaced India as the leading exporter of cotton textile. The period also coincided with Britain's colonisation of the Bengal province, which prior to this transformation (also known as de-industrialisation) was internationally known for the production and export of cotton textile goods (Siddiqui, 2017). It was only possible due to protectionism and high tariffs on cotton imports and technological development. As Robert Montgomery said before the Parliamentary Enquiry Committee on India, "…between 1815-1832 prohibitive duties ranging from 10 to 20, 30, 40, 50, 100 and 1,000 percent were levied on articles from India…'Had this not been the case', the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power of steam. They were created by the sacrifice of Indian manufacture. Had India been independent, she could have been retaliated, would have imposed prohibitive duties on British goods and thus have preserved her own productive industry from annihilation" (cited in Clairmonte, 1960: 86-87).

Besides the textile industry, India also had a flourishing ship-building industry. However, soon after the East India Company took over power, the ship-building industry declined rapidly. Ship-building in Britain was not able to compete with India and Parliament was petitioned for a ban on Indian ships. Soon after, in 1813, legislation was passed to prohibit

Indian ships below 350 tonnes coming to Britain. Another law in 1814 deprived Indian ships the right to be registered in Britain and as a result they could not be sent to Europe and America (Mukherjee, 1967).

The testimony of the Dutch East India Company officer Jan P. Coen explained the winners in international relations and their success “one cannot do commerce without war, nor war without commerce” (cited in Reinert, 2016:45). Similar views were expressed by Johan De La Court: “Conquests which allow commerce to increase and flourish, like those which the Europeans made at the expense of the Indians, are a good thing” (cited in Reinert, 2016:45).

In the colonies, Britain applied brute force to destroy their handicraft industry and turn them into suppliers of raw materials. It is well established that such trade was not voluntary and once these countries became independent they went back to set up a policy of industrialisation by adopting an ‘import substitution’ policy (Parthasarathi, 2011; Bagchi, 2010).

During the debate on the Corn Law in 1846 in the House of Commons, one Whig expressed his vision to see: “Great Britain as the workshop of the World, exchanging, on advantageous terms, its manufactured products, its textiles, and hardware, for the food and raw materials of the less developed, agricultural nations of the world; it was a vision which prompted protectionists like List and Carey to rebel against English political economy, which they maintained, was designed to perpetuate England’s lead, and which would consign less-advanced countries to a permanent colonial status” (Semmel, 1978:8-9). By the mid-19th century, the colonies became new sites for investment of Britain’s surplus capital and also to provide markets for its surplus manufactured products. Then it was thought of transforming Britain into the ‘work-shop’ of the world (i.e. industrial country), whereby manufacturing and trade were expected to rise, which would avert the consequences of the ‘law of diminishing returns’ in agriculture (Semmel, 1978).

In the 19th century and until the first half of the 20th century, most developing countries were directly or indirectly ruled and also their economies were controlled by European powers. As summarised by Adam Szirmai (2012): “From the middle of the nineteenth century onwards, the world economy had divided into industrial economies and agricultural economies …. Colonies […] in the tropics remained predominantly agrarian, while the Western world … industrialised. Industrial growth in the West created an increasing demand for primary products from developing countries … Thus, the colonial division of labour came into being. Developing countries exported primary agricultural and mining products to the advanced economies. Industrial economies exported their finished manufactured goods to developing countries. Industrialisation became synonymous with wealth, economic development, technological leadership, political power and international dominance” (Szirmai, 2012: 407).

In contrast, in Japan, for example, the state took over responsibility for investment to build up key industries and also encouraged the technical achievements of private companies along with increased public funds for R&D to promote industrialisation and build a situation in order to prevent the country from being taken over by foreign companies (Siddiqui, 2015b); whereas in the developing countries, especially those relying on production and exports of primary commodities, an improvement in technology, productivity and efficiency could lead to a fall in prices, as many developing countries exported the very same commodities. The increase in supply due to improvements in production methods is able to create more competitive environments, unless there is a similar proportion in demand in the international market, which is less likely. It simply means that any improvements in productivity and better production methods may lead to depression in export prices and decline in workers' wages in primary commodities.

Ricardo's model does not take into account the nature of each country's actual relation to the rest of the world i.e. a country has the ambition to become a colonial power and to control the other country. However, David Ricardo's trade theory is still the basis of the modern mainstream views. The mainstream economists argue that under protectionism market prices does not measure social costs, which is due to the divergence or distortion arising from government intervention. And according to them, intervention in the form of trade policies would be far from optimal (Bhagwati, 1993).

