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England and Portugal, Cloth and Wine: Evidence for Comparative Advantage or Infant Industry?

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Abstract:

In 1703, the Methuen Treaty removed duties on the exchange of English cloth for Portuguese wine, the trade later immortalised by David Ricardo's use of it to explain his theory of comparative advantage. While Ricardo described Portugal as productively superior in both goods, he showed how specialisation and trade could still produce a higher level of output and mutual benefits. Ever since, Ricardo's theory has been used by neoclassical economists as a theoretical tool to assert the logic of free trade. However, a subset of political economists, including Friedrich List, deny that trade liberalisation is always good for growth. These scholars have re-historicised the exchange of English cloth for Portuguese wine, finding that the Methuen Treaty ruined Portugal's domestic textile industry and left them with a "slow-growing export market for wine."¹ This paper examines historical accounts of the Methuen Treaty and Anglo-Portuguese trade to assess the accuracy of the mainstream and heterodox characterisations of Ricardo's classic example. It uses articles from prominent 19th and 20th century British, Portuguese, and Brazilian historians to develop a coherent narrative of the circumstances that produced the Methuen Treaty. Ultimately, this paper finds that the treaty was one event in a series that impeded the growth of Portuguese domestic industry, inflated their trade deficit, and produced wealth for the English. This reveals how Ricardo's theory obscures a very simple insight: that some specialisations are better than others.

1. Introduction:

Since the 1980s, neoclassical economists have considered the principles of free trade as immutable laws, indispensable for economic growth. In *Principles of Economics*, one of the most widely used textbooks in the field, Gregory Mankiw explains, "although economists often disagree on questions of policy, they are united in their support of free trade."² While a frequent critic of Mankiw's right-

¹ Joan Robinson, *Aspects of Development and Underdevelopment* (Cambridge: Cambridge University Press, 1979), 103.

² Gregory Mankiw, *Principles of Macroeconomics* (Mason, OH: South-Western Cengage Learning, 2021), 228.

leaning views, liberal economist Paul Krugman agrees, writing in 1987, “if there were an Economist’s Creed, it would surely contain the affirmations [including] ‘I advocate Free Trade.’”³

In Mankiw’s textbooks, the notion of comparative advantage provides the logic behind free trade. David Ricardo developed the classical theory of comparative advantage in *Principles of Political Economy*, published in 1819, and two centuries later Ricardo’s insights are still treated with law-like authority in introductory economics courses. Ricardo uses the example of cloth and wine production in England and Portugal to illustrate that mutually shared gains arise from specialisation and trade. Critically, Ricardo showed that these gains accrue even when one country is productively inferior in all goods. He demonstrated that a higher level of output could be achieved when each country produces only the good it is *relatively* most efficient at producing.⁴ From this, it follows that every country will benefit from trade liberalisation.⁵

However, some heterodox economists have maintained that free trade is not always good for growth. These scholars argue that the world’s industrialised countries have advanced free trade ideology because it suits their economic self-interest, even though premature trade liberalisation has harmed developing countries and contributed to their “late development.”⁶ Others, including proponents of dependency theory, have gone further, arguing that free trade is inherently exploitative due to the asymmetrical power relationships between rich and poor countries.⁷ Both perspectives return to Ricardo’s classic example—England and Portugal—to link their arguments to the original illustration of mutual gains from trade. Joan Robinson, a prominent 20th century British heterodox economist, argues that England imposed free trade on Portugal,

³ Paul Krugman, “Is Free Trade Passé?” *Journal of Economic Perspectives* 1, no. 2 (Fall 1987): 131.

⁴ For a more in-depth description of Ricardo’s comparative advantage, see section 2a.

⁵ David Ricardo, *On the Principles of Political Economy and Taxation* (London: John Murray, 1817).

⁶ Ha-Joon Chang, *Bad Samaritans* (London: Bloomsbury, 2008).

⁷ Raúl Prebisch, *The Economic Development of Latin America and Its Principal Problems* (New York: United Nations Publications, 1950).

writing, “Portugal was dependent on British naval support...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.”⁸ Latin American dependency theorists emphasise the effects of specialisation on Portugal’s colonies, describing how the large trade deficit between Portuguese wine and English cloth was settled by appropriating Brazilian gold.⁹

In today’s era of so-called “de-globalisation,” the previously axiomatic logic of free trade is up for review. Perspectives from the heterodox theorists are more likely to be heard in the mainstream. Given the current moment, there is an opportunity to re-evaluate the essential roots of trade theory, including 18th-century Anglo-Portuguese commercial relations. For Ricardo, Mankiw, and economics undergrads everywhere, specialisation in cloth and wine by England and Portugal, respectively, was pursued to attain mutual benefits based on an innate, apolitical, and mathematical logic. To what extent does this reflect the historical reality? And how seriously should we take the claims of the heterodox scholars?

In 1703, England and Portugal signed the Methuen Treaties, the third and final of which established preferential access for English cloth exports to Portugal and reciprocal preferences for Portuguese wine exports to England.¹⁰ As Findlay and O’Rourke write in *Power and Plenty*, the third Methuen Treaty formed the historical background for the trade later “immortalized by David Ricardo’s use of it to illustrate his theory of comparative advantage.”¹¹ This paper examines historical accounts of the Methuen Treaty to assess the accuracy of the neoclassical and heterodox characterisations of Ricardo’s classic example. It uses articles from prominent 20th century British, Portuguese, and Brazilian historians to develop a coherent narrative of the circumstances which produced

⁸ Joan Robinson, *Reflections on the Theory of International Trade* (Manchester: Manchester University Press, 1974), 1.

⁹ Celso Furtado, *Formação Econômica do Brasil* (São Paulo: Companhia Editora Nacional, 1959).

¹⁰ The commercial treaty is hereby referred to as the “Methuen Treaty.”

¹¹ Ronald Findlay and Kevin O’Rourke, *Power and Plenty* (Princeton: Princeton University Press, 2007), 252.

the commercial Methuen Treaty.¹² In doing so, this paper seeks to establish whether the treaty was negotiated by equal partners seeking mutual gains, or rather between a hegemon and a protectorate. It aims to clarify who sought the treaty, a subject of disagreement among historians. It also examines post-treaty outcomes to evaluate whether both countries enjoyed reciprocal benefits, as Ricardo's theory suggests they should.

