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FREE TRADE FOR DEVELOPMENT: AN APPRAISAL

Abstract

Over the years, free trade has been an issue of great debate. The present paper tries to examine whether free trade is conducive for the development of the developing nations. Instead of focusing on the rhetoric attached to free trade, it makes an attempt to look into the flaws in comparative advantage theory, which is a theoretical foundation of free trade. A considerable part of the paper is devoted to analyse some concerning facts related to free trade. The paper concludes that protectionism along with some appropriate government policies should be the way forward for the developing economies before their industries are exposed to free trade regime.

1. Introduction

International institutions, such as World Bank (WB), World Trade Organization (WTO), and International Monetary Fund (IMF) advocate strongly for free trade as a major policy option for development. Specialisation in production through comparative advantage paves the way for free trade and mutual gains amongst nations. By contrast, protectionism has become a notion detested by the developed economies, international financial and trading bodies, and economists from the neoclassical school of thought. However, often the importance of protectionism as a development strategy is lost in the plethora of arguments favouring free trade. International trade theories have also developed further, thereby questioning the viability of free trade as a development strategy. Hence, free trade turns out to be a contested affair.

This paper makes an effort to critically appraise the option of free trade for development. In the process, the article, as one would find, offers analysis based on the much vaunted theory of comparative advantage. This classical theory provides the foundation of free trade. A critical review of free trade therefore, remains incomplete without looking into the insight of the comparative advantage theory. Such approach is also likely to give more justified arguments for or against free trade.

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Against this background, the present paper is divided into six sections. After the introduction, section 2 presents the advantages and disadvantages of free trade. Section 3 and 4 deal with the flaws in the comparative advantage theory vis-à-vis free trade, respectively. Section 5 focuses on policy related issues, while the conclusion provides a summary of the whole discussion.

2. Advantages and Disadvantages of Free Trade

In spite of all the criticisms, there are advantages of free trade. Jagdish Bhagwati, one of the most famous proponents of free trade, lays down some of these advantages. These include: "(1) increased exploitation of economies of scale, (2) enhanced diversity of choice among differentiated goods, (3) increased productivity of resources through competition, (4) the demonstrated possibility that trade can be a conduit for know-how that can (as with a public good) be appropriated without acquisition cost, and (5) increased marginal efficiency of capital leading to enhanced productive investment thanks to integration into world markets".[1]

WTO is one of the chief propagators of the free trading system today. The organisation believes that comparative advantage theory "is arguably the single most powerful insight into economics".[2] The benefits they attach to free trade include: (1) unrestricted flow of goods and services, (2) enhancement of economic growth, and (3) competition and innovation amongst the members.

However, in reality free trade has not turned out as a popular development strategy as demonstrated by the growing agitation against free trade all over the world. Bhagwati blames the younger generation, who are not in support of globalisation and capitalism, for massive upheaval against free trade. He claims that the growing concerns are also linked to the collapse of communism leaving people with no option but to turn against the existing system which happens to be capitalism.[3] The inadequate support from majority of scholars does not help the cause of free trade either.

In earlier times (1840s, 1930s and 1980s), the main criticism of free trade was that it was an inappropriate policy in the face of market failure, for free trade promotes liberalisation which is dependent on the functioning of market forces.[4] If market fails**,** free trade only serves to destabilise the economy. As a result, protectionist trade policies, such as import substitution and government intervention, were seen to be the preferred substitutes.

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[1] J. Bhagwati, *Free Trade Today,* Princeton and Oxford: Princeton University Press, 2002, p. 35.
[2] World Trade Organisation (WTO), *Understanding the WTO,* 4th Edition, Geneva: WTO Information and Media Relations Division, 2008, p. 14.
[3] J. Bhagwati, *op. cit.*, pp. 5-6.
[4] *Ibid*., pp. 11-13.