It seems David Ricardo's model is not shaped by the political reality, but political compulsions that have shaped the economic theory. However, economic interests have very often influenced the decisions of the nations. In the past, free trade policies have been used in the pursuit of national economic interests and of course, it was carried out on the name of achieving efficiency and equity (Gallagher and Robinson, 1953).

As Deepak Nayyar (2007:74) emphasises that: "It is clear why free trade was in the interest of countries which were the pioneers in industrialization. Their economic strength was perhaps a source of their political, even military power which enabled them to impose free trade on the rest of the world. For this reason, the ideology of free trade went well with the British imperialist expansion until the early twentieth century and with American political hegemony thereafter. The imposition of free trade on the underdeveloped world was simple because much of Asia, Africa and Latin America were colonized either *de jure* or *de facto*. It was, however, difficult to impose on countries at similar levels of development, such as, Germany and Japan, which were latecomers not only to industrialization but also to colonial empires".

During the mid-19th century, most of the gains from trade liberalization and economic integration accrued to imperial countries which began to export capital and import raw materials. This development was uneven and economic inequalities increased, meaning in terms of industrialization, divergence rather than convergence took place. For instance, the income gap between the richest and the poorest countries, which was 3:1 in 1820, more than doubled to 7:1 in 1870s and rose further to 11:1 in 1913 (Nayyar, 2007: 76).

The developing countries once they became independent were not keen to fully participate in the international trade regime. They realised the irrelevance of free trade doctrine and their governments began adopting policies of promoting domestic industries with high protectionist policies and encouraging domestic production of substitutes for imports (Siddiqui, 2015c; Bagchi, 2010). These countries realised that economic sovereignty cannot be attained without industrialisation and it is a crucial path towards prosperity (Skarstein, 2007; Kaldor, 1967). This was mainly due to their recent past experience with 'free trade' policy under the colonial regime and they were reluctant to adopt it. Therefore, soon after independence their aspirations and views were to improve the living conditions of their people and diversify their economies with the expansion of the local industrial sector (Kaldor, 1967). As a result, they adopted import-substitution strategies, which focused on the expansion of domestic markets rather than overseas. However, in the 1980s and 1990s such strategies came to a deadlock with debt and foreign exchange crisis and many developing countries adopted ‘export-led’ growth. During this period the developing countries also began to join international trade organisations.

IV. Free Trade and Uneven Development

During the late 19^{th} and early 20th century, Russia was integrated into the world economy. Then the country still had largely feudal socio-economic relations in the countryside, but embarked upon industrialisation mainly in military sectors, which was chiefly financed by foreign capital and concentrated in small pockets of advanced industries. This step was taken in response to military pressure from the West European countries. The industrialisation attempt in backward conditions was based on foreign capital and had been pursued through free-trade policies (Bieler and Morton, 2014).

There is a reason for the insistence by developing countries that they have a comparative advantage in the production of primary commodities; hence “free trade” benefits both advanced and developing economies, because the advanced economies still depend on developing countries for many of their essentials of daily life and if the prices of commodities such as coffee, cocoa, sugar, vegetables, fruits and sea foods increase sharply, their living conditions and consumption will be adversely affected.

Gunnar Myrdal, a prominent Swedish economist observed that the gap between advanced and less developed economies continued to widen rather than narrowing down. According to him, this was due to less developed countries largely relying on exports of primary commodities, which put them at a disadvantage with the advanced countries (Semmel, 1978). In order to reverse this, the less-developed countries need to diversify their economies so as to enable them better to meet market fluctuations.

Britain was the first country to industrialise and thus became initially the leader of modern industries. Manufacturing expanded and became the main element to accelerate growth in the 19^{th} century. The industrial revolution led to the development and use of new production technologies which fundamentally not only affected the nature of production in Britain, but also led to dramatic changes in the structure of the global economy. Soon after, industrialisation spread to European countries such as Belgium, France and Switzerland and in the late 19^{th} century to the United States, Germany, Russia and Japan. However, late industrialising countries such as the United States followed a different path towards industrialisation by initially relying on exports of primary commodities and also favourable government policy. In the past, all late industrialising countries such as Germany, US and Japan had used protectionism as a developmental strategy to foster domestic industrialisation.