Recent literature on this topic tends to employ a narrative of the Methuen Treaty which reflects the author's ideological presumptions on free trade. Even among major British historians, there are some conflicting and inaccurate accounts of the treaty, empowering those who wish to reframe the events of the era in a way that confirms their pre-existing beliefs. This paper was not written intending to endorse nor disparage free trade. Instead, it intends to describe the political economy of England and Portugal during the era marked by the signing of the Methuen Treaties to evaluate Robinson's claim that Britain imposed free trade on Portugal and "inhibited [her] industrial development...so as to make her more dependent than ever."¹³ By serving as a nonpartial interpreter of historical evidence on the Methuen Treaty, this paper fills a much needed gap in a literature normally divided along ideological lines.

2. The Methuen Treaty in the Economics Literature:

Before delving into historical accounts of the Methuen Treaty, this paper provides a review of the economics and political economy literature that has contributed to a modern understanding of the treaty. While Ricardo never mentions the treaty by name, his two-country, two-good model demonstrating mutual gains from trade remains the most widely read account of the exchange of English cloth for Portuguese wine. Subsequent economists immortalised Ricardo's theory—and example—by creating a general equilibrium model of comparative advantage. Others amended and upgraded the model by introducing

¹² Portuguese translations are performed by the author.

¹³ Robinson, *Reflections*, 1.

new assumptions, but the result remains the same: Ricardo provides an analytical tool for asserting the logic of free trade. Starting in the 1980s, comparative advantage was used as the theoretical foundation for an era of expansive growth in trade and globalisation. References to Ricardo and the mutual benefits of 18th-century Anglo-Portuguese commercial relations can still be found on the websites of the World Bank,¹⁴ IMF,¹⁵ and WTO.¹⁶

Neoclassical economists ignore that opponents of free trade recall an intellectual lineage nearly as lengthy as their own—and advance an alternative interpretation of the Methuen Treaty. Rather than leading to mutual benefits, in 1841 Friedrich List wrote that the treaty “conferred a privilege upon Portugal, but only in name...it conferred a privilege upon the English in its actual operation and effects.”¹⁷ List noticed that newly developing industries had higher costs until they achieved economies of scale. Without protection, these industries would be outcompeted in international markets. List and a subset of economic historians argue that England leveraged their superior military to enforce the terms of the treaty, ruining Portugal’s domestic textile industry and leaving them with a “slow-growing export market for wine.”¹⁸ Consequently, Portugal ran persistent trade deficits with England, lining the British coffers with Brazilian gold. If this is the case, it implies that the “normative core of liberalism” is not based on an elegant, timeless, and mathematical logic, but rather on a sanitised version of history that ignores power, politics, and empire.¹⁹

It is worth addressing the argument that Ricardo was not *literally* describing trade between England and Portugal, and therefore a critical review of the

¹⁴ Siddhesh Kaushik and Julia Oliver, “Does Your Country Export What It Should?” World Bank, last modified August 12, 2014.

¹⁵ Brad McDonald, “Back to Basics: Why Countries Trade,” International Monetary Fund, last modified December 2009.

¹⁶ “The case for open trade,” World Trade Organization, accessed September 1, 2023.

¹⁷ Friedrich List, *The National System of Political Economy*, trans. Sampson Lloyd (London: Longmans, Green and Co, 1916), 51.

¹⁸ Robinson, *Reflections*, 1.

¹⁹ Matthew Watson, “Historicising Ricardo’s comparative advantage theory, challenging the normative foundations of liberal International Political Economy,” *New Political Economy* 22, no. 3 (2017): 269.

Methuen Treaty does not necessarily constitute a critique of comparative advantage. Given that Ricardo does not mention the treaty by name, this is a reasonable claim. But as Watson writes, “It is inconceivable that he was simply unaware of [the Treaty].”²⁰ Duguid agrees, describing how the treaty “worked itself not only into [the English’s] 18th- and 19th-century consciousness, but almost into their famously unwritten constitution.”²¹ Therefore, any inaccuracy in Ricardo’s depiction of Anglo-Portuguese trade represents a strategic choice that helps his model arrive at his intended outcome. These choices are effectively assumptions of the Ricardian model, and a historical analysis would reveal how reasonable these assumptions were given the context.²²

In addition, Ricardo’s depiction of Anglo-Portuguese trade inspired economists to generalise, enhance, and critique based on the same example. Today’s textbooks still describe comparative advantage using the exchange of English cloth for Portuguese wine.²³ Students of economics learn and re-learn a model that suggests that colonial era Anglo-Portuguese trade represents the foundation for all mutually beneficial trade relationships. What are the implications if the most famous case ever made for free trade did not actually result in mutual benefits? Furthermore, since Ricardo used the example of England and Portugal, critics of free trade have concentrated on re-contextualising 18th-century Anglo-Portuguese trade. Friedrich List, Joan Robinson, and Latin American structuralists all offer their own interpretation of the Methuen Treaty and Anglo-Portuguese trade. So, even if one believes Ricardo’s example is too abstract to historicise, this paper’s historical literature review can still evaluate the accuracy of Anglo-Portuguese trade in the neoclassical and heterodox popular imagination.

²⁰ Watson, “Historicising Ricardo’s comparative advantage theory,” 263.

²¹ Paul Duguid, “The Making of Methuen: The Commercial Treaty in the English Imagination,” *História* 4 (2003): 9.

²² By “assumptions,” this paper does not mean it will examine the literal assumptions of the textbook Ricardian model, like perfect competition, factor mobility, homogenous goods, etc. Instead, “assumptions” refers to the issues Ricardo overlooked when assembling his model but existed in 18th-century Anglo-Portuguese trade (i.e. politics).

²³ Mankiw, *Principles*.

