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THE ‘DAVID AND GOLIATH’ TRADE RELATIONSHIP:

IMPLICATIONS FOR INDUSTRIALISATION IN DEVELOPING COUNTRIES

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UNDERSTANDING THE 'DAVID-GOLIATH' FREE TRADE ARRANGEMENT

Consider a hypothetical trade negotiation between two economies:

- **"Goliath"** — *a large, technologically advanced, high-income economy with significantly higher labour productivity and deep manufacturing capabilities across nearly all sectors.*
- **"David"** — *a smaller, lower-income, low-technology economy with limited industrial capacity and heavy reliance on primary commodity exports.*

In this scenario, labour productivity in Goliath is several multiples higher than in David. Per capita income levels differ substantially, reflecting deeper structural differences in capital intensity, technology, skills, and infrastructure. Conventional trade theory suggests that trade liberalisation benefits both parties through increased efficiency, lower prices, and expanded production. However, when productivity and technological gaps are wide, trade outcomes are rarely symmetrical.

Under a free trade arrangement without safeguards:

- David imports manufactured goods from Goliath.
- David exports primary commodities such as mineral ores, agricultural products, and basic raw materials.
- Goliath uses these primary exports as inputs into higher-value manufacturing processes.

In such relationships, the larger economy benefits from higher labour productivity, superior technology, advanced manufacturing capacity, lower unit production costs, and strong financial and logistical systems. The smaller economy, by contrast, relies heavily on primary commodity exports while importing finished manufactured goods. Under free trade, this pattern intensifies. Manufactured imports increase, primary exports continue, and overall trade volumes expand. On paper, both countries benefit. Structurally, however, there are little changes. The technologically advanced partner moves further up the value chain, while the smaller economy risks becoming locked into exporting raw materials and importing higher-value goods produced from those same inputs. This is not structural transformation; it is structural entrenchment.

Import growth is not inherently harmful. Imports of intermediate inputs, capital goods, and productivity-enhancing technologies can strengthen domestic production. However, the developmental impact depends on how trade agreements are structured and sequenced. Mutually beneficial outcomes require alignment with long-term industrial strategy and safeguards against premature deindustrialisation.

POTENTIAL CONSEQUENCES OF INCREASED IMPORTS

Manufacturing growth is critical for industrialisation and for the successful implementation of the national development plans. Although manufacturing plays a central role in industrialisation of developing countries, opening trade with technologically advanced countries could lead to the closure of many domestic firms, given their current low levels of competitiveness. Local companies in developing will require considerable time to build the capacity needed to compete with established producers. Empirical evidence indicates that imports from some developed countries are significantly associated with an increased likelihood of firm closures in recipient countries (Hauptmann et al., 2024)[1]. Manufacturing firms in developing countries are already facing intense pressure from the influx of imported and low-cost goods. Opening trade with Goliath would further intensify this competition, likely resulting in increased imports and the displacement of domestic production in industries that compete directly with Goliath's products.

[1] Andreas Hauptmann, Hans-Jörg Schmerer, Benjamin Schwanebeck, Plant-level adjustments to imports and exports at the extensive margin, China Economic Review, Volume 87, 2024, 102212, ISSN 1043-951X, https://doi.org/10.1016/j.chieco.2024.102212.

Firm closures and downsizing resulting from an influx of imports often lead to employment losses. For example, Chakraborty et al. (2024)[2] found that a 10-percentage-point increase in import penetration was associated with an 11–14% rise in outsourcing expenses relative to wage bills, indicating that firms reduce direct employment to cut costs under competitive pressure.

Developing countries benefit from imports of technologies, raw materials, and intermediate goods, making the nature of these imports particularly important. Research indicates that developed countries' trade and foreign direct investment (FDI) in African countries can generate technology spillovers, meaning that technology embedded in imported goods can indirectly enhance productivity and technical capacity within African economies (Berhe et al., 2022)[3]. However, many scholars examining Goliath–David engagement note that, although Goliath technology and equipment do reach David, these transfers are often not accompanied by extensive robust capacity-building programs to build technological superiority in developing countries. As a result, while local personnel may use the technology, they do not always acquire the skills or knowledge needed to maintain, adapt, or innovate with it independently (Jackson et al., 2021)[4]. Worth noting is that technology imports are most beneficial when paired with programs that develop the skills of local personnel, ensuring that they can effectively utilize the technology and support long-term development strategies.