If one country has advanced economies and technology compared to others, then free trade is advantageous and would greatly benefit from exports. Ricardo’s model was beneficial for England in the early 19^{th} century; however, soon after, when Germany, the United States and

Japan launched industrialisation, they realised that static comparative advantage was unhelpful to them. The relentless search for higher profits makes capitalism very dynamic, but this also implies there is an inner tendency towards crisis. When all capitalists produce more at lower costs with fewer workers then it leads to lack of demand and an overproduction crisis (Siddiqui, 2012). As Rosa Luxemburg (1968) argued, it was an essential element of capitalism to seek and expand to newer territories in search of markets, profits and in order to accumulate more. These European countries are located in a temperate zone and cannot produce commodities that have been core to sustaining capitalism and providing enormous profits to fund their expansionism. As Irfan Habib (2017) has emphasised: "The importance of Luxemburg's thesis is that it sees exploitation of the colonial world essential for the continuous expansion of capitalist production in the metropolitan countries … The 'unequal exchange' consisted in the terms of trade turning unambiguously in favour of the products of metropolitan capitalist countries in their commerce with the less advanced countries. Essentially, this arose from a transfer of industries of lower labour productivity … to less-developed countries, which already produced bulk of 'primary products' in order to exploit their cheaper labour power and thus earn what may be called extra or super profits over what, would have been gained if the industries had been maintained in the most advanced countries themselves… On the other hand by maintain a monopoly over high-technology industries, they could sell their products at essentially monopoly prices to the lower levels of capitalist countries." (Habib, 2017: 13)

The extension of world trade seems to be an inherent tendency of capitalism to expand markets including overseas and does not arise from any need for absorption of the surplus. As Lenin pointed out: "Certainly not because the product cannot be realized at all under the capitalist system. That is nonsense. A foreign market is needed because it is inherent in capitalist production to strive for unlimited expansion…" (Cited in Amin, 1976: 175)

For crops such as tea, coffee, indigo, sugar, and raw cotton, cultivation depends on the landmass of the tropical zones. As Utsa Patnaik and Prabhat Patnaik (2016) elaborated, "Capitalism cannot do without a whole range of goods produced by peasants located in tropical and sub-tropical areas that have a fixed landmass – goods that either cannot be produced in temperate lands, or cannot ever be produced in adequate volumes. As the ex-ante demand for such goods increases with capital accumulation, it cannot be met by increased exports from this limited landmass without threatening the value of money in the metropolis because of increased supply price of such output at any given money wage rate. If land augmenting investment and land augmenting technological change could occur in tropical periphery for raining this output, then increasing supply price could be kept in abeyance … As a result, this ex-ante demand for tropical and sub-tropical goods is met by the imposition of income deflation upon the periphery itself, in order to squeeze out large supplies from a given output at the expense of local absorption … in short, squeezing local absorption in the periphery to meets demands of capital accumulation in the metropolis is an essential feature of capitalism" (cited in Kurien, 2017).

Samir Amin (1976) argues that uneven development and the related conditions of unequal exchange between countries can be explained by unequal relationships they are forced into.

Historically, there are two different ways that former colonies have been integrated into global capitalism. The initial efforts to offset the tendency of the rate of profit to fall revolved around the expansion of markets and new territories where the rate of profits was higher than at the centre; this is very similar to the point earlier made by Luxemburg. The other important development in recent years, in order to reduce the costs of the production and to undermine trade union powers, the core countries resorted to foreign direct investment and shifted their manufacturing in the peripheries. As Amin noted, "The characteristic feature of primitive accumulation, in contrast to normal expanded reproduction, is unequal exchange, that is, the exchange of products whose prices of production, in the Marxist sense, are unequal" (Amin, 1976:187). Bieler and Morton have also argued that, "Uneven development constituted in two different periods of capitalist expansion, in turn, has locked countries into relations of unequal exchange, furthering the transfer of surplus value from the periphery to countries in the core on the basis of different productivity rates" (Bieler and Morton, 2014:40).

According to Samir Amin (1976) the extension of the capitalist market took place at the expense of pre-capitalist territories, which were able to absorb surpluses and also provide opportunities for higher profits. Further, Amin finds, "In these processes, the formation of monopolies and the exporting of capital changed the function of peripheral spaces of capitalism so that they ceased to export agricultural products only and became exporters of finished manufactured goods, the expression of capitalist development that was a result of investment of capital by advanced capitalist centres" (Amin, 1976:180-81). He further argues: "The export of capital, while not enabling the surplus to be absorbed, serves to raise the rate of profit, since the capital benefits from a rate of surplus value in the periphery that is higher than its country of origin. But this transfer is largely concealed by the equalisation of the rate of profit on the world scale, which constitute the essence of unequal exchange". (Amin, 1976:181)

The uneven development on a world scale that took place is largely because of the imposition of free trade from 1850 to 1913. Free trade locks the developing countries into further relations of unequal exchange. As Kiely expressed, "What is very useful about the concept of 'free trade' imperialism is that it demonstrates how more developed capitalist countries can exercise power over less developed ones, largely through 'economic relations' although these are always backed by state regulation" (cited in Bieler and Morton, 2014:41).