2.a The Methuen Treaty in the neoclassical account:

In economics textbooks, Ricardo's theory of comparative advantage builds on Adam Smith's notion of "absolute advantage," as expressed in *The Wealth of Nations*. Smith's finding is typically introduced first, perhaps to facilitate comprehension of Ricardo's theory. In the passage credited with theorising absolute advantage, Smith writes:

"If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage."²⁴

Smith's reasoning is fairly intuitive: states should specialise in goods that they can produce more cheaply than their trading partners. But this represents "a limited case...for international trade," as countries with no absolute cost advantage would not participate.²⁵ Using the example of England and Portugal, Ricardo shows how trade between two countries makes sense even when one country can produce *everything* more cheaply than another. In Ricardo's example, Portugal is productively superior in both cloth and wine. He writes:

"Though [Portugal] could make the cloth with the labour of ninety men, she would import it from a country where it require the labour of 100 men to produce it, because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of vines to the manufacture of cloth."²⁶

Although Portugal is more efficient in cloth and wine production, Ricardo argues it can still gain by specialising in wine—the good in which it has the greatest productive advantage over its trading partner. Conversely, England, which has no productive advantage over Portugal, can gain from trade by specialising in cloth—the good in which it has the least cost disadvantage. If Portugal produces

²⁴ Adam Smith, *The Wealth of Nations* (London: W. Strahan and T. Cadell, 1776), 36-37.

²⁵ Michael Hiscox, "The Domestic Sources of Foreign Economic Policies," in *Global Political Economy*, ed. John Ravenhill (Oxford: Oxford University Press, 2014), 104.

²⁶ Ricardo, *Principles*, 146.

wine and England produces cloth, a higher level of output can be achieved than before specialisation, and trade allows each country to consume more than it would have otherwise. This logic suggests that every country, no matter its productive capacity, should be able to engage in mutually beneficial trade with other countries.

Mainstream economics has committed itself to this linear narrative: Ricardo “build[s] on Smith’s pioneering ideas” in a way that “extend[s] his argument.”²⁷ ²⁸ In this account, the Methuen Treaty captures the elegant mathematical logic of comparative advantage; Ricardo implies that the treaty was essentially good for both the British and the Portuguese. But this version of history ignores that Smith himself thought the treaty was “evidently advantageous to Portugal, and disadvantageous to Great Britain.”²⁹ Smith believed that France had an absolute advantage in wine production, and “denounced the Methuen Treaty as an instance of trade diversion.”³⁰ Contrary to his reputation as Ricardo’s forerunner, Smith contends that Anglo-Portuguese trade liberalisation was not a shining example of the inevitable logic of free trade and instead represented an inefficiency, imposed on the market by political concerns. Dimand finds that Smith’s discussion of the Methuen Treaty is generally not mentioned in prominent articles that discuss his views on international trade, possibly because it would complicate the linear progression of knowledge that forms the core of neoclassical trade theory.^{31, 32}

²⁷ Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), 173.

²⁸ Jeffrey Frieden, *Global Capitalism: Its Fall and Rise in the Twentieth Century* (New York: W.W. Norton, 2006), 30.

²⁹ Smith, *Wealth of Nations*, 546-547.

³⁰ Robert Dimand, “Adam Smith versus David Ricardo on Portuguese wine and English cloth,” *The European Journal of the History of Economic Thought* 25, no. 6 (2019): 1264.

³¹ Dimand, “Adam Smith versus David Ricardo.”

³² It is worth briefly noting that Ricardo disagreed with Smith, too: “By contrast, Ricardo specialists have long argued that to follow the Ricardian route, both theoretically and methodologically, meant renouncing large parts of the Smithian system as laid down just 40 years before.” From Margaret Schabas, *The Natural Origins of Economics* (Chicago: University of Chicago Press, 2005), 113.

While few neoclassical writers after Smith and Ricardo discuss the Methuen Treaty directly, they generalised and improved the theory of comparative advantage using Ricardo's original example. In 1936 Gottfried Haberler asserted that comparative advantage was based on relative opportunity costs rather than relative labour productivities, and he illustrated his argument using the exchange of English cloth for Portuguese wine.³³ Paul Samuelson, whose work included introducing two factors of production into the Ricardian model, described Ricardo's labour productivities for cloth and wine in England and Portugal as "the four magic numbers" in a well-known address.³⁴ And, of course, today's textbooks still use 'England' and 'Portugal' as the standard example of comparative advantage and its mutual benefits.³⁵ While some scholars point out that the textbook "Ricardian model" departs significantly from what can be interpreted from text of *Principles*, Ricardo and 18th-century Anglo-Portuguese trade have attained legendary status in the view of neoclassical economists.³⁶ They wield Ricardo's theory as a tool to assert the self-evident logic of comparative advantage, and, in doing so, promulgate an understanding of Anglo-Portuguese commercial relations as depoliticised and mutually beneficial.

2.b The Methuen treaty in the heterodox account:

In 1841, Friedrich List articulated his critique of the "popular theory" of foreign trade, asserting that the Methuen Treaty led to the "sudden and complete ruin of the Portuguese manufactories."³⁷ According to the neoclassical school, this is not a concern since Portugal will specialise in wine. But List was a proponent of industrialism who wrote:

"A person may possess wealth, i.e. exchangeable value; if, however, he does not possess the power of producing objects of more value than he

³³ This is the understanding of comparative advantage taught today (with relative opportunity costs). Gottfried Haberler, "The Theory of International Trade," *The Quarterly Journal of Economics* XLIII (1936).

³⁴ Paul Samuelson, "The Way of an Economist," *International Economic Relations* (1969), 5.

³⁵ Mankiw, *Principles*.

³⁶ Comparative advantage was not always a reflexive tool used to assert the logic of universal free trade. In the 1950s, structuralists advocated the use of protectionism to help develop a country's comparative advantage.

³⁷ List, *The National System*, 50.

consumes, he will become poorer. A person may be poor; however, if he possesses the power of producing a larger amount of valuable articles than he consumes, he becomes rich.”³⁸

For List, specialising in wine reduced Portugal’s “power of producing objects of more value than [it] consumes” as Portuguese wine exports fell far short of English cloth imports.³⁹ Resultantly, Portugal had to pay to England a trade deficit of what List estimated to be one million pounds annually.⁴⁰

Foreshadowing the argument of dependency theorists, List asks rhetorically, “Did not the Portuguese gold and silver supply the English with the means of bringing vast quantities of goods from India?...Did not all the Portuguese colonies, especially the rich one of Brazil, by this means become practically English colonies?”⁴¹ List suggests that the Brazilian gold that the British received in exchange for their cloth helped drive the Industrial Revolution. In List’s view, reducing barriers in the exchange of English cloth for Portuguese wine—the source of Ricardo’s celebrated example—led to vastly unequal outcomes for the English and Portuguese and inspired the plundering of Brazilian gold.

