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Three Socratic exercises on

- Trade and Development ... and the true Ricardo
- The Logic of the Multilateral Trading System
 - Trade, Development and Inclusion

(in just 9 pages: 4 for the first, 3 for the second and 2 for the third)

Introduction: Why is the Socratic method indispensable?

- Because the learning process is circular and never-ending. Teachers must always continue to be learners; and learner participation can become a very good instrument of teaching,
- Because it is the best way to revisit to the foundations of our arguments. They are too often taken for granted as unquestionable dogmas. The Socratic method obliges us to focus on them.
- Because too many ideological assumptions have been transformed into basic theory assertions in the field of social sciences. We all know this but ... it is so easy to continue to assert them...

A Socratic exercise on Trade and Development ... and the true Ricardo (and how to explain the Balance of Payments)

Introduction. – Four preliminary questions

- Ask your audience of postgraduate students at the end of the course (or your audience of colleagues) whether they know Ricardo's Theory of Comparative Costs. It is very likely that you'll hear a resounding "Yes. Of course". Take note of that answer.
- Follow up with two questions (and a proviso: "be honest to yourself and your colleagues"): "Have you read from beginning to end David Ricardo's On the Principles of Political Economy and Taxation?"; "Have you read and carefully re-read and re-re-read (because it is not so easy to follow all its arguments) Chapter Seven "On Foreign Trade" of Ricardo's Principles?"
- You risk receiving as an answer to these two questions a silence even more resounding and louder than the enthusiastic "Yes" to your first question.
- If this is the case, ask very politely a final fourth question: Are you sure that you can explain, or that you are able to understand, "Ricardo's" theory of comparative costs without having carefully read and studied Ricardo?

First Part of the Exercise

1.- Ask your audience why trade liberalization is good (or why many people consider it good). Keep asking for concrete answers until a conclusion seems to arise: because it facilitates exports.

2.- Once this conclusion has been reached, ask the audience how it can be good that a country¹ uses ITS OWN productive resources to produce goods and services that will be used or consumed by OTHER countries. A Martian would consider it quite masochistic ...

- Keep asking. People in the audience must understand that this is what exports are: using ONE'S OWN productive resources to produce goods and services that will be used or consumed by OTHERS; no kidding.
- When you receive some answers pointing to the fact that exports bring money to the country from abroad, argue as follows:
 - o If you want to use this foreign money in your country, you'll have to exchange it for national currency (or accept using foreign money as national currency). But if you want national money, why taking all the trouble of producing goods and services (which means working, sweating ...) and exporting them? Your Central Bank and your banking system can provide as much national money as you want at no cost in terms of use of productive resources²

¹ Of course, you must make sure that the audience understands that, when you refer to "country", you refer to economic agents in the country, i.e. companies, individual agents (tourists, for example) and the State as an economic agent.

² Of course, before going into this, you should be sure that your audience understands how the Central Bank creates and controls the monetary base. If they don't understand this, they cannot understand international economic relations and they cannot understand the Balance of Payments.

- If the discussion goes in the direction of pointing to the fact that exports offer an outlet for national production, so that, in the absence of exports, productive resources would remain idle, you make people think
 - On where is the difference between “remaining idle” and “being used to the profit of others”
 - That you are not discussing “how the lack of sufficient effective demand limits production“(this should be another discussion on “effective demand and Keynes – and Kalecki – “). And, anyway, the argument does not give an answer to your initial questions.
- After some Q&As, someone will finally say (you must push the audience to give that answer): But the currency you earn with your exports is international currency that allows the country to pay for its imports , which is something you cannot do with the national currency produced by the national Central Bank + banking system (unless you don’t have the privilege the United States has enjoyed since the end of the Second World War of being able to use your national currency as international currency).^{3 4}

3.- YOU HAVE NOW REACHED THE FIRST ALL-IMPORTANT CONCLUSION: EXPORTS ARE GOOD BECAUSE THEY ALLOW THE COUNTRY TO IMPORT. SO, REPRHASE THE CONCLUSION: TRADE LIBERALIZATION IS IMPORTANT BECAUSE IT FACILITATES COUNTRIES TO IMPORT.