V. Structural Change and the WTO

There are empirical and theoretical arguments favouring industrialisation as the important source of economic development. This is due to the following reasons: there exists an empirical correlation between the degree of industrialisation and higher per capita income in the developing countries; productivity is higher in manufacturing than in the agriculture sector; the manufacturing sector offers opportunities for economies of scale; technological advances originate in manufacturing and later on diffuse to other sectors; linkage and spill over effects between manufacturing and other sectors; and finally, as income rises the share of agriculture expenditures to total expenditures declines and the share of manufactured goods increases (Engel's Law). It means countries specialising in agriculture and exports of primary goods will not benefit from the expanding world market for manufacturing goods (Szirmai, 2012: 407).

Moreover, the East Asian countries, who have managed to achieve higher economic growth and raise per capita incomes, also have been able to successfully industrialise their economies. And nearly all their exports consist of manufactured goods rather than primary commodities. Thus, both historical records of advanced economies and more recently East Asia and China provide a strong positive correlation between industrialisation and higher economic growth (Fagerberg and Verspagen, 2002). Similarly, Rodrik (2012) argues that rapid economic growth in the developing countries is associated with industrialisation, where the resources were transferred from the primary sector to the industrial sector. He emphasises that industrial development acts in these countries as an engine of economic growth and development.

On the basis of empirical studies, there is no solid evidence to suggest that trade policy is itself an important determinant of industrial performance. As Helleiner (1994) argues: “On the basis of currently available evidence, it is difficult to escape the conclusion that trade policy has not been the major influence on productivity growth in manufacturing that many analysts have said that it should be. Such associations as there have been between productivity growth and trade phenomena relate to the probable positive role of manufactured export expansion, and not to import liberalisation” (Helleiner, 1994: 31).

However, emphasising the industrialisation in the developing countries does not mean other sectors are less important. For historical reasons they have disproportionately relied on the primary sector for incomes and employment; therefore, expansion in industrialisation would also mean lessoning the burden on the primary sector. Also it is empirically proven that industrialisation leads to a spiral effect and raises overall productivity in the economy (Kaldor, 1967; Chang, 2002). Historical evidence confirms that developed countries during their early phase of industrialisation adopted a number of protective industrial policies and were far from pursuing an open trade policy. The developed economies followed interventionist trade policy and were less open than today’s developing economies during their own development phase (Chang, 2002). Once their industries were developed and they achieved confidence, only then did they welcome a free trade policy. However, it seems that the primary mode of engagement with the global economy today is through global value chains (GVCs).

At present, most of the developing countries have relied on ‘old industries’ i.e. low value added industries and products. And under such circumstances free trade further increases imbalances in trade and production. For instance, on the issues of structural change in the post-independent period, Szirmai (2012) examines a sample of 29 large developing countries. “In 1950, 41 per cent of developing countries GDP originated in the agriculture sector. It declined dramatically to 16 per cent in 2005. It is worth noting that the average share of services in developing countries was already 40 per cent in 1950, far higher than the average share of industry. Thus, the pattern of structural change in developing countries differs radically from the traditional patterns of structural change, in which the rise of industry precedes that of service sector. In 1950, the share of manufacturing was only 11 per cent of GDP compared to 31 percent in the advanced economies” (Szirmai, 2012: 408).

In recent decades in advanced economies, the share of manufacturing declined substantially from 31 percent in 1945 to less than 16 per cent in 2010, while services have become the most important sector, both in their share of GDP and in terms of employment; in 2010, services accounted for more than 70 per cent of GDP, which increased from 41 per cent in 1945.

Between 1980 and 2010, the share of manufacturing continued to increase in the Asian countries, but it was very different in African and Latin American countries, where the process of industrialisation slowed down and industrial growth declined. For instance, in Latin American countries the share of manufacturing to GDP declined on average from 24 per cent in 1980 to 18 per cent in 2010.