The current criticisms of free trade are associated with pertinent issues of the society, such as, "fairness, social justice, nature, and moral purpose."[5] Free trade is devoid of fairness; hence the new drive is for fair trade. Inadequate concern for the environment, poor working conditions for labourers and the effects on the real wages of workers are some of the current concerns about free trade.

At the same time, the free trade policy of the developed economies has been labelled as highly discriminatory because it is less open to the developing countries. The developing nations while exporting to the Organisation for Economic Co-operation and Development (OECD) nations face an import tariff that is 400 percent higher than the tariff faced by other OECD nations.[6] In addition, free trade is often unable to generate employment or boost growth. In North American Free Trade Area (NAFTA), Mexican agriculture fails to compete with the cheap food import from the US, where agriculture is subsidised. As a consequence, the Mexican peasant class suffers from low income and poverty, and about three million people involved in agriculture have lost their jobs.[7]

Further, free trade is blamed for the growing inequality within countries as it is only beneficial to the small affluent and influential quarters of the society.[8] In countries like Brazil, India, China and South Korea, the dividends of free trade are only channelled to the richer group and it also reduces the real wage of low-skilled workers.[9]

The advantages and disadvantages of free trade presented in this section are quite well known. However, analysis of the current article is not limited to these typical pro-free trade and anti-free trade rhetoric. Instead, it will look into the basic weaknesses associated with free trade's fundamental basis - the comparative advantage theory. The article then focuses on some issues relating to free trade.

3. Inherent Weaknesses of Comparative Advantage Theory

The debate on the validity of the theory of comparative advantage and inevitably free trade has existed for centuries and to date, this theory is one of the

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[5] *Ibid*., p. 50.

[6] J. E. Stiglitz, "Fair Trade for All. How Trade Can Promote Development", Brooks World Poverty Institute Inaugural Lecture, available at *http://www.bwpi.manchester.ac.uk/events/archive/inaugural/thefile,64621,en.pdf* accessed on 10 December 2009.

[7] *Ibid*., and A. Turl, "The End of Free Trade?", available at *http://socialistworker.org/2009/02/05/the-end-free-trade* accessed on 30 November 2009.

[8] P. R. Krugman, "Is Free Trade Passé?", *The Journal of Economic Perspectives*, Vol. 1, No. 2, 1987, p. 142.

[9] A. Turl, *op. cit.*, and P. R. Krugman and M. Obstfeld, *International Economics: Theory & Policy*, Pearson International Edition, 2006.

most contentious subjects in academia and policy works. Lead scholars in the field of free trade are well aware of this contention. Paul Samuelson stated that the comparative advantage theory is one of the "most true and non-trivial issues in the social sciences".[10] The debate engulfs both the concepts, the theory itself and free trade, because they have a causal relationship with the former being regarded as the backbone of the latter.

Although the central message is simple and straightforward, the insight of comparative advantage theory, developed by British classical economist David Ricardo in 1817, is not easy to grasp. Concepts such as the functioning of competitive markets, procedure of wage determination, and the mechanism of balance of payment are linked to the understanding of this theory.[11]

The original Ricardian model is a two-country (England and Portugal), two-commodity (cloth and wine) and one-factor (labour) model. It depicts that the prevalence of differences in relative cost and eventual specialisation in the lower cost commodity for each nation will lead to the establishment of trade links and subsequently mutual benefits for both nations. In other words, countries export products where they achieve specialisation by producing those at lower opportunity cost and import those which they can produce only at a higher opportunity cost.[12] According to David Ricardo, England through specialisation became a cloth exporter and Portugal a wine exporter, and in the process, mutually beneficial free trade occurred between these two nations. Despite this apparent simplicity, doubts have been raised about the validity of the assumptions and the theory itself with respect to whether it can really explain the causes of trade.

It is evident that David Ricardo had his ideals of the theory founded on relative opportunity costs. There are varying views on the ideals and principles on which the theory of comparative advantage is based. Adam Smith, one of the initial advocates of free trade, contested that comparative advantage was based on absolute advantage. On the other hand, Heckscher and Ohlin based their views on 'resource abundance'.[13] The varied opinions depict that comparative advantage has always been a subject open to intense discussions. It is no surprise that to date, the theory is still open to criticisms and debates.

