ISSN: 2755-0214

Journal of Economics & Management Research

Review Article

Open Access

Why Free Trade Can Derail Development in Developing Countries

Shuyu Zhang

Department of International Relations, Xi' an Jiaotong-Liverpool University, Suzhou, 215000, China

***Corresponding author**
Shuyu Zhang, Department of International Relations, Xi' an Jiaotong-Liverpool University, Suzhou, 215000, China.

Received: June 18, 2025; **Accepted:** June 23, 2025; **Published:** July 02, 2025

Introduction

Free trade is defined as an international commerce policy that advocates for the elimination of barriers to trade between countries [1]. The policy stands as a central and contested tenet within international political economy (IPE), as its proponents drew from neoclassical economics to champion free trade as an engine of prosperity. Neoclassical economics emphasizes the role of the free market and views the free exchange of goods and services across national borders as the optimal path towards economic advancement for all nations [2]. However, this universalist narrative on the advantage of free trade is increasingly challenged by alternative theoretical perspectives such as structuralist economics and ongoing experiences of developing countries [3]. This essay will argue that while international trade can offer opportunities for developing nations, free trade policies can be harmful to the sustainable development of these countries. This argument will draw from the dependency theory and the infant industry argument alongside structuralist economic interpretations. This essay seeks to demonstrate how free trade can perpetuate global inequalities and stymie local diversification that ultimately reinforces the disadvantageous positions of developing countries within the international economic hierarchy.

This essay will first outline the dependency theory and introduce structuralist economics in how they conceptualize the relationship between developed and developing countries within the global trade framework. Second, the essay will analyze specific mechanisms through which free trade adversely impacts developing countries, including the premature exposure of nascent industries to international competition and deteriorating terms of trade that expose internal socio-economic vulnerabilities. Third, the essay will engage with counterarguments advanced by free trade proponents that hinge on the success stories of East Asian countries and critique those as having misrepresented the role of the state in their developments.

Dependency Theory and Structuralist Economics

One main critique of the impact of free trade on developing nations hinges on the dependency theory. Emerging from Latin American intellectual circles, this school of thought directly challenged the then prevailing modernization theories, which posited a linear path to development that all countries could follow as they integrated into the global trade framework [4]. Instead, dependency theorists argued that the global capitalist system is characterized by an inherently unequal and exploitative relationship between a dominant and industrialized core consisting of developed Western nations and a subordinate and resource-exporting periphery made up of developing countries [5]. From this perspective, underdevelopment is not an initial stage but an actively created and maintained condition resulting from the integration of the periphery into the global system on unfavorable terms.

Within the dependency framework, free trade becomes a primary conduit for this exploitation. It motivates the extraction of surplus value from the periphery to the core through unequal exchange, where the periphery exports low-value primary commodities and imports high-value manufactured goods and technologies from the core [6]. This pattern of specialization is often reinforced by the dictates of comparative advantage in a free trade regime [7]. This is where countries that specialize in producing certain goods and services can produce at a lower opportunity cost relative to other countries. This regime locks peripheral nations into a cycle of producing goods with low value-added and declining terms of trade, i.e., a relatively low export-to-import price ratio.

Closely related to the dependency theory is structuralist economics, whose proponents usually argue that there is a long-term tendency for the terms of trade of developing countries as primary commodity exporters to deteriorate relative to developed countries that export manufactured goods [8]. Structuralists attribute this trend to several factors. As global incomes rise, the demand for manufactured goods increases more rapidly than the demand for primary commodities. Moreover, technological advancements in developed countries often lead to the creation of more efficient substitutes for primary products that dampen demand for traditional exports from the periphery.

Given these structural impediments, structuralist economists advocate for active state intervention to increase industrialization in developing countries through a protectionist strategy known as import substitution industrialization (ISI). ISI involves protecting domestic industries from foreign competition through tariffs, quotas, and other protectionist measures to allow these industries to develop and diversify the economy away from reliance on primary commodity exports [9,10]. While ISI strategies have their own set of limitations, the underlying structuralist critique of the inherent bias against and damage to developing countries remains highly relevant in this discussion of free trade.

Mechanisms of How Free Trade Undermines Development

The aforementioned theoretical critiques offered by dependency and structuralist perspectives find concrete expression in several ways where free trade negatively impacts developing nations. The infant industry argument posits that nascent industries in developing countries cannot survive if immediately exposed to competition from superior and extant industries in developed nations [11]. These infant industries face numerous inherent disadvantages: lack of economies of scale, less advanced technology, limited access to skilled labor and capital, and underdeveloped marketing and distribution networks [12]. By removing protective barriers, free trade effectively throws these fledgling industries into an unequal contest that translates into increased reliance on imported manufactured goods.

A failure to develop domestic technological capabilities and higher-value-added production has long-term consequences, as it limits job creation in higher-wage sectors and perpetuates dependence on primary commodity exports. Historically, many currently developed nations employed significant protectionist measures during their own early stages of industrialization to shield their infant industries [13]. Examples include the Calico Acts by the British government to protect domestic textile producers during the 18th century and high tariffs by the U.S. government during the 19th century [14,15]. Furthermore, the contemporary global free trade regime sometimes restricts the ability of developing countries to deploy similar strategies. It is a phenomenon aptly described by economist Chang (2002) as "kicking away the ladder [16]." While proponents of free trade argue that protection breeds inefficiency, the infant industry argument contends that temporary protection is a strategic investment to achieve long-term dynamic efficiency and competitiveness.