Virtually all heterodox perspectives on the Methuen Treaty agree with and expand on List’s early critique. Robinson describes the effects of the treaty as providing Portugal with a “slow-growing export market for wine” and England with “accumulation, mechanisation and the whole spiralling growth of the industrial revolution.”⁴² While Ricardo described specialisation as leading to mutual benefits, the heterodox perspective argues that some specialisations are better than others. As Cypher and Dietz write, “It may not be specialisation per se that is so important for a country’s future as is *the choice of what to specialise*

³⁸ List, *The National System*, 108.

³⁹ List, *The National System*, 108.

⁴⁰ Fisher estimates that over £25 million in gold was transferred to England via Portugal between 1700 and 1770. H.E.S. Fisher, “Anglo-Portuguese Trade, 1700-1770,” *The Economic History Review* 16, no. 2 (1963).

⁴¹ List, *The National System*, 51.

⁴² Robinson, *Reflections*, 1.

*in.*⁴³ Robert Wade agrees, writing that Ricardo “forgot to mention that [the Methuen Treaty] gave England the sector with skill requirements and growth potential and Portugal the one with stagnation.”⁴⁴ England grew faster during this period, and the textile industry benefitted from increasing returns to scale and expanding Portuguese demand.⁴⁵

Some heterodox scholars argue that the neoclassical perspective obscures the role of England’s military and coercive power in realising the treaty. Watson describes the treaty as having been “created through highly illiberal means” and cites Robinson who “has long argued that what is usually portrayed as the universal truth of comparative advantage...was actually Ricardo’s description of early nineteenth-century British commercial interests.”⁴⁶ Robinson herself writes, “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.”⁴⁷ Marquis de Pombal, a late 18th-century Portuguese king, agreed, characterising the treaty as the “price paid for Portuguese adhesion to the Grand Alliance.”⁴⁸ Robinson and Pombal believe that England leveraged her outsized influence to strike a deal that allocated herself a disproportionate share of the benefits.

While Smith observed “almost all our gold, it is said, comes from Portugal,” he saw no fault with this arrangement as it simply reflected Britain’s “effectual demand for gold” and Portugal’s excess supply.^{49, 50} List, of course, has a problem with the idea that Portugal’s commercial debts were settled by appropriating

⁴³ James Cypher and James Dietz, *The Process of Economic Development* (New York: Routledge, 1998), 122.

⁴⁴ Robert Wade, “Rethinking the world economy as a two-bloc hierarchy,” *Real-World Economics Review* 92 (2020): 11.

⁴⁵ Jutta Bolt and Jan Luiten van Zanden, “Maddison style estimates of the evolution of the world economy,” Maddison Project, accessed September 1, 2023.

⁴⁶ Watson, “Historicising Ricardo,” 261.

⁴⁷ Robinson, *Reflections*, 1.

⁴⁸ Richard Lodge, “Historical Revision: The Methuen Treaties of 1703,” *History* 18, no. 69 (April 1933): 35.

⁴⁹ Smith, *Wealth of Nations*, 548-49.

⁵⁰ Dimand, “Adam Smith versus David Ricardo,” 4.

gold from colonial Brazil. Benzecry finds that “List’s rebuke became a mainstream thought in Lusophone historical books” as many Brazilian scholars sought to explain their country’s underdevelopment.⁵¹ Prominent Brazilian Marxist Celso Furtado writes, “gold from Brazil began to flow exactly when the [Methuen Treaty] came into force... Thus, the conditions required for the agreement to work were unexpectedly created.”⁵² These critiques link the Methuen Treaty and even the Industrial Revolution to colonialism and the transatlantic slave trade, which supplied the labour for Brazil’s extractive industries. In this way, heterodox scholars associate the exchange of English cloth for Portuguese wine, the foundation of neoclassical trade theory and “the most beautiful idea in economics,” with highly illiberal economic practices.⁵³

3. The Methuen Treaty in the History Literature

The history literature on the Methuen Treaty is not quite as divided as the economics literature, though it is close. Duguid describes the treaty’s origins as “complex, contested, and confused,” and Brazilian historian Nelson Werneck Sodré says the treaty is “more discussed than understood.”^{54, 55} The various historical narratives allow scholars of economics and IPE to interpret history selectively, using the events of the era to confirm their pre-existing views on free trade. Indeed, both neoclassical and Marxist economists find that the Methuen Treaty and its effects affirm their hypotheses.

Even among major British historians, there are conflicting and inaccurate accounts of the treaties. V.M. Shillington and A.B. Chapman, prominent 20th century authors on the Anglo-Portuguese alliance, write, “eventually two

⁵¹ Gabriel Benzecry, “Friedrich List and the Methuen Treaty,” Working paper, Political Economy Research Institute, Middle Tennessee State University, 2021.

⁵² Furtado, *Formação Econômica do Brasil*, 46.

⁵³ “As Nobel laureate in economics Paul Samuelson has argued, the principle of comparative advantage is the most beautiful idea in economics since it supports the crucial liberal belief in a harmony of interests uniting all people.” Robert Gilpin, “No One Loves a Political Realist,” *Security Studies* 5, no. 3 (December 2007): 3.

⁵⁴ Duguid, “The Making of Methuen,” 2.

⁵⁵ Nelson Werneck Sodré, *As Razões Da Independência* (Rio de Janeiro: Editora Civilização Brasileira, 1965), 17.

treaties, one largely political, the other strictly commercial, were concluded...The second...was concluded on 6th May, 1703.”⁵⁶ All other historical accounts support there having been three Methuen Treaties, the last of which was signed December 27th. In a separate article, Chapman describes the commercial Methuen Treaty as a “bribe to Portugal” even though it was completed six months after the political treaties and is generally considered to have been bad for Portugal.⁵⁷ In cases where these works are cited, this paper has used additional sources to corroborate their findings.