Problematic assumptions are the major flaws of the law of comparative advantage. Patnaik analyses the fallacies of the assumptions of the comparative

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[10] WTO, *op. cit.*, p. 13.

[11] P. R. Krugman, "Ricardo's Difficult Idea", available at *http://web.mit.edu/krugman/www/ricardo.htm* accessed on 14 December 2010.

[12] For detail, see, D. Ricardo, *On the Principles of Political Economy and Taxation*, London: John Murray, 1817.

[13] G. Dunkley, *Free Trade: Myth, reality and alternatives*, London and New York: Zed Books, 2004, pp. 20-21.

advantage theory, its applicability to the general theory of trade and the mutual benefits that are assumed to accrue to all parties involved in trade.[14] Ricardo laid down a number of assumptions in support of his theory**.** The first assumption is that prior and during trade, the two countries in his analysis, England and Portugal, are able to produce two goods of choice — cloth and wine. During trade, each country engages in production of the good in which it has a comparative advantage on the basis of lower relative cost.[15] Mutual benefits in the form of increased consumption of at least one of the goods accrue to the countries involved, making them better off in a situation following specialisation and trade.

Patnaik points out the weak assumption that both countries can produce two goods in question, wine and cloth, thereby tracing similar production transformation frontiers. She refers to this as a ‘material fallacy’ and believes that in the real world it is difficult to find two countries with a similar production structure especially if the countries’ experience lies in different climatic zones.[16]

This material fallacy is a strong criticism of comparative advantage. The Ricardian model also implicitly argues that similarity in production transformation frontier leads to mutually beneficial trade between two nations. However, does similarity in production frontiers truly guarantee mutual benefits from trade? This can be another query to be pondered upon. There are many countries especially in the developing world with similar production frontiers but still not able to benefit from trade. This clearly predicts that beside this weak Ricardian assumption, there are other factors affecting the attainment of mutual benefits from trade.

Another fallacy is the ‘ambiguity of language’— a ‘verbal fallacy’.[17] Ricardo failed to make a clear distinction between the ‘growing of wine’ and the ‘processing of wine’. The two processes are significantly different and call for the presence of a suitable production structure. England’s climatic condition was not suited to grow wine. This verbal fallacy therefore makes it difficult to define which country is engaged in the specific role of wine production. At this point, the material fallacy is complemented by a verbal fallacy. The verbal fallacy indicates that wine processing and growing needs to be clearly defined in order to trace the transformation frontier for both countries.

Ricardo could have meant that growing of wine indicates that England had a lead in technology. This technological advancement would imply that England is

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14 For detail, see, U. Patnaik, “Ricardo’s Fallacy: Mutual Benefit from Trade Based on Comparative Costs and Specialization?” in K. S. Jomo (ed.), *The Pioneer of Development Economics,* London: Zed Books, 2005, pp. 31-41.
15 *Ibid*., p. 32.
16 *Ibid*., p. 33.
17 *Ibid*., p. 35.

able to import the grapes and produce wine more efficiently in comparison to Portugal; thus technology provides a leading edge in this scenario. This would then validate the assumption that both countries can produce wine and cloth. It can be said that Ricardo was well aware that the wine growing and processing were significantly different but he ignored it to justify his theory.

Another view on comparative advantage is that the theory is not valid even under the so-called “ideal conditions”.[18] Furthermore, it does not capture the concepts of technical progress and growth of labour productivity and thus fails to analyse the dynamic aspect of economic development. Even though Ricardo recognised the use of technology in production, he did not emphasise it because much of his focus was on explaining how the rate of profit influenced foreign trade and ultimately provided trade gains.[19]

The trade adjustment mechanism of the comparative advantage theory is also questionable. According to the theory, trade must be balanced to gain any benefit. In the original theory, the circulation of money restored equilibrium in trade between two nations. The Neoclassical economists’ view is that the long run real exchange rate mechanism would balance trade.[20] In other words, the benefits of comparative advantage can be reaped in long term and therefore, any short run trade imbalance should be ignored.