Second Part of the Exercise

4.- INTRODUCE HERE THE FIRST PART OF THE EXPLANATION OF THE “TRUE” RICARDO. His “Principles” were not an academic exercise (and he was not an academic). His Principles were weaponry in a political battle: the one which was contentious within English ruling classes: SHOULD IMPORTS OF CORN, MAINLY FROM FRANCE, BE LIBERALIZED OR NOT?⁵ And its entire argument must be understood as a very strong argument in favour of such a liberalization.

5.- YOU CAN SIMPLY RECALL THE VERY SIMPLIFIED VERSION OF THE “THEORY” OF COMPARATIVE COSTS⁶ (that your audience already knows), referring to the standard textbook explanation of it. Show that, through specialization according to relative comparative advantage, countries increase the total volume of goods and services they produce (but make sure they understand that you refer to total production, leaving aside its distribution; i.e. who benefits the most of this increased production; don’t forget to emphasize this). But you must continue asking: Does this static discussion and analysis on allocation of resources exhaust Ricardo’s greatness?

³ In this discussion, you must get people to understand that when they exchange national currency for a foreign currency, they are selling national currency, which would be impossible if foreigners do not need it ... to buy (or invest) in your country.

⁴ As it was well known in the good old days, Jacques Rueff, the main De Gaulle’s advisor on this area, described this privilege as that of “le déficit sans pleurs”. The expression can be used for a nice complementary Socratic exercise.

⁵ Make the audience remember that the discussion on liberalizing or not international trade was central to XIXth and first half of the XXth politics, from the USA to Spain, for example.

⁶ “Theory” in inverted commas, because, epistemologically, it is not an assertion to be tested against real facts but an extremely brilliant piece of analysis (a tautology, in fact).

7.- Keep asking, to introduce the discussion: Suppose that your country is a small one in Africa or Central America (or anywhere else): Is it the same to import BMWs or Mercedes luxury cars produced in Germany or trucks MAN or other equipment for industry also produced in Germany? Is it the same in terms of development / economic growth? Do imports of BMWs/Mercedes increase the country's productive capacity?; do imports of trucks MAN or other equipment increase the country's productive capacity?

Keep asking and discussing until you reach a conclusion so obvious as left aside by most mainstream literature that favours trade liberalization: In terms of development, not all imports are the same.

Third Part of the Exercise

8.- Go back to David Ricardo and make an assertion: His theory of comparative costs (which textbooks tend to present from a static perspective – allocation of resources-) makes sense (and became a powerful weaponry of economic policy) because it is an element of a dynamic theory on the dynamics of capitalism; dynamics that, in Ricardo's view, faced a great danger: the diminution in the rate of profit and, as consequence, that of productive investment. Ask your audience: were you well aware of this?. Then listen to the resounding and loud silence.

9.- You will then be forced to leave aside the Socratic exercise and explain a simplified version of Ricardo's theory of the dynamics of capitalism ; it would be too difficult and long to get to it by the Socratic method. The main point of your explanation must be the one that is more applicable to XXth and XXIst centuries (not only for capitalism but for any economic system)

You have three options. The first is that of explaining in a very simple manner the original Ricardo's theory of the distribution of the surplus between profits for the capital and rent for the owners of scarce natural "non-reproducible" resources, and how it continues to be applicable to XXIst century global economy. The second is that of explaining how Ricardo's theory for a one-sector economy was generalized to a multisector economy by Piero Sraffa, and how Sraffa's distinction between "basic" and "non-basic" goods (and the demonstration that there is an extremely rigorous way of determining "degrees of basicity"), so tremendously difficult analytically, fits our plain good common-sense ideas. The third is explaining both.

If you choose the first, we all know the main scheme.