3.a Events leading to the commercial treaty

An era of Spanish rule over Portugal came to an end in 1640 when the Portuguese nobility announced their intention to restore full independence. A prolonged war followed, during which time Portugal courted England for support. Three treaties, known as the “Alliance Treaties,” were signed between in 1642, 1654, and 1661.⁵⁸ There is widespread agreement among historians that this period “reverse[d] the previous relations between the two states...England became the dominant power, and Portugal appeared to Europe as the humble satellite of England.”⁵⁹ American historian Alan Manchester finds that the commercial treaty of 1654 “granted the English more rights in Portugal [and Brazil] than the Portuguese themselves had.”⁶⁰ It also stipulated that all English imports were to pay a fixed duty of 23%.⁶¹ Summarising the view of the Portuguese on the 1654 treaty, Sodr  writes that they felt like a “cog in the propelling mechanism” of the British empire.⁶² These treaties are generally agreed to have exchanged English political support for significant economic concessions from the Portuguese.

⁵⁶ V.M. Shillington and A.B. Wallis Chapman, *The Commercial Relations of England and Portugal* (London: George Routledge & Sons, 1903), 224.

⁵⁷ A.B. Wallis Chapman, “The Commercial Relations of England and Portugal, 1487-1807,” *Transactions of the Royal Historical Society* 1 (1907): 171.

⁵⁸ When the treaty of 1661 married Catharine of Braganza to King Charles II, her dowry included Tangier and Bombay.

⁵⁹ Lodge, “Historical Revision,” 33.

⁶⁰ Alan Manchester, *British Pre-Eminence in Brazil* (London: Octagon Press, 1972), 63.

⁶¹ Sandro Sideri, *Trade and Power: Informal Colonialism in Anglo-Portuguese Relations* (Cambridge: Cambridge University Press, 1970), 41.

⁶² Sodr , *As Razoes Da Independencia*, 24.

While the Portuguese won their independence in 1668, they did not experience a swift improvement in their economic fortunes. Fisher describes a “serious commercial depression” in the 1670s-80s “brought about by the rise of West Indian sugar production.”^{63, 64} Portuguese historian V.M. Godinho describes how the colonial expansion of the Dutch, French, and English introduced competition for staple Portuguese exports including sugar, tobacco, and cloves.⁶⁵ Prices of these goods fell and stocks accumulated in Lisbon warehouses. Richard Lodge, an early 20th century British historian, writes:

“...the growing dependence upon England for many necessaries of life, and the unfavourable “balance of trade” which compelled the export of Brazilian gold to purchase imports from England, were resented by Portuguese patriots.”⁶⁶

Pedro II, king of Portugal, realised something had to change. Godinho writes, “the Portuguese were clearly conscious of a commercial crisis...and of the necessity of developing manufactures as the means to stop it.”⁶⁷ In an effort to encourage domestic production, in 1677 Pedro issued a decree that prohibited the wearing of foreign cloth. In 1686, Pedro reaffirmed the decree, “particularly specifying black and coloured cloth, gold and silver lace and hats...a further decree in 1688 included druggets.”⁶⁸ There is a consensus in the literature that the Portuguese “pragmatics,” as these policies were known, did not succeed at stimulating industrial development. This is possibly because the pragmatics “were not rigorously observed.”⁶⁹ Also, the import of English textiles was not banned, just the *wearing* of those goods. Portuguese historian Lúcio de Azevedo finds that “after pragmatics, everything that was prohibited grew.”⁷⁰

⁶³ Fisher, “Anglo-Portuguese Trade,” 220.

⁶⁴ Chapman, “The Commercial Relations of England and Portugal,” 168.

⁶⁵ V.M. Godinho, “Portugal and the Making of the Atlantic World: Sugar Fleets and Gold Fleets, the Seventeenth to the Eighteenth Centuries,” *Review (Fernand Braudel Center)* 28, no. 4 (2005): 313-337.

⁶⁶ Lodge, “Historical Revision,” 34.

⁶⁷ Godinho, “Portugal and the Making of the Atlantic World,” 321.

⁶⁸ A.D. Francis, “John Methuen and the Anglo-Portuguese Treaties of 1703,” *The Historical Journal* 3, no. 2 (1960): 104.

⁶⁹ Sodré, *As Razoes Da Independencia*, 35.

⁷⁰ João Lúcio de Azevedo, *Épocas de Portugal Económico* (Lisbon: A.M. Teixeira, 1929), 423.

In the early 18th-century, Anglo-Portuguese relations became consumed by the War of Spanish Succession. In November of 1700, Charles II of Spain died childless, leaving the question of his successor unresolved. Louis XIV repudiated an existing Spanish Partition Treaty, recognising his grandson, Philip V, as the inheritor of an undivided Spanish kingdom. The English, seeking to preserve a balance of power in Europe, joined with the Grand Alliance to oppose the French and support Archduke Charles, the Habsburg candidate. Pedro was wary to oppose the Bourbons, whose forces took control of Spain, and he became a reluctant ally of the French, signing a treaty that exchanged Pedro's recognition of Philip V for naval and military protection. The English, seeking a friendly harbour on the Iberian peninsula to base their operations, dispatched John Methuen, for whom the treaties are named, to induce Pedro to abandon his agreement with France and join the alliance. Upon his arrival, Methuen's biographer A.D. Francis reports that Pedro told Methuen he "was disposed to recognise the Archduke Charles's claim to the Spanish throne."⁷¹ The appearance of an Allied naval fleet passing across the mouth of the Tagus river and "the failure of Louis XIV...to send the...forces Portugal demanded" led Pedro to renounce the treaty with France.^{72, 73} The literature largely agrees that, for Pedro, "the naval factor was decisive" in switching his allegiance.⁷⁴

Prolonged negotiations were required to entice the Portuguese out of their "profitable neutrality" and align them with the Dutch and the Austrians.^{75, 76} Thanks in part to the elder Methuen's craftiness as a negotiator, known for making "dramatic exits from Lisbon...followed by a speedy return," the political treaties were nevertheless completed on May 16th 1703.⁷⁷ The first treaty joined

⁷¹ Francis, "John Methuen," 110.

⁷² Lodge, "Historical Revision," 34.