However, in real life, balanced trade is a rare phenomenon, both in the short and long run. For decades, many developed and developing economies have either suffered from trade deficit or enjoyed trade surplus. The US and Japan, for instance, have experienced persistent trade deficit and surplus respectively for over 20 years. Furthermore, in many less developed countries, a widening gap between exports and imports has been sustaining for a much longer time.

At the same time, the comparative advantage theory does not tell whether specialisation and output gain would be sustainable in the longer run. It merely shows that in a free trade regime, specialisation and output gain have a “once and for all effect” and this effect is itself quite small.[21] In this way, the theory neglects, as mentioned earlier, the contribution of technical progress and factor productivity to welfare. In fact, the robust and sustainable output growth of now-developed countries depicts that it is not free trade but other factors like technical progress that could have played a pivotal role.

Apart from the flawed assumptions, development of international trade theory since the late 1970s has created doubt about the validity of the Ricardian

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[18] It points out the absence of increasing return to scale.

[19] E. Tasarika, “An Essay on the Doctrine of Comparative Advantage and Its Present-Day Validity”, *Thammasat Economic Journal*, Vol. 20, No. 1, 2002, p. 2.

[20] R. Skarstein, “Free Trade: A Dead-end for Underdeveloped Economies”, *Review of Political Economy*, Vol. 19, No. 3, 2007, p. 349.

[21] *Ibid.*, p. 351.

model.[22] While the Classical theories are based on constant return to scale and perfect competition, the newly developed ones shifted focus on increasing return to scale and imperfect competition. Accepting the fact that markets around the world are imperfectly competitive, these new theories point out that a substantial portion of trade is explained by economies of scale, not by the comparative advantage theory.[23] These newly developed theories also supported the interventionist policies of government in the form of export subsidy and import restriction.

The fundamental flaws in the comparative advantage theory, mentioned in the preceding paragraphs, only suggest that free trade as a policy option might not help development in the developing economies. Free trade was also not a policy adopted by the present rich economies on their way to development.

4. Free Trade: Reviewing Some Facts

Specialisation rooted in comparative advantage, as noted earlier, promotes mutually beneficial trade across the economies. The point is production efficiency through specialisation would induce the respective nations to involve in export of that product. The entire process would spur free trade globally. Hence, free trade had been suggested as a dominant development strategy by the world's premier financial and trade organisations and protectionism had been used to be regarded as a measure that would distort market. Nevertheless, one can identify major problems in such policy. Neither this policy was embraced in the past nor can it spur development as the propagators of free trade believe. Even the potential benefits are hindered owing to some one-eyed policies of the Western economies.

4.1 Specialisation under Free Trade: A Way to Promote Disparity

It is noteworthy that specialisation in production under free trade can increase disparity between the developed and the developing countries engaging themselves in free trade. This argument can be supported by using a growth law, namely the Verdoorn-Kaldor's growth law. Originally proposed in 1949 by Dutch economist Verdoorn and brought into limelight by Nicholas Kaldor in 1966, the Verdoorn-Kaldor's law focuses on "causal relationship running from output to productivity growth particularly in the manufacturing sector".[24] This growth law claims that strong growth in manufacturing sector would have a positive impact on GDP, and labour productivity in and outside the manufacturing sector. Consequently, if trade opens up between an industrialised

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[22] P. R. Krugman, "Is Free Trade Passé?", *op. cit.*, pp. 131-132.
[23] *Ibid.*, p. 134.
[24] J. C. Shaw, "The Development of Verdoorn's Law", *History of Economic Review*, No. 18, Summer, 1992, pp. 59-60.

and a non-industrialised nation, the former would be specialised in manufacturing sector and the latter would be in the non-manufacturing sector, i.e., agriculture sector.