- Take an economy that only produces corn, part of which offers a real salary to the working class, the other remaining as surplus and assume that real salary is fixed (not so an absurd simplified model at the beginning of the XIXth century in England). The only issue is the amount of the surplus and its distribution between profits for the entrepreneurs (who actively invest, hiring land and employing workers) and rent of land for the landowners (who simply consume it "unproductively"). If population grows, you must use less productive lands. Entrepreneurs keep actively investing until the point, in the margin, in which, in the less productive land, profits tend to fall to zero. By the force of competition, this fall in the rate of profit gets translated to the rest of entrepreneurs:
 - o End result: the rate of profit diminishes and the rent of land (on more productive lands rented to entrepreneurs) increases: economic growth (all

fashioned “development”) is impaired. Do you know a better example of the connection between trade and development?.

- Remedy: Make unnecessary the progressive use of less productive lands by importing corn from France; the remedy worked: the “Corn Laws” that restricted imports were repealed in 1846 by the Conservative Robert Peel’s Government.
- If the audience tells you that this is pure erudition and history mania, not to say nonsense, ask them whether this argument doesn’t tell them anything on the rent of land obtained in the XXIst century by countries that are endowed with non-reproducible natural resources. If they don’t, advise them to keep thinking until they understand (thanks to Ricardo) one of the greatest issues characterizing the present-day global economy.

If you choose the second, you can begin by asking your audience (in particular if there are economists among them) whether they know just the name of Piero Sraffa. When you’ll have received a vastly majoritarian (not to say unanimous) answer, you can tell them that they shouldn’t feel alone: the negative answer is a general one. And you can make them aware that its extraordinary 1960 Production of Commodities by Means of Commodities (researched for 30 years in Cambridge UK, and published simultaneously in English and Italian) has as subtitle: Prelude to a Critique of Economic Theory. So, they shouldn’t feel surprised if those who are criticized tend to hide its existence.

- Sraffa (who had taken care for years of the edition of Ricardo’s complete works) is able to generalize the one-sector Ricardo’s model to a multisectoral economic model. This requires an extremely sophisticated mathematical model (which nobody has been able to prove wrong in 66 years). But its conclusion simply warrants a plain common-sense intuition: not all sectors are equally important in terms of the determination of the rate of profit, and, consequently, in terms of permitting and favouring investment and economic growth.
- Indeed, simply some thinking and common sense is needed to understand that economic growth is more favoured by technical progress in economic sectors whose output is utilized as means of production by many, or all, sectors of the economy than by technical progress in the sectors that produce simply luxury consumption goods. And, from the perspective of the rate of profit, the argument on means of production can be extended to goods that are basic real salary goods,
- As the “theory” of comparative goods demonstrates, international trade can have the same effect as the introduction of technical progress: it can reduce the amount of productive resources needed to produce means of production and the real salary.

And here you can close the Socratic exercise: this is the “true Ricardo” and this shows how to use his “theory” of comparative costs (the “true one”: that connecting international trade with the evolution of the rate of profit and investment) for the analysis of Trade and Development. And gives a good advice for your explanation of the Balance of Payments of your country: Begin with imports, analyze which of them are really needed for investment and development (this will root your explanation in the structure of your national economy) and then explain where the international currency needed to pay them comes from (and must come from if you want to increase your imports ... of means of production and basic salary goods).

A Socratic exercise on The Logic of the Multilateral Trading System

(much better if you can use an old-fashioned blackboard, or, at the very least, some equivalent in paper)

1.- Draw in the blackboard a spiral and tell your audience to imagine that it represents the international trade policy of a country, opening from less liberalization in the center to more liberalization as the spiral opens. And then ask the audience (preferably good postgraduate students at the end of their Master programme, or young colleagues) what is the meaning of GATT in terms of the spiral. In all likelihood, and after some hesitations and questions about what do you mean (your answer being “simply to induce some reflection exercise by asking a very simple and straightforward question”), you will receive the answer I have always received in my teaching practice: Opening the spiral; the GATT is meant to liberalize trade.