⁷³ It should be clarified that the Allied fleet was never intended to be aggressive towards the Portuguese, rather it sought to demonstrate that Portugal would be better served by protection from the Grand Alliance than from the French.

⁷⁴ Francis, "John Methuen," 111.

⁷⁵ Lodge, "Historical Revision," 34.

⁷⁶ I do not have room here for extensive detail on the negotiations; this sketch obviously represents a vast oversimplification. Francis 1960 provides the best in-depth account of the negotiations.

⁷⁷ Lodge, "Historical Revision," 35.

Portugal to the Grand Alliance. Pedro recognised Archduke Charles and pledged Portugal's support in his quest for the Spanish throne, receiving territorial concessions in return. The second treaty, signed by all but the Austrians, was a mutual defence treaty designed to give Portugal its desired protection against French hostility. It was in this environment, "propitious for negotiation," that the commercial Methuen Treaty was proposed and eventually signed on December 27th 1703.⁷⁸

3.b The Methuen (commercial) Treaty negotiations

When John Methuen arrived in Lisbon, he had no instructions about seeking a commercial treaty. However, he "discovered that there was a desire to profit by the war between England and France in order to push Portuguese wines into the English market in place of French wines."⁷⁹ While many have assumed it was the English who pursued the treaty, some historians, including Luis Sampaio, insist the proposal originated with the Portuguese.⁸⁰ Lodge agrees that the "initiative in promoting the commercial treaty...was taken not by England, but by Portugal."⁸¹ While Sampaio and Lodge are widely considered to be reputable sources, there is not a consensus in the literature. Sodr e thinks the commercial treaty was "a work slowly prepared and matured since 1691, when, for the first time, [Methuen] landed in Lisbon."⁸² He also accuses the English of providing lavish gifts to high-ranking Portuguese politicians to procure the treaty, though Anderson says "protocol possibly dictated this behaviour" and Francis writes that "there is no evidence that [Methuen] gave them specifically to further the commercial treaty."^{83, 84} Both of Sodr e's claims are unsubstantiated in the wider literature, which appears to suggest that influential Portuguese actors sought the treaty as a means to access the English wine market. Godinho highlights the

⁷⁸ Francis, "John Methuen," 120.

⁷⁹ Lodge, "Historical Revision," 35.

⁸⁰ Lu s Teixeira de Sampaio, "Para a hist ria do Tratado de Methuen," *O Instituto* LXXVI, no. 1 (1928).

⁸¹ Lodge, "Historical Revision," 35.

⁸² Sodr e, *As Razoes Da Independencia*, 17.

⁸³ R. Warren Anderson, "Rent Seeking and the Treaty of Methuen," *Journal of Public Finance and Public Choice* XXXII, no. 1 (March 2014): 118.

⁸⁴ Francis, "John Methuen," 124.

Duke of Cadaval and the Marquis of Alegrete, both of whom dealt directly with John Methuen during his tenure in Lisbon. Godinho reports that both were “great proprietors of vineyards” though they “were having trouble selling their wine due to French competition.”⁸⁵ Alegrete was Methuen’s “main interlocutor” for the political treaties, and Francis finds that they “had already discussed the possibility of a trade agreement” before the political treaties were finalised.^{86, 87} This aligns with the claims of Sampaio and Lodge—it seems likely that the Portuguese bureaucrats approached Methuen about supplanting the French in the English market for wine.

In return, Methuen secured duty-free access to the Portuguese market for textiles. Some have suggested that Methuen chose to pursue textiles because wool manufacturing was “his family business.”⁸⁸ While the literature affirms that Methuen had interests in woollen textiles, they were also England’s chief export at the time.⁸⁹ It is difficult to establish the extent to which he was motivated by his country’s interests or his own, as the treaty satisfied both. On December 27th 1703, the commercial Methuen Treaty was signed. It required that all restrictions on the import of English textiles to Portugal be removed, and England admit Portuguese wines at a third less duty than was imposed on French wines.

This description of the Methuen Treaty negotiations runs counter to the heterodox narrative that the treaty represented “the imposition of free trade on Portugal.”⁹⁰ While Robinson claims that “Portugal was dependent on British naval support,” her position appears to neglect the agency of the Portuguese, who occupied a strategic position throughout the negotiations.⁹¹ Portugal was not dependent on the British navy—they had just signed an alliance with the

⁸⁵ Godinho, “Portugal and the Making of the Atlantic World,” 325.

⁸⁶ Sideri, *Trade and Power*, 41.

⁸⁷ Francis, “John Methuen,” 119.

⁸⁸ Anderson, “Rent Seeking,” 118.

⁸⁹ Fisher, “Anglo-Portuguese Trade,” 222.

⁹⁰ Robinson, *Reflections*, 1.

⁹¹ Robinson, *Reflections*, 1.

French and could have opted to rely on the Bourbons to preserve their territory. Francis writes that “Pedro was in no hurry to declare himself” between the two major powers, and gifts and promises of territorial expansion were necessary to induce him to join the Grand Alliance.⁹² Lodge agrees, describing the “strong bargaining position held by Portugal.”⁹³ This paper’s account of the treaty negotiations should not be taken to support the neoclassical position either; it seems more likely that the Alegrete and Cadaval were motivated by mercantile self-interest rather than the wisdom of Ricardian comparative advantage.

3.c Effects of the commercial Methuen Treaty

Figure 1 presents the official statistics compiled by the English Inspectors-General and published in 1776 by Charles Whitworth.⁹⁴ Fisher cautions that these figures should be used as a “broad, approximate guide to general movements in the trade.”⁹⁵ Between the periods 1698-1702 and 1706-1710, Portuguese annual average imports from England increased by 84% while their exports to England rose only by 20%. While this appears to indicate that the Portuguese successfully accessed the English wine market, it suggests that the English’s access to the Portuguese textile market was far more lucrative. Portugal’s trade deficit to the English grew by 166% over this period.