According to Verdoorn-Kaldor's growth law, the industrialised nation would achieve further progress in GDP and overall labour productivity. The manufacturing sector would enhance economies of scale, speed up technical progress and develop the learning by doing culture.[25] The law has been successfully tested in the OECD countries as well as in the East Asian economies.[26] These studies have reported that manufacturing sector is the determining factor that accounts for growth differences across countries and the sector is therefore regarded as the engine of growth. On the other hand, the less developed partners, who specialised in agriculture, would not experience similar development throughout its economy. Hence, the development gap would widen. Even if the less developed partner enjoys comparative advantage over its developed counterpart, the growing technical and productivity gap between the two would force the developing country to concentrate on the agriculture sector. The higher income elasticity of industrial commodities can improve the terms of trade of the industrialised nations vis-à-vis the developing nations. This would create a "process of downward circular and cumulative causation" in the less developed economy.[27]

This argument is further supported by the Prebisch-Singer Hypothesis, which addresses the economic backwardness of Latin America. The hypothesis states that if a nation specialises in primary commodity (agriculture) export, then the trade balance of the country would suffer due to the inelastic demand of the primary commodity. Prebisch went on to remark, "since prices do not keep pace with productivity, industrialisation is the only means by which the Latin-American countries may fully obtain the advantages of technical progress".[28] Thus, governments of less developed nations need to adopt certain interventionist policies to develop industries. Such policies were implemented by the governments of the UK, the US, Germany and Japan during their early stages of development.

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[25] *Ibid*., p. 59.

[26] See, H. Tuah and M. S. Abu, "An Application of Kaldor's Growth Laws in South East Asia: A Time Series Cross Section Analysis", *Labuan Bulletin of International Business and Finance*, Vol. 2, No. 2, 2004, pp. 147-166; F. Ofria and E. Millemaci, "Kaldor-Verdoorn's Law and Increasing Return to Scale: A Comparison among Developed Countries", pp. 1-13, available at *http://www.stat.unipg.it/aissec2009/Documents/papers/36_Ofria_Millemaci.pdf* accessed on 7 December 2009.

[27] R. Skarstein, *op. cit.*, p. 361.

[28] Quoted in J. T. Cuddington *et al*, "Prebisch-Singer Redux", Office of Economics, U. S. International Trade Commission, Working Paper, No. 202-06-A, 2002, p. 1.

4.2 History of the Developed Nations: Development through Protectionism

The US and the UK have been regarded as proponents of free trade and through organisations like IMF and WTO they try to champion the cause of free trade to stimulate development for the less developed nations. Ironically, evidence from history suggests otherwise. A whole range of trade protectionist measures were used by the British government in the 16th century to assist England's transition from an agro-based economy to an industrialised economy.[29] These anti-free trade policies were in the best interest of England's industrial development. They included, among others, import ban, export subsidy, zero duties on exports of industrial commodities, and above all very high tariff on imports. Only after Britain became self-sufficient and competitive in industry, it eliminated import tariffs. But that free trade era was short-lived. In 1932, British government again imposed tariff on a wider scale against the backdrop of stiff foreign competition faced by its manufacturing sector.[30]

Likewise, the US government shielded its industry through high manufacturing tariffs. The US enforced infant industry protection in order to speed up industrialisation. The US government, in 1930, further restricted its trade by imposing the so-called Smoot-Hawley tariff, which Jagdish Bhagwati dubbed as "the most visible and dramatic act of anti-trade folly".[31] Germany, on the other hand, used tariff protection less aggressively for the promotion of industrial growth. Instead the state granted "monopoly rights, trade protection, export subsidies, capital investment and skilled workers from abroad".[32] Like Western Europe and the US, the East Asian economies, such as Japan, South Korea, Taiwan and China gradually relaxed the tariff protection and followed export oriented industrialisation when their industries turned competitive enough. They also protected agriculture, to ensure food security, reduce income inequality and ease pressure on balance of payment.

