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INTERNATIONAL TRADE: HOW TRADE RELATIONSHIPS AFFECT ECONOMIC GROWTH?

A NEMZETKÖZI KERESKEDELEM: HOGYAN BEFOLYÁSOLJÁK A KERESKEDELMI KAPCSOLATOK A GAZDASÁGI NÖVEKEDÉST?

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This study explores the significance of international trade as a solution to the problem faced by countries that struggle to achieve self-sufficiency in goods and services. This struggle is often due to factors like the nature of the products or the lack of capital, technology, or modern management in some nations, which prevents them from producing goods at a lower cost. The aim of the research is to highlight the role of foreign trade in enhancing and developing the local economy, providing it with foreign currencies, and understanding the key methods of this trade.

The findings suggest that foreign trade has emerged as a response to profound changes in the global economy and the challenges encountered by developing countries. These challenges include attempts by industrialized capitalist nations to exert control over international markets and to dominate the developing world.

Keywords: *foreign trade, protected economy, developing countries, international markets*

Ez a tanulmány a külkereskedelem (nemzetközi kereskedelem) jelentőségét tárja fel, mint megoldást azon országok problémájára, amelyekkel az áruk és szolgáltatások önellátásáért küzdenek. Ez a küzdelem gyakran olyan tényezőknek tudható be, mint a termékek természete vagy a tőke, a technológia vagy a modern menedzsment hiánya egyes országokban, ami megakadályozza őket abban, hogy alacsonyabb költséggel állítsanak elő árukat. A kutatás célja, hogy rávilágítson a külkereskedelem szerepére a helyi gazdaság élénkítésében, fejlesztésében, külföldi valutákkal való ellátásában, valamint e kereskedelem kulcsfontosságú módszereinek megértésében.

Az eredmények arra utalnak, hogy a külkereskedelem a globális gazdaság mélyreható változásaira és a fejlődő országok előtt álló kihívásokra adott válaszként jelent meg. E kihívások közé tartoznak az iparosodott kapitalista nemzetek arra irányuló kísérletei, hogy ellenőrzést gyakoroljanak a nemzetközi piacok felett, és uralják a fejlődő világot.

Kulcsszavak: *külkereskedelem, védett gazdaság, fejlődő országok, nemzetközi piacok*

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Introduction

International trade is a fundamental aspect of the global economy, enabling countries to exchange goods, services, and knowledge across borders. Over the centuries, trade has played a pivotal role in shaping economic systems, fostering growth, and fostering international cooperation. As entering an era of increasing globalization and interconnectedness, understanding how international trade functions and the factors that influence it has never been more crucial. This study aims to delve into the multifaceted nature of international trade, exploring its historical evolution, its economic theories and policies, its role in shaping economic growth, the emerging influence of new technologies like artificial intelligence (AI), and the role of institutions like the World Trade Organization (WTO) in regulating and liberalizing global trade.

To begin, looking at the historical perspective of international trade, Trade relationships have existed for centuries, evolving from rudimentary bartering systems to the complex global trade networks that define the modern economy. The historical development of trade reveals how countries have relied on each other to obtain resources, technology, and knowledge, creating a framework for modern economic collaboration. Understanding these historical foundations allows us to better appreciate how trade practices have shaped economic and political landscapes across the world, from ancient trading routes like the Silk Road to the establishment of the globalized trade systems we have today.

Following this historical exploration, this study will examine the critical need for international trade in the modern world. At its core, international trade enables countries to gain access to goods and services that are not readily available domestically, allowing nations to specialize in industries where they have a comparative advantage. This access not only fosters economic efficiency but also drives technological advancements and innovation by exposing countries to new ideas, products, and competitive markets. However, international trade is also much more than economic efficiency—it plays a key role in diplomacy, the building of alliances, and the creation of mutual dependencies between countries. It helps create an interdependent global economy where the prosperity of one nation can be linked to the prosperity of others.

At the heart of international trade are the theories and policies that govern its operation. Economic theory, particularly classical trade theories such as absolute and comparative advantage, offers insight into why countries engage in trade and how they can benefit from it. These theories highlight the potential gains from trade—countries can export goods they produce efficiently and import those they cannot produce as efficiently. However, trade policies, including tariffs, quotas, subsidies, and trade agreements, determine how trade takes place in practice. These policies can either facilitate or hinder trade flows, shaping the economic outcomes of nations involved in global trade. Understanding the theoretical foundations of trade and the policies that guide it is essential for understanding how trade influences economic performance and growth.