2.- Once you have received the answer, you forget the drawing of the spiral and ask a second question: Which article in GATT creates the obligation to liberalize international trade? You’ll perceive some uneasiness in the audience and, as there are intelligent people in it, you will begin receiving some answers referring to “GATT’s overall design and meaning”, probably with some references to its preamble or to the articles framing a negotiation process among members. You thank the respondents but, very politely, you clarify that your question was not about that; it was a very simple and precise one: which article in GATT creates the obligation to liberalize international trade? After a typical Socratic discussion, the audience will have to recognize – to their astonishment – that no article in GATT creates the obligation to liberalize international trade.

3.- You can then introduce another question. Have the members of your audience ever read GATT and GATS from beginning to end in one go? Have they risked “having their sanity impaired” (in US Senator Millikin’s expression so well known ... in the good old days)? Many will honestly recognize that they have not: they have read specific articles but not the whole lot; even less, the whole lot in one go. You thank them for their honesty, and ask a follow-up question: How can you understand the overall logic of an agreement if you don’t read it “as a whole”, preferably in one go, in one shot, from beginning to end? How are you going to understand, for example, Art. I of GATS on the definition of the supply of a service if you don’t get to one of its very last articles, Art. XXVIII, which gives the set of definitions you need to understand Art. I, as well as to its Annex II on Movement of Natural Persons?

4.- At this point of the discussion, you can, by way of an exception, become non-Socratic for one second and make a “citation of authority”: you can cite the only author that we would all recognize as “the authority”: John H. Jackson (the one who popularized Senator Millikin’s remark from the previous paragraph). But you can “socratize” the citation asking: do you know how Jackson explained the GATT’s structure? The audience probably doesn’t know; so, you tell them: Explaining that it has two main parts: a) First, Articles I and II (the basic principles); b) Second, the rest (which he defines as mainly a sort of “code of conduct” for the conduction of an International trade policy).⁷ You can tell the audience,

⁷ Jackson, John H. *The World Trading System: Law and Policy of International Economic Relations*. 2nd ed. Cambridge: MIT Press, 1997, chapter 2. You can also ask your audience whether they have read this book from beginning to end (or, even better, his foundational 1969, [World Trade and the](#)

that if they had read GATT in one go, they would have perceived that it has only four parts (the fourth added in 1996) and that Part I (the first in all senses of the term) has only two articles. So, J. Jackson's presentation makes full sense.

5.- And now, back to the spiral for the decisive question: what is the obligation imposed by one of the two main GATT's provisions: its Art. II? And leave your learned audience think and breath deeply until they discover the true, deep meaning of GATT: The obligation imposed by Art. II is not that of liberalizing but that that of NOT DELIBERALIZING further that a certain limit that is not necessarily the same for all members: the one determined in each respective Schedule of Concessions. Each member must draw a line across the spiral; it can move forward in the spiral (and then backwards) from this line (i.e. opening and closing the spiral), but it cannot cross the line.

6.- At this point, you can draw the attention of the audience to the fact that liberalizing or de-liberalizing international trade cannot be discussed in terms of a static comparison; they are dynamic processes completely different in their effects. To mention only an essential one: Looked at from the perspective of other countries, the benefits of liberalization are hypothetical (they depend on the behaviour of old and new exporters to the country that liberalizes); contrariwise, the damage caused by de-liberalization is certain: current exporters are hurt. If one advantage can be attributed to Trump's 2 measures is the pedagogical one: they have made this clear. Nobody is asking the US to be "more liberal"; the issue is preventing and fighting its de-liberalization.

7.- And you then ask your audience to combine this reading (the only possible reading... insist on this by challenging the audience to find another meaning) of Art. II of GATT with the reading of Art. I on General Most-Favoured-Nation Treatment. The obligation of not to de-liberalize beyond the limit self-imposed in the Schedule of Concessions is imposed to each member in favour of all the others.