All the above policies brought dividend to the respective country. Germany and the US, for example, grew rapidly between 1870 and 1912 when they maintained high barrier to external trade. Conversely, during the same period, UK-the free trader at that time, had moderate GDP growth. Free trade policy also pushed local industries out of market in the then colonised countries, like India, Egypt and Burma (present day Myanmar).[33]

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[29] H. J. Chang (a), "Kicking Away the Ladder: The "Real" History of Free Trade", *FPIF Special Report*, Foreign Policy in Focus, Washington DC, 2003, pp. 1-20.
[30] *Ibid.*, p. 3.
[31] Quoted in *ibid*., p. 2.
[32] H. J. Chang (b), *Kicking Away the Ladder: Development Strategy in Historical Perspective*, London: Anthem Press, 2003, p. 33.
[33] C. T. Morris and I. Adelman, "Nineteenth Century Development Experience and Lessons for Today", *World Development*, 17 (9), 1989, p. 1427.

These outcomes clearly cast a shadow over the conventional wisdom that free trade increases growth. Empirical studies also identify a positive association between trade barrier and economic growth in the developing countries.[34] In contrast, relationship between trade openness and economic growth is not clear as verified by eminent economists, such as Francisco Rodriguez, Dani Rodrik and Jagdish Bhagwati.[35] In fact, experiences of Brazil and India reveal that free trade is not conducive to growth. These two nations in the mid -1980s started to liberalise trade regime and by later part of 1990s effective protection rate for manufacturing in these nation declined sharply. The result of such tariff relaxation was that both India and Brazil grew more slowly in comparison to those periods when they followed import substitution policy. Though Indian growth was commendable, many economists argued that it took place prior to the liberalisation period.[36]

4.3 Agriculture Trade: A Case of Subsidised Distortion

This sub-section tries to find out whether the developing countries can specialise in agriculture under free trade regime. Agriculture in developing nations are usually suffering from lower labour productivity in comparison to the developed nations. This creates adverse effects such as low competitiveness in agriculture and as a result the developing nations fail to tap much benefit from agriculture under free trade. The productivity difference coupled with backward technology in agriculture also forces the developing economies to become net food importers. The productivity difference between the developed and developing nations is a major factor that does not allow for catch up between the two.[37]

Agriculture subsidies only further widen the gap between the developing and developed nations. The combined agricultural subsidy of the US, EU and Japan is almost comparable to the gross national income of the entire Sub-Saharan Africa[38] keeping real production cost quite low, thereby making these nations more competitive in agriculture export. On the other hand, due to extreme pressure from the developed nations the developing nations are abstained from granting subsidy for their agriculture. Apart from technology, it is subsidy that

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[34] For example, see, S. Edwards, "Trade Orientation, Distortions and Growth in Developing Countries." *Journal of Development Economics*, No. 39, 1992, pp. 31– 57 and G. M. Grossman and E. Helpman, *Innovation and Growth: Technological Competition in the Global Economy*, Boston: MIT Press, M.A., 1992.
[35] B. Dunn, "Neither Free Trade nor Protection but International Socialism: Contesting the Conservative Antinomies of Trade Theory", p. 36, available at *http://www.anu.edu.au/polsci/mi/1/mi1dunn.pdf* accessed on 11 December 2009.
[36] P. R. Krugman and M. Obstfeld, *op. cit.*, pp. 250-251.
[37] H. J. Chang (a), *op. cit.*, p. 13.
[38] J. E. Stiglitz, *op. cit.*

makes farming in the Western countries a profitable business. By contrast, without substantial amount of subsidy, farming is a mere subsistence occupation in the developing quarters.