The share of the developing country exports in world trade increased from 14.4% to 34.1% between 1965 and 2006, while their imports rose from 14.1% to 29.4% for the same period. Also the share of developing countries in world industrial production was tripled between 1970 and 2006, which was not possible due to magic of ‘free market’, but rather something else: “attributable, in important part, to development strategies and economic policies in the post-colonial era which created the initial conditions and laid the essential foundations in countries that were latecomer to industrialization. The much maligned import substitution led strategies of industrialization made a critical contribution in this process of catch-up... the role of state was critical in the process. Industrialization was not so much about getting-prices right, as it was about getting state-intervention right. Indeed even in the small East Asian countries, often cited as the success stories, the visible hand of the state was much more in evidence than the invisible hand of the market” (Nayyar, 2009: 22-23).

The World Trade Organisation emphasises that in recent years more and more products are ‘made in the world’ and participation in global value chains has the potential to offer developing countries an opportunity to increase their growth rates (Ravenhill 2014). In order to get access to global value chains, the developing countries are asked to liberalise their trade and investment policies, strengthen intellectual property rights and not to pursue state supported industrial policy. For example, multinational companies find it more profitable to outsource some stages of the production process. This business model has been adopted by companies such as Nike; as a result the company has been able to save capital investments as production was done by suppliers and also provided greater flexibility. Such policies were not limited to the manufacturing sector, but also adopted by electronic companies. They found that fragmentation of production was very profitable for big companies. As Ravenhill (2014) observes, “The leading companies that control key dimensions of value chain such as brand names, design or distribution channels nonetheless may capture the lion’s share of the gains. The supplier is often left with little revenue to devote to upgrading capabilities. In a world which bargaining power rests on who needs whom most, lead firms have every interest in keeping the relationship asymmetrical.” (Ravenhill 2014:266).

The WTO’s Bali and Nairobi Ministerial Declaration has been portrayed as an agreement to facilitate integration into GVCs by removing barriers to imports and exports. It seems that an active industrial policy is crucial to the developing countries to take advantage of GVCs. They need to build specific production capabilities to participate and capture GVCs. However, WTO negotiations normally focus on reducing tariffs and quotas (Wade, 2013). In contrast to this, the development state followed an active industrial policy with a focus on designing, controlling and coordinating industrial development within their countries. They also took a number of measures to facilitate the possibilities of technological upgrading and learning through participation in GVCs. In fact, learning is not without costs and to build up technological capabilities and productive capabilities through GVCs is not automatic.

There is also the question about the measurements of gross trade flows as it does not provide clear indications of where value is added. As Daniel Flentø and Stefano Ponte (2017: 367) find: "[gross trade flows] provides a distorted view of bilateral trade balances, as intermediate products imported from other countries are incorporated in gross export values. For example, an iPhone that ships from China to the US is usually treated in trade statistics as causing a negative trade balance of US$169 for the US. But when value added is measured at each stage of production, a much more nuanced picture emerges - with China adding only US$ 6.5 of value per iPhone, [South] Korea adding US$ 80 and Germany US$ 16 … Under the proposition that what counts is trade in value-added. The patterns of specialization apparent today show that countries can focus on the production of intermediary goods, and it is a simpler task than creating beginning-to-end production systems. It should also be recognised that involvement in intermediary good production is currently concentrated in industrialised and emerging economies…"

Moreover, sectors in which developing countries possess comparative advantage such as agriculture and clothing tend to be more protected worldwide than other sectors. The Bali and Nairobi declaration included a reduction in red tape and also an agreement binding the members to be legally obliged to undertake regulatory reforms to comply with it. Moreover, the agreement seeks to remove export subsidies in agriculture by 2020 for industrialised countries and by 2023 for developing countries.

Between 1948 and 1998 world trade rose more than seventeen-fold from US$ 124 billion to US$ 10,772 billion. The sharp rise in international trade took place under the GATT trade regime. GATT has been operating well towards liberalising trade among countries. It has also recognised the "special differential status" of developing countries and provided space for the developing countries to pursue trade policy for their domestic industrialisation. Then, the question arises, what was the need for the WTO? In fact, the US lobbied for a comprehensive Uruguay Round in the early 1990s to meet the demands of its corporate interests. Thanks to the US, agriculture was brought into the WTO in 1995. Furthermore, the US and EU services including financial industries had a lead in the global market. The expansion of WTO jurisdiction to Trade Related Intellectual Property Rights (TRIPs) and Trade Related Investment Measures (TRIMs) sought to remove internal barriers imposed by the developing countries in order to develop their domestic industries. It is clear that it was not developing countries' necessity that gave birth to the WTO in 1995, neither had they demanded it.