8.- When you get to this point, some member of the audience who has already recovered from the shock caused by your Q&As will intervene by saying: Art. I's obligation does not apply only to de-liberalizing measures but also to progressive liberalization, which should also be, subject to well known exceptions (Developing countries, regional integration, waivers), erga omnes. And your answer (at least mine) can be: Yes, you are right. However, this doesn't erase the consideration that "liberalization" and "de-liberalization" cannot be understood as "two points" in the static roadmap of liberalization but as two different dynamic processes (different analytically and politically).

9.- And, at this point, some more traditional teaching will be needed. You must explain that the international order in which we live remains in its essential aspects the one created immediately after the Second World War from 1944 to 1947. From a political perspective, one can reach this conclusion simply by observing the composition of the United Nations Security Council.

[Law of GATT](#)). You can still ask them whether they consider more useful to read short-lived articles than studying these foundational classical masterpieces.

But the post-war international economic order was not designed to provide a complete institutional framework for the world economy. It was essentially designed to respond to the specific problems of that historical moment, and the principal objective was to prevent the reappearance of the inter-war situation, characterized by the conflict between capitalist blocs; even more specifically, by the trade wars between them, whose extremely negative effects had been demonstrated by the inter-war experience (and even the First and Second World Wars themselves).

Two types of legal instruments were used to launch and implement Trade Wars between capitalist blocs:

- First, import restrictions through the increase of tariffs or the introduction of quantitative restrictions, as well as export subsidies. Such measures had already been widely used in the past to protect or boost the national industry. However, their intensification and use in a spiral of retaliations was what characterized the inter-war period.
- Second, monetary measures that influenced trade flows directly. The typical two were: a) measures constraining access to foreign currencies and restrictions on international payments, and b) competitive devaluations with the purpose of changing trade conditions through promoting (and reducing the international prices of) exports while import prices were increasing (and, as a consequence, imports were restricted).

At the end of the Second World War, it became evident that an institutional system able to regulate (and coordinate) the use of these set of instruments of economic policy was required in order to avoid the reappearance of the inter-war situation. To reach this goal, this institutional system had to be built on two basic principles: a) multilateralism, and b) the consolidation of a certain degree of trade liberalization (not distorted by monetary measures and measures restricting international payments).

GATT was meant to reach this goal in the international trade area. And the Bretton Woods institutions (in particular the IMF) were meant to reach this goal in the area of monetary policy.

Finally, you can bring to the consideration of your audience that GATT is more faithful to the multilateral principle than the (original) IMF because it doesn't confer to the US the privilege of making its national currency also the international one.

10.- The advantage of the Socratic method is that, if applied successfully, its conclusions guide you to further thinking. We can be more or less in favour of continuous trade liberalization; but we must all agree on the extreme danger of de-liberalisation, which hurts current exporters, induces retaliations and generates conflict (risking politico-military conflict). As I have already said but I want to repeat, if one advantage can be attributed to Trump's 2 measures is the pedagogical one: they have made this clear. Nobody is asking the US to be "more liberal"; the issue is preventing and fighting its de-liberalization policy.

11.- And this line of reflection can be also applied to the discussion of the relation between the multilateral and the bi-regional, bilateral, unilateral orders... To the risk of becoming too simplistic: you can leave to the latter the task of liberalizing provided the non-deliberating purpose and objective of the WTO (mainly the GATT) is respected.

A Socratic exercise on Trade, Development and Inclusion

The third exercise I offer to your consideration is the briefest and, in fact, the “more Socratic” of the three. Indeed, it is limited to the presentation of a question and the summary explanation of the reasons why I don’t know the answer to it.

The question is: Let’s assume that we are extremely worried by the multifaceted problem of what in the literature is brought under the meaning of “inclusion” (at least, this is my case, as I am certainly very worried by it because I do believe in, and am willing to fight for, equality in the most comprehensive sense of the term). The problem is whether (and, in the affirmative, how) can we address it in the framework of a policy of International Trade?

Why, if I am very concerned by inclusion, do I not give a clear and unambiguous positive answer to the question? Here are my reasons.