5. Way Forward for the Developing Economies

Should the developing countries be allowed to follow protectionist measures like the now-developed nations? Perhaps a more cautious approach on the part of the developing nations is required as opposed to all out protectionist policy. Any suggestion to replicate the policy of protectionism by the developing nations has its own drawbacks. The fact is that in current context protectionist policies might not be beneficial for the developing countries. The lack of expertise, capital, technology and skill in the developing world makes it difficult to develop a self-sufficient manufacturing sector, calling for dependence on the developed countries.[39] Developing countries like Philippines and Pakistan in the mid sixties protected their manufacturing sector with high effective tariff rate, but failed to develop this sector. The markets of developing countries are also not sufficiently large to allow efficient production in the manufacturing sector.[40]

The richer economies should come forward to assist and share their technical knowledge with the developing economies. But governments' role in developing countries must not be overlooked. They should formulate some pro-active policies to make the domestic industry competitive. The East Asian economic miracle is a case in point.

Government policies played a pivotal role in the East Asian economic prosperity. These policies included access to credit at concessional rates for the East Asian entrepreneurs and government assistance in technology creation and transfer. These interventions enabled the respective governments to reduce tariff at a comfortable pace.[41] As such, some level of short and medium term protection in contrast to very high protection is helpful for accelerating growth.

The investment in research and development, improvement of human capital and knowledge spillover can strengthen even a rudimentary manufacturing sector in the developing countries. The tiger economies of East Asia, mostly agro-based in their take off stage, invested substantially in public education.

Seen thus, the way forward for developing countries should be a mix of the two with a greater degree of protectionism at the stages of infant industry and much freer trade regime as the industries develop. Since most developing countries are producers of primary products, they should also lay major emphasis

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[39] P. R. Krugman and M. Obstfeld, *op. cit.*, pp. 250-251.
[40] *Ibid.*, p. 249.
[41] J. E. Stiglitz, "Challenging the Washington Consensus", *The Brown Journal of World Affairs*. Vol. IX, No. 2, 2002, p. 37.

on the development of agro-based industries so that at least sustainability of raw material supply can be guaranteed.

This recommendation could take inspiration from the work of Stiglitz and Greenwald who argued in the same vein. They developed a two country (*developed and less developed*), two sector (*agriculture and industry*) model to put forward their argument in favour of protectionism for the poor countries.[42] They claimed that an agro-based underdeveloped economy can build its infant manufacturing industry by restricting import of manufactured goods to allow for sufficient competition with the developed countries later on. However, the authors point out that tariff should be uniform and not favouring specific industries to avoid being "self-limiting" and encourage the local manufacturers to compete with their foreign counterparts in a broader free trade regime.[43]

The developing economies should develop their infant industries through tariff protection and thereafter slowly reduce tariff to move towards a competitive free trade environment. Most importantly, suitable trade policy should be accompanied by appropriate agricultural policies and a strong institutional framework to ensure that development and growth are achieved by the developing countries. Under the free trade regime, these developing countries would still require special and differentiated treatment in order to catch up with the more developed economies.

6. Conclusion

This paper argued in favour of protectionism for the developing countries as a means to attain development. In presenting the view it focuses on varying issues ranging from the underlying assumptions of comparative advantage theory to the historical and political facts involved with the road to development by the now developed countries. By criticising the assumptions of the theory of comparative advantage, the paper shows that free trade is detrimental to growth and development of the developing nations. Above all, the history of growth experience of now developed nations contradicts the ideals of free trade as a way forward for prosperity and development. On the path to development, these countries protected their industries from foreign competition. Hence, this paper among other things advocated for adopting protectionist policy on the part of developing nations. The countries should expose their industries to free trade only when they become competitive enough. However, such policy should be complemented by some other activist policies adopted by the concerned governments.

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[42] B. Greenwald and J. E. Stiglitz, "Helping Infant Economies Grow: Foundations of Trade Policies for Developing Countries", *The American Economic Review,* Vol. 96, No. 2, 2006, pp. 141-146.

[43] *Ibid*., pp. 145-146.