Cheap Imports, Expensive Consequences: There is no doubt consumers benefit when imports reduce prices. A household buying clothing, footwear, electronics or processed foods at lower cost experiences real relief. But trade policy cannot be measured by consumer prices alone. When local firms compete with producers operating at multiple times their productivity level, closures become more likely. And firm closures do not just mean fewer locally made goods, they mean job losses, reduced tax revenue, weakened supply chains, and declining industrial capability. Emerging industries are especially vulnerable. Infant industries, start-ups, and newly established manufacturing ventures often lack the scale and capital buffers needed to survive intense import competition. Without phased protection or capacity-building measures, liberalisation can result in what might be called industrial "infant mortality." Once factories close, reopening them is far harder than protecting them in the first place.

Not All Imports Are Equal: This does not mean imports are harmful. On the contrary, capital goods, machinery, and intermediate inputs can enhance productivity and accelerate industrial development. But technology alone is not transformation. Imported machinery without skills transfer creates dependence. Equipment that local engineers cannot maintain, adapt, or innovate around does not build sustainable capability. Technology becomes transformative only when paired with skills development, technical training, knowledge transfer and local innovation ecosystems. Otherwise, a country consumes technology rather than mastering it.

The Raw Materials Trap: There is also the forward-looking question: what happens when a country continues exporting raw materials without building value addition capacity? Commodity exports generate revenue in the short term. They are essential for foreign currency earnings. But over-reliance on raw exports often crowds out manufacturing and services development. History shows that economies dependent on primary commodities struggle to diversify. Structural transformation, the shift from extraction to processing, manufacturing, and high-value services, becomes harder over time. If raw materials leave the country unprocessed today, the opportunity to industrialise around them tomorrow diminishes. Trade agreements must therefore be evaluated not only on current export gains, but on whether they support or undermine long-term industrial strategy.

[2] Pavel Chakraborty, Devashish Mitra, Asha Sundaram, Import competition, labour market regulations, and firm outsourcing, Journal of Development Economics, Volume 168, 2024, 103272, ISSN 0304-3878, https://doi.org/10.1016/j.jdeveco.2024.103272.

[3] Mesfin Welderufael Berhe, Junbing Huang, Abel Dula Wedajo, Effect of China's technology spillovers on energy intensity in Africa, Chinese Journal of Population, Resources and Environment, Volume 20, Issue 2, 2022, Pages 168-176, ISSN 2325-4262, https://doi.org/10.1016/j.cjpre.2022.06.007

[4] Terence Jackson, Lynette Louw, Dev K. Boojihawon, Chinese Organizations in Sub-Saharan AfricaNew Dynamics, New Synergies, https://www.routledge.com/Chinese-Organizations-in-Sub-Saharan-Africa-New-Dynamics-New-Synergies.

STRATEGIC IMPLICATIONS FOR TRADE NEGOTIATION

The idea of a “win–win” outcome in asymmetric trade relationships is not naive, but it is conditional. A smaller economy can benefit if

- Trade negotiations align with national industrial policy
- Sensitive sectors are identified and sequenced carefully
- Impact assessments are conducted sector by sector
- Domestic firms are supported through upgrading programs
- Treasury has the fiscal capacity to assist distressed industries

In other words, preparation matters. Entering negotiations without assessing competitiveness gaps, fiscal implications, employment impacts, effects on local industry, sustained raw material supply for domestic industries and sectoral readiness is economic gambling. Well-prepared countries conduct tariff-line analysis. They consult industry. They model employment impacts. They strengthen infrastructure. They clean their house before they put anything on the table. Critical questions include: Does liberalisation promote value addition? Does it strengthen domestic manufacturing? Does it support employment-intensive sectors? Is it sequenced to allow capacity building?

CONCLUSION

Free trade is not an ideology; it is a policy instrument. Its value depends on how it is used. For a developing economy seeking industrialisation, the central question is not whether to trade, but how to trade strategically.

- Does the agreement promote value addition?
- Does it strengthen domestic industry?
- Does it create sustainable employment?
- Does it move the country up the value chain?
- What are the implications for government revenue?

If the answer to these questions is unclear, enthusiasm should give way to analysis. Because when David negotiates with Goliath, courage alone is not enough. Preparation determines the outcome. Trade can accelerate development. But without strategy, it can just as easily deepen dependence. In the absence of a clear industrial strategy, capacity building, and phased safeguards, trade liberalisation between structurally unequal partners risks:

- Deindustrialisation
- Firm closures
- Employment losses
- Entrenchment of primary commodity dependence
- Weakened long-term development prospects

Well-informed partners do not enter negotiations unprepared. They assess their domestic competitiveness, identify sensitive sectors, model impacts, and establish a clear checklist of prerequisites. In trade policy, as in development strategy, failing to prepare is preparing to fail. A tariff-line-by-tariff-line assessment of liberalisation impacts on industrial policy objectives is therefore a prerequisite for negotiation.