Through successive rounds of agreements, tariffs were brought down under GATT. These GATT negotiations culminated in establishing the WTO in 1995, which expanded its jurisdiction of dispute settlement procedure of monitoring and enforcement of agreements. The WTO now includes a number of new areas such as TRIPs, TRIMs, GATS and agriculture. This appears to be another attempt at integrating peripheral countries into the global political economy in order to ensure continued accumulation of surplus value in core areas of advanced capitalism through unequal exchange, while developing the prevailing uneven development.

The differences between developing and developed countries grew wider in the wake of the Doha negotiations, including in agriculture areas where both groups found irresponsible policy views that led to the collapse of the Doha negotiations in 2008.

The WTO is not simply asking for a reduction of tariffs but rather is focusing on new areas. In fact services have become very important for the United States and the European Union in recent years. For instance, the share of services in total GDP accounted for 77% in the European Union in 2015. This sector has become very important as it has very high productivity and, thanks to new technology, financial services have achieved a competitive edge in the developed countries compared to the developing countries.

The importance of trade in merchandise goods to the US economy has changed in recent decades. As we see, its share in GDP, for instance, in 2015 exports of goods amounted to $1.6 trillion, about 9.2% of GDP, while the merchandise imports were $2.4 trillion, about 13.7% of the GDP (www.bea.gov.2016, accessed on January 30, 2016). Historically, during World War I (in 1914) exports rose sharply, but trade shares in the GDP declined from 1919 to 1944. This was due to the fact that many countries followed protectionist trade policies and restrictions to foreign capital flows. During the post-World War II period, as European economies began to recover from the war, they began to dismantle trade barriers and in the 1970s trade began to regain its importance. Furthermore, in the 1980s and 1990s, with the opening of China, India and most of the Latin America countries, technological improvements in ICT and shipping pushed trade to much higher levels.

However, not all countries had similar experiences, for example, in 2015, in the US the value of service exports, excluding merchandise trade, amounted to $720 billion, which is more than 40% of the entire value of merchandise exports. In fact, the US is the largest net exporter of services, having imported $488 billion in the same year. The major categories of services trade include shipping, royalties and receipts from intellectual property rights (trademarks, and patent rights). The sharp increase of trade in services has raised its economic significance. In 2015, exports of goods and services were 13.4% of GDP, of which merchant exports were 9.2% and service exports were 4.2%. In contrast to this, in 1970, service exports were only 1% of GDP and also for the same period imports of goods and services were 16.5% of GDP of which merchandise imports were 13.7% and service imports were 2.8% (Bureau of Economic Analysis, Department of Commerce, www.bea.gov). The rapidly growing category of US services includes finance, insurance, education, telecommunications and technical services.

China became a member of the WTO in 2001. In 2001, the country's exports and imports were merely 4.3% and 4% respectively, i.e. they still formed a small proportion of total world trade. However, China's joining the multilateral trade organisation that year caused a surge in trade, putting China ahead of the UK in the export/import league. In December 2002, an important trade agreement was signed with Southeast Asia and soon after, the countries of that region established the first phase of the world's largest free trade market of 1.7 billion people.

In high technology, the US, the EU and Japanese companies have been concerned about the control of innovations industries such as electronic software and hardware, biotechnology, lasers and so on. The incorporation of TRIPs into WTO meant that if chip design, software, and programming firms wanted to innovate, then they must necessarily integrate patented designs and processes, most of which are in the US and other developed economies. Such pressure has led to less incentive for local innovation in the developing countries.

After World War II, the GATT was signed in 1947, but did not then include the agriculture sector. However, in 1995, the Uruguay Round was revised and agriculture, TRIPs, TRIMs and GATs were included. For example, the agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) limits the ability of governments to refuse patents on certain products. It also forces governments to accept a significant increase in the length of time during which patents remain in force. The agreements of Trade Related Investment Measures (TRIMs) restricts governments' ability to demand any kind of performance related tasks from foreign investors, including to require the use of local inputs and transfer of technology. General agreement on Trade in Services (GATS) happens to open local services for foreign companies in areas such as education, health, utilities and retail trade. It also means accepting that market determined outcomes are superior to socially determined ones in crucial economic activities (Irwin, 2015; Siddiqui, 2015d).

Free trade theory emphasises that specialisation and division of labour leads to reduction in costs, efficiency in production and exchange based on comparative advantage, which will benefit all trading partners. It is also assumed that in order to realise the full potential of free trade policy, government intervention such as tariffs and subsidies should be removed. Then, it is claimed that producers and consumers would follow their economically rational self-interests, which is said to maximise welfare for all.