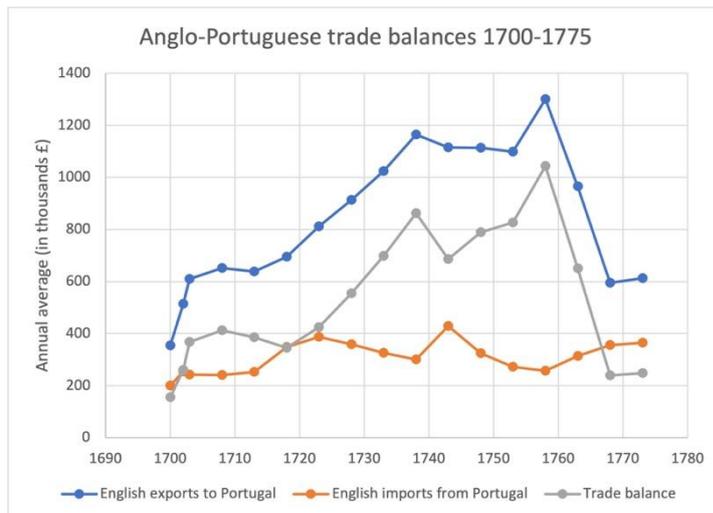
⁹² Francis, “John Methuen,” 109.

⁹³ Lodge, “Historical Revision,” 35.

⁹⁴ Charles Whitworth, *State of Trade of Great Britain* (London: G. Robinson, 1776).

⁹⁵ Fisher, “Anglo-Portuguese Trade,” 221.

Figure 1: Anglo-Portuguese trade balances, provided by Whitworth (1776). Each data point is a five-year average.



These findings are supported by the historical literature, which is in consensus that England benefitted more from this era of Anglo-Portuguese trade than Portugal did. However, historians assign different levels of responsibility to the Methuen Treaty in creating these disparate outcomes. Their varied perspectives reflect different levels of optimism about the potential of Portuguese industry. Sideri describes the treaty’s effects as “disastrous” to Portugal’s textile manufacturers, while Godinho points out that Portugal imported “a great quantity of prohibited English cloth” before the treaty.⁹⁶ Francis also expresses scepticism about the development of Portugal’s textile industry, which he describes as “already languishing...not much affected for the worse.”⁹⁷ Similarly, while historians agree that wine production was not an advantageous specialisation, they disagree on the extent to which the Methuen Treaty directly caused Portugal’s specialisation in wine. Both Sideri and Sodr  describe how an “important effect of the treaty...was to strengthen the development of wine production.”⁹⁸ These scholars find that the treaty led Portugal to transition her productive capacities away from the production of textiles and foodstuffs and towards wine, and “the improvement in the balance of payments from the wine exports was cancelled out by the imports of larger quantities of foodstuffs [and]

⁹⁶ Godinho, “Portugal and the Making of the Atlantic World,” 323.

⁹⁷ Francis, “John Methuen,” 124.

⁹⁸ Sideri, *Trade and Power*, 45.

cloth imports.”⁹⁹ Other historians do not establish a causal linkage between the treaty, Portugal’s specialisation in wine, and the increase in the trade deficit. Francis writes, “the argument against the treaty so commonly used about the replacement of cornfields by vineyards...is not supported by the facts.”¹⁰⁰ Godinho agrees, writing that “more important than the Treaty of Methuen, and by far, was a whole series of laws prohibiting the importation of foreign wines into Portugal.”¹⁰¹ Ultimately, this paper finds it difficult to ascertain the exact degree to which the Methuen Treaty caused Portugal to abandon their manufactures and specialise in wine. However, it is clear that the Portuguese transition away from industry and towards wine allowed the English to enjoy a greater share of the gains from Anglo-Portuguese trade.

This paper finds that the treaty is more aptly viewed as a *result* of the economic and political context, rather than a chief cause of England and Portugal’s long-term economic outcomes. Even Sideri, who argues that the treaty was “disastrous” for the Portuguese, admits that its “significance has been over-estimated by making it the source of English economic and political predominance in Portugal.”¹⁰² The Methuen Treaty was not the origin of unequal trade relations between the English and the Portuguese—the Alliance Treaties were. Lodge reports that these treaties started the “dependence upon England for many necessaries of life, and the unfavourable balance of trade.”¹⁰³ The Alliance Treaties also established unequal powers for English merchants in Portugal, many of whom came to “dominate” the Portuguese wine trade, amassing profits for themselves rather than the local producers.¹⁰⁴ Additionally, the priorities of Portuguese ministers changed in the late 17th-century. The Count of Ericeira, an industrialist and trusted advisor to Pedro, died, and in his place emerged Alegrete and Cadaval. Godinho writes that “the ‘industrials’ ceded their place to the great seigneurs of the vineyards” and Sideri comments, the

⁹⁹ Sideri, *Trade and Power*, 46.

¹⁰⁰ Francis, “John Methuen,” 124.

¹⁰¹ Godinho, “Portugal and the Making of the Atlantic World,” 325.

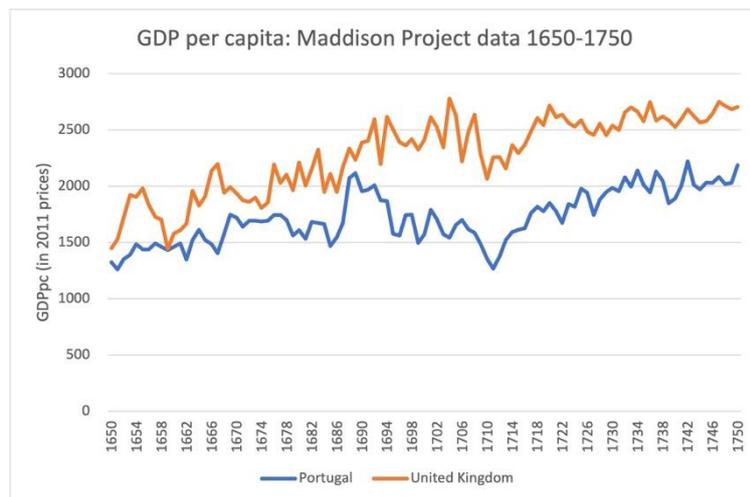
¹⁰² Sideri, *Trade and Power*, 42.

¹⁰³ Lodge, “Historical Revision,” 34.

¹⁰⁴ Sodr , *As Razoes Da Independencia*, 16.