As discussed earlier and identified in the Prebisch-Singer hypothesis, a persistent challenge of free trade for many developing countries is the secular decline in their terms of trade [17]. Specializing in the export of primary commodities under the doctrine of comparative advantage often means facing volatile and declining prices relative to the manufactured goods they import. This price dynamic means that developing countries must export ever-increasing volumes of their primary products to maintain their existing level of imports. Free trade thus locks developing countries into a structurally disadvantageous position in the global economy by encouraging specialization in vulnerable sectors without concomitant measures to address price instability or economic diversification.

Counterarguments: Beyond Comparative Advantages

Proponents of free trade sometimes invoke the theory of comparative advantage to argue that if all countries specialize in producing goods with relative cost advantages and trade freely, global output and welfare will be maximized [18]. They also point to the success stories of East Asian economies that pursued export-oriented industrialization strategies as evidence of the developmental power of free trade. This is where countries accelerate industrialization by exploiting comparative advantages through exports and increased integration into the global trade network.

Regarding the East Asian cases, one must note that their success was not a product of simple adherence to free trade. Instead, these countries employed highly interventionist industrial policies, including strategic protection for infant industries such as subsidies and state investment. For instance, China managed their integration into the global economy strategically by gradually liberalizing certain sectors while placing others under protection. One example is shipbuilding, where Chinese national policies set specific output and capacity goals along with heavy subsidies and other state-led incentives to help develop an industry accounting for less than 10% of world production into the largest today [19]. Presenting these countries as exemplars of free trade success stories is a misrepresentation that ignores the significant role of the state in their development.

Conclusion

In summation, the narrative that free trade is a panacea for developing countries is not only theoretically contestable but also empirically questionable when confronted with the experiences of many developing nations. Drawing on structuralist economics, dependency theory, and the infant industry argument, this essay has argued that free trade within the current global trade framework, as enforced by dominant international institutions, often serves to harm developing countries by stifling their industrial potential and perpetuating unfavorable terms of trade. While international trade can sometimes be a force for economic advancement, its benefits are not automatic, as the free trade advocates may argue, and depend on conditions under which countries integrate into the global economy, as well as their domestic policy choices. Therefore, the goal should not be autarky or a wholesale rejection of international trade, but instead the pursuit of managed globalization where trade rules promise sustainable development for all and not primarily serve the interests of the already advantageous.

References

1. Yanushevsky R, Yanushevsky C (2018) Applied Macroeconomics for Public Policy. Academic Press https://www.amazon.in/Applied-Macroeconomics-Public-Policy-Yanushevsky/dp/0128156325.
2. Siddiqui K (2023) International Trade Theories and Policy in the Developing Countries – A Critical Review. https://worldfinancialreview.com/international-trade-theories-and-policy-in-the-developing-countries-a-critical-review/.
3. Gala P, Rocha I, Magacho G (2018) The structuralist revenge: economic complexity as an important dimension to evaluate growth and development. Brazilian journal of political economy 38: 219-236.
4. Farny E (2016) Dependency theory: A useful tool for analyzing global inequalities today. E-International Relations https://www.e-ir.info/2016/11/23/dependency-theory-a-useful-tool-for-analyzing-global-inequalities-today/.
5. Nogara TS (2024) Dependency Theory and Marxism in Latin America: Between Convergences and Contradictions. Critical Sociology https://journals.sagepub.com/doi/abs/10.1177/08969205241275407.
6. Foster JB, Jonna J, Suwandi I (2019) Global commodity chains and the new imperialism. International Living Wage Journal 1: 148-181.
7. Coveri A, Zanfei A (2023) The Virtues and Limits of Specialization in Global Value Chains: Analysis and Policy Implications. Journal of Industrial and Business Economics 50: 73-90.
8. Missio F, Frederico Gonçalves Jayme Jr, Oreiro JL (2015) The structuralist tradition in economics: methodological and macroeconomics aspects. Brazilian Journal of Political Economy 35: 247-266.
9. Botta A (2009) A structuralist North–South Model on Structural Change, Economic Growth and Catching-Up. Structural Change and Economic Dynamics 20: 61-73.
10. Siddiqui K (2021) The 'Import-Substitution' Policy in Post-colonial Countries: A Review. https://worldfinancialreview.

com/the-import-substitution-policy-in-post-colonial-countries-a-review/.

11. Panagariya A (2011) A Re-examination of the Infant Industry Argument for Protection. Margin: The Journal of Applied Economic Research 5: 7-30.
12. Moreira MM (2022) Industrial success and government intervention: searching for the links. Brazilian Journal of Political Economy 16: 114-136.
13. Cherif R, Hasanov F (2024) The Pitfalls of Protectionism: Import Substitution vs. Export-Oriented Industrial Policy. Journal of Industry, Competition and Trade 24: 1-41.
14. Chang HJ (2002) Kicking Away the Ladder: Development Strategy in Historical Perspective. Anthem Press 13: 186-191.
15. Gulsunar E (2024) To block or not: why the British ruling elite enabled the Industrial Revolution during the 18th century. European Review of Economic History 28: 335-359.
16. Chang HJ (2007) Protecting the global poor. Prospect http://prospectmagazine.co.uk/essays/51895/protecting-the-global-poor.
17. Araujo RA (2016) Assessing the Dynamics of Terms of Trade in a Model of Cumulative Causation and Structural Change. Brazilian Journal of Political Economy 36: 150-167.
18. McDonald BJ (2009) Back to Basics. Finance & Development 0046: 48-49.
19. Kalouptsidi M, Zahur NB, Barwick P (2019) Industrial policy: Lessons from China. CEPR https://cepr.org/voxeu/columns/industrial-policy-lessons-china.