- First, I’m very suspicious about nice and sophisticated language that has become fashionable and politically correct.
 - o I’m sorry to say, as an example, that this is the case with the addition of “sustainable” to “development”. Before that addition, we all more or less knew what “development (and “economic development”) meant. Now, with “sustainable development”, we are completely lost. For example: if my town, Barcelona, a quite rich town from any reasonable perspective, subsidizes and facilitates the circulation of new sophisticated hybrid/electric cars (owned in general by well-off people), and prohibits that of old gasoline-and-diesel cars (owned in general by poorer people), the government of the town seems to be contributing to “sustainable” development. Are we sure that this is a step in the right direction?
 - o The same happens with inclusion. I remember a seminar in Barcelona around 20 years ago in which a clever Brazilian academic argued, against well-intentioned European experts, that poor people living in Rio’s favelas who walked around Rio’s beaches (Copacabana, Ipanema, Lebron...) picking with a plastic bag the abandoned beer and soda cans were very well “included” in the very modern sector of the economy: all the cans they were able to pick were bought, and recycled (good also for sustainable development, it seems !!!), in modern factories in the outskirts of Rio. So, he argued, let’s be clear: the problem is not “non-inclusion / exclusion” but inequality and poverty.
 - o So, frankly: wouldn’t it be better to talk about Trade and SOCIAL INEQUALITIES instead of about Trade and Inclusion? I know the question, but not exactly the answer.

- Second, I’ve always been very conscious of the risks of “overloading” policies with issues that do not fit within their respective objectives and their institutional frameworks. I learned, when I was a first-year student of Law, the difference between “policies” and “politics”. Policies are, by definition, sectoral; Politics is the difficult art of articulating them in a coherent manner. Intending to compensate the absence of (good) politics by overloading sectoral policies is very risky: It

creates confusion and risks creating both “empty policy holes” and “political double-emplois”, which, combined, necessarily lead to a misuse of resources. I’ve warned against this concerning regional integration, but also concerning International trade.

More than twenty years ago, after the failure of the 1999 Seattle WTO Ministerial Conference, I discussed “whether more or better” and my position was unequivocal: “Better” should be the option. And I advocated replacing the “More” strategy dominant at the time by a much better “4 Cs” strategy: Consolidation (of the achievements already reached in the Uruguay Round), Completion (of the WTO – mainly, entry of China and Russia -; but also concerning so many policy areas not having a good international policy framework, beginning by that related to movement of capitals), Coherence (between the multilateral trading system headed by the WTO and the existing , or to be created, international frameworks for other policy areas) and “K”nowledge (a term that begins with a “C” in Latin languages - two of which, by the way, are official languages of the WTO together with English), to alleviate the so widespread and harmful ignorance in the area of international economic law and policy.

So, if we already have so much to do (“tellement de pain sur la planche” / “tantas cosas entre las manos”, in good French or Spanish - yes!! I insist: two WTO official languages) with Trade and Development, is it a good idea to add to them “Inclusion” (however it is defined - see the previous indent-)?

- Thirdly and finally, I learned many years ago, from my good friend Roberto Bouzas, that International Trade policies (even “good” ones, however the term is defined and used) generate winners and losers on the domestic sphere. Therefore, from a “political perspective” (“political” in the noblest sense of the term), any International Trade policy must/should go coupled with other internal sectoral policies that minimize and alleviate the unwanted but inevitable effects of them in some segments of the population. Shouldn’t we apply this argument to concerns about “international trade and inclusion”? Shouldn’t we preach that the approach to adopt is not that of bringing Inclusion within the scope of International Trade policy but that of warning against the risk of making International Trade policy a sort of super-policy that overrides all the other sectoral policies (a risk that, we all know, has underlaid so many recommendations in favour of continuous and never-ending trade liberalization)? Shouldn’t we preach one of the 4 Cs (Completion), requesting international frameworks for so many policy areas that do not have one, beginning by that of movement of capitals?

Frankly, I don’t know ... Let’s hope the Socratic discussion brings some clarity and allows me to dispel these doubts.