International agricultural commodity trade is very important to the livelihoods of millions of farmers across the world. Food sovereignty has emerged as resistance to the WTOs Agreement on Agriculture (AoA) and the imposition of multilateral trade disciplines on domestic agriculture policy. The Food and Sovereignty Movement (FSM) rejects international trade in agricultural goods. However, trade remains important to the realisation of the livelihoods of small producers, who sell to the markets (Burnett and Murphy, 2014). As Burnett and Murphy (2014:1066) argue: "[It] should take into account of the diverse needs and interests of hundreds of millions of smallholder farmers and farm workers around the world. These livelihoods are dependent on export markets and despite many inherent challenges, those involved do not necessarily want to exit international markets." The FSM declaration (2007) in Nyeleni, Mali stated that: "Food sovereignty is the right of peoples to healthy and culturally appropriate food produced through ecologically sound and sustainable methods, and their right to define their own food and agriculture systems" (Nyeleni cited in Burnett and Murphy, 2014:1067).

It also emphasised the rights of nations to develop their capacities to produce their own food and they should prioritise food production for local consumption and imports should not undermine their efforts. To achieve these rights, governments should have greater autonomy in domestic policy making.
The criticism about WTO is very visible, as Peter Rosset (2006: 77) claims: “The WTO and other trade liberalisation agreements are by nature designed from the ground up to favour the removal of barriers to trade, rather than its regulation in the public interest, and the non-transparent, anti-democratic, superpower-dominated mechanisms they use are unlikely to make anything else possible” (Rosset cited in Burnett and Murphy, 2014:1070).

On the issues of theory underlying the trade liberalization policy, Anwar Shaikh (2007: 51-52) notes that: “Conventional economic theory concludes that trade and financial liberalization will lead to increased trade, accelerated economic growth, more rapid technological change, and a vastly improved allocation of national resources away from inefficient import-substitutes towards more efficient exportable goods….this means that the best path to economic development involves opening up the country to the world market: elimination of the trade protection, the opening up of the financial markets, and the privatization of state enterprises… It is quite striking to note that this powerful panoply of claims is actually based on two crucial premises: (1) the premise that free trade is regulated by the principle of comparative costs; and (2) the premise that free competition leads to full employment in every nation.”

VI. Conclusion

Britain with the signing of Cobden-Chevalier Commercial Treaty in 1860 with France had been symbolised as it opened the door towards free trade era. Moreover, the British navy protected wherever the British merchants choose to go and “opened” new markets.

Nobuharu Yokokawa (2013:32-33) has found that “Ricardo’s theory of comparative advantage was most useful for Britain in the middle of the nineteenth century. It allowed Britain to accumulate capital without supply-side constraints, to prolong the period of extra-profit, and then to enjoy the production of relative surplus value through both domestic productivity growth and international trade. This was not acceptable for catching-up countries such as Germany and the United States, which knew that their infant industries could not compete with British industries on a level playing field, if they opened their countries to free trade, their infant industries would be destroyed by the competition…. Ricardo’s theory of comparative advantage is essentially a static theory that assumes a status quo and cannot explain advantages in the long run”. A similar opinion was expressed by Joan Robinson on Ricardo’s comparative advantage, as she noted (1977: 1336) that: “When Ricardo set out the case against protection, he was supporting British economic interests. Free trade ruined Portugal industry… Free trade for others is in the interests of the strongest competitors in the world markets, and a sufficiently strong competitor has no need for protection at home. Free trade doctrine, in practice, is a more subtle form of Mercantilism. When Britain was the workshop of the world, universal free trade suited her interests.”

Capitalist development has an inherent tendency to expand markets and also to dominate the periphery by the centre. Expansion of the markets by expanding to other regions is in the nature of capitalist development. As Samir Amin (1976:173) notes: "It is not necessarily in order to solve a market problem, to realize surplus value, that this expansion takes place…the realization of surplus value does not necessitate extension of the market by disintegration of pre-capitalist societies…the standing contradiction between the capacity to produce and the capacity to consume, which reflects the essential contradiction of the capitalist mode of production, is constantly being overcome both by deepening the internal (purely capitalist) market and by extending the market externally". Thus, the extension of world trade seems to arise from an inherent tendency of capitalism to expand markets including those overseas and does not arise from any need for absorption of the surplus. Commenting on free trade, Karl Marx said: "If the free traders cannot understand how one nation can grow rich at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how within one country one class can enrich itself at the expense of another" (Marx, 1963: 223).