“aristocracy [became] interested in expanding the wine trade.”^{105, 106} The Methuen Treaty played a but a small role in a long, complex set of developments that led Portugal to specialise in wine, impeding the growth of their textile industry and growing their trade deficit.

Figure 2: Maddison Project GDP per capita data, 1650-1750



This description of the effects of the exchange of ‘English cloth’ for ‘Portuguese wine’ deviates greatly from the idealised narrative of trade liberalisation offered by Ricardo. The historians agree that liberalising trade with the English stalled the development of Portuguese industry and increased their trade deficit. While there is an open question of how closely these effects can be linked to the Methuen Treaty, there is a general consensus that they happened. Ricardo is susceptible to Chipman’s critique that his conclusion about England “is a non-sequitur, since nothing has been said about Portugal.”¹⁰⁷ Similarly, Duguid suggests that Ricardo has a “British bias” and ignores the disadvantageous outcomes for the Portuguese.¹⁰⁸ It is clear from the data and literature that Portugal’s industrial development was hindered by her specialisation in wine,

¹⁰⁵ Godinho, “Portugal and the Making of the Atlantic World,” 325.

¹⁰⁶ Sideri, *Trade and Power*, 43.

¹⁰⁷ John Chipman, “A Survey of the Theory of International Trade,” *Econometrica* 33, no. 3 (July 1965): 479-80.

¹⁰⁸ Duguid, “The Making of Methuen,” 2.

which did not enjoy the same growth or increasing returns to scale as the English textile industry. Figure 2 shows historical GDP per capita data for England and Portugal from 1650 to 1750, capturing England's growth and Portugal's relative stagnation. Between 1690 and 1710, Portugal's GDP per capita decreased by 30%.¹⁰⁹ Indeed, the heterodox narrative of the Methuen Treaty better suits the account provided by the historical literature. The critique from Wade is particularly incisive: that Ricardo "forgot to mention that [specialisation] gave England the sector with skill requirements and growth potential and Portugal the one with stagnation."¹¹⁰ The historical literature supports the idea that specialisation does not invariably in economic growth. Some specialisations, like textiles in the early 18th-century, enjoy increasing returns to scale, technological innovation in their production, expanding demand over time, and close linkages with other growing industries.¹¹¹ Just a half century later, English textiles were at the heart of the Industrial Revolution. When Portugal's productive structures were reoriented around wine production, which did not enjoy these benefits, their economy stagnated. Fortunately for Portugal, their deficit to England "coincided with a gold rush in Brazil...enabling Portugal to cover their deficit for a time with a colonial gold flow."¹¹² Indeed, the historical literature also supports the heterodox claim that large quantities of Brazilian gold were necessary to fund Portugal's imports from England.¹¹³

4. Conclusion

This paper sought to evaluate neoclassical and heterodox economists' characterisations of the 18th-century exchange of English cloth for Portuguese wine by examining accounts from 19th and 20th century British, Portuguese, and Brazilian historians. Ricardo's use of this exchange to demonstrate the logic of comparative advantage has inspired economists to defend and critique his theory

¹⁰⁹ Bolt and van Zanden, "Maddison style estimates of the evolution of the world economy."

¹¹⁰ Wade, "Rethinking the world economy," 11.

¹¹¹ Joan Robinson, "What are the questions?" *Journal of Economic Literature* 15, no. 4 (December 1977): 1318-1339.

¹¹² Cypher and Dietz, *The Process of Economic Development*, 122.

¹¹³ Lodge, "Historical Revision."

using the same example. This paper finds that neither the neoclassical nor heterodox perspective entirely captures the circumstances that produced the Methuen Treaty or its subsequent effects. Robinson's idea that the English "imposed free trade on Portugal" and accepted the terms of the treaty because they were "dependent on British naval support" ignores the agency of the Portuguese, who occupied a strategic position throughout the treaty's negotiations.¹¹⁴ Furthermore, this review of the literature finds that it was influential Portuguese actors, rather than the English, who initially sought the treaty.

However, the heterodox narrative provides a more accurate understanding of the treaty's effects than the neoclassical account. Ricardo's theory implies that liberalising the exchange of English cloth for Portuguese wine should be essentially good for both countries. While this paper is unable to conclusively determine the effects of the treaty, a series of political and economic developments, including the treaty, served to imperil Portuguese domestic industry, increase their trade deficit, and transfer Brazilian gold to the English. It is clear that the benefits from this era of Anglo-Portuguese relations were disproportionately attained by the English, and that, at the time, specialising in textiles was better than specialising in wine. Indeed, the assertion that some specialisations are better than others, advanced by heterodox scholars, is supported by this paper's historical literature review. As Sideri writes, "cloth manufacture was the most dynamic productive sector in all countries at that time," and English textiles experienced growing demand from the Portuguese market.¹¹⁵ Portuguese wine production, largely controlled by English merchants anyway, did not experience a similar increase in demand or facilitate a comparable rise in productivity.

In an era where people and policymakers are reconsidering the free trade norm, this paper implies that Ricardian comparative advantage should not be taught as

¹¹⁴ Robinson, *Reflections*, 1.

¹¹⁵ Sideri, *Trade and Power*, 45.

a reflexive tool that asserts the undeniable and self-evident logic of free trade. Perhaps it was not meant to be—in the 1950s, structuralists advocated the use of protectionism to help develop a country’s comparative advantage.¹¹⁶ Some papers find that the East Asian countries, faced with the challenge of “late development,” pursued what they considered to be advantageous comparative advantages and protected those industries.¹¹⁷ Wade describes how, as a result, Japan and South Korea now trade in electronics, automobiles, and other sophisticated goods.¹¹⁸ This understanding of comparative advantage—as malleable and subject to purposeful alteration—is not taught in neoclassical textbooks. Perhaps, as the world embraces a “new normal” in international trade, trade theory will accommodate the notion that some specialisations are better than others. This paper finds that Ricardo’s own example, the exchange of English cloth for Portuguese wine, proves that this is the case.

¹¹⁶ Prebisch, *The Economic Development of Latin America*.

¹¹⁷ Ha-Joon Chang, *Bad Samaritans*.

¹¹⁸ Robert Wade, *Governing the Market* (Princeton: Princeton University Press, 1990).

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