There seems to be no rationale to fully endorse trade liberalisation for developing countries and the merits of trade policy need to be evaluated at a specific level. In a situation such as the case of infant industry, trade policy is crucial, including macroeconomic and state intervention and in its absence infant industries will be eliminated before they have an opportunity to reach maturity. Industrialisation seems to be very important for the development in order to shift the population from the agriculture sector, diversify their economies, expand employment opportunities and raise overall productivity.

The study has argued that free trade locks developing countries into relations of unequal exchange, where surplus is being transferred from the peripheries to the core countries due to a number of reasons including differences in productivity rates. In the past, too, free trade has played an important role in the outward expansion of capitalism. The non-capitalist territories provide new markets to absorb surplus products from core countries and with an expanded trade agenda and inclusion of financial investments and service provisions, adopted a more important role in recent years. Under the new situation, transnational production along with the threat of privatisation and liberalisation as part of a free trade agenda affects working people across countries.

The study has found that we must draw a lesson that during the colonial period free trade was imposed on the colonies and semi-colonies by Britain and, however, despite the growth of some modern industries in a few regions, it largely increased uneven development within the colonies and created a new international division of labour that assigned the peripheries to the production and supply of raw materials, while the centre focused on the production of manufactured goods.

The study has argued that free trade policy will deepen further the process of uneven development and unequal exchange. Comparative advantage based on efficiency and labour value does not automatically lead to mutually beneficial trade.

This study has also found that the WTO includes a number of areas such as TRIPs, TRIMs, GATS and agriculture. This appears to be another attempt at integrating peripheral countries into the global political economy in order to ensure continued accumulation of surplus value in core areas of advanced capitalism through unequal exchange, while exacerbating the prevailing uneven development. The WTO is strengthening the transnational companies' power and profits, while causing economic instability and deterioration of the living conditions of the majority of the people in the developing countries.

In fact, the WTO provides cover for the promotion and extension of capitalist interests and by promoting free trade, enhances efficiency and maximises welfare of the people. However, its broader economic agenda is not spelt out, which is enhancing and expansion of corporate profits and domination. The WTO pursues its aim through a variety of agreements that are intended to undermine public regulation of trade policies. For instance, TRIPs, which will limit the ability of countries to control the use of products patented in other countries. It also imposes a longer length of time during which the patent remains in force. The agreement on TRIMs restricts the ability of host countries to ask the foreign investors to invest in backward regions, or use of local inputs or technology transfer. The agreement on GATS would open domestic service markets, in crucial areas of public utilities such as water supply, health care and education to foreign investors and also would deny governments' ability to public regulation.

Free trade is based on a proposition that market determined outcomes are superior to socially determined ones in the sphere of economic activity. It proclaims the best economic policy is to allow unregulated international market activity to determine countries comparative advantage and thus patterns of production. It assumes full employment of all factors of production, including labour, which is misleading. It also assumes that if workers lose jobs as a result of increasing imports, they will soon find jobs in export expanding sector. However, this is incorrect, as workers may not be suitable for the export sector and in reality re-allocation is very slow and a liberalised economy most likely would suffer from rise in unemployment. In one critique of the WTO, namely Peter Dorman (2001:2) argues: "Of course, workers and governments would have little to worry about such a world–provided they could shift readily between expanding and contracting sectors of the economy".

As William Tabb (2004:311) notes: "For transnationals' the WTO is crucial not only to their agenda of operating unhindered in all parts of the world, but also the definition and then enforcement of intellectual property and market access in services. The WTO precludes competition from the newly industrialising economies along the lines previously employed by the late developers. It assures that their subordinate role in the value added production chain. The key vehicles are TRIM, TRIP, and GATS provisions of the WTO and their enforcement in a manner which has ignored interests other than those of transnational capital…"

The WTO is not simply asking for a reduction of tariffs but much more, by focusing on new areas. In fact services have become very important for the United States and the European Union in recent years and, due to new technology, financial services have achieved a competitive edge in the developed countries compared to the developing countries. Finally, the WTO is based on free trade theories, also being supported by the mainstream economists; however, the study has argued that it is both theoretically and empirically weak.

The study suggests that future trade negotiations should include the building up of supportive trade and industrial policy to promote flexible specialisation, domestic value addition so that the developing countries can improve their export performances and export earnings. An alternative policy should also take into account that the developing countries' food deficit is growing, meaning they should increase their food production, which besides reducing imports, could also create local employment, remove rural poverty and strengthen the rural environment, and these measures could ultimately help to eradicate rural poverty and reduce rising migration to the cities.

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