One of the central questions addressed in this study is how international trade contributes to economic growth. The relationship between trade and growth is complex and multifaceted. On one hand, trade promotes competition, drives innovation, and encourages the specialization of industries, all of which can contribute to economic growth. Countries that engage in trade are often able to access new technologies, investment, and expertise, accelerating their economic development. On the other hand, there are risks and challenges that come with increased trade. These include economic dependency on external markets, vulnerability to global economic shocks, and the exacerbation of income inequality. As trade policies and global supply chains become more intricate, the benefits and drawbacks of international trade must be carefully balanced.

In addition to traditional trade models, the rapid advancements in technology are reshaping how international trade works. Artificial intelligence (AI) is emerging as a key driver of change in global trade, offering new opportunities to improve efficiency, streamline operations, and reduce costs. AI can optimize supply chains, enhance decision-making, and even automate trade processes, revolutionizing the way goods and services are exchanged. However, AI also brings new challenges, particularly regarding data privacy, cybersecurity, and the impact of automation on labor markets. The intersection of AI and international trade is a critical area of study, as its influence will continue to grow, with profound implications for the future of global trade.

This research examines the role of the World Trade Organization (WTO) in liberalizing international trade. The WTO is the principal institution responsible for regulating trade between nations, promoting free trade, and resolving trade disputes. Established in 1995, the WTO seeks to ensure that trade flows as smoothly, predictably, and freely as possible, with the ultimate goal of enhancing global economic welfare. However, the organization has faced increasing criticism, particularly regarding its ability to address the complexities of modern trade issues such as environmental sustainability, digital trade, and the needs of developing countries. The WTO's role in shaping trade rules and facilitating negotiations remains essential, but as the global economic environment shifts, the organization is under pressure to reform its processes and adapt to new realities.

This study seeks to provide a comprehensive analysis of international trade and its role in shaping economic growth. By examining its historical development, the theoretical underpinnings of trade, its impact on economic performance, the challenges and opportunities posed by new technologies like AI, and the influence of the WTO, we aim to offer a nuanced understanding of the forces that drive international trade. Ultimately, this research will contribute to a broader understanding of the complex dynamics of global trade and its future direction in an increasingly interconnected world.

1. Historical perspective on International Trade and its concept

International trade has long served as a vital connection between nations and will continue to play this role. Trade dates back to ancient civilizations, and the historical progress of a country is deeply tied to its ability to meet both physical and intellectual needs. Since no nation possesses all the resources necessary to maintain a high standard of living independently, the exchange of surplus goods for those in short supply has become an essential practice. Over time, foreign trade has evolved into a key strategy for advancing national economies. It is recognized for its significant contribution to fostering both social and international relations. On a global scale, foreign trade serves as a cornerstone of support, creating regulations that facilitate the process of globalization. It is increasingly evident that a country cannot thrive or develop within a closed, self-sufficient economy, no matter how abundant its natural or demographic resources may be.

From a historical perspective, trade has existed since the moment people began to communicate with one another. Initially, individuals sought to be self-sufficient by producing everything they required. However, as civilizations developed, so did human needs, and these needs were increasingly met through exchange. This practice, known as barter, involved the direct exchange of goods for other goods. Over time, exchanges became more streamlined, and the introduction of currency as an intermediary facilitated these transactions, marking the beginning of true trade.

Before the rise of capitalism, inter-state trade was primarily shaped by national specialization, which was influenced by the natural conditions that dictated the production of goods from a nation's own resources. With the advent of capitalism, however, a new crucial element emerged: the international division of labor, which significantly strengthened the relationships and interdependencies between states[1]. The ongoing technical and scientific revolution continuously deepened this division of labor, directly accelerating the development of production capabilities. In Ferguson's view[2], such specialization in labor within society erodes individual security. However, Gellner offers a different perspective, arguing that Ferguson's anticipated dangers did not materialize, or at least not in the form he predicted[3]. Durkheim, in his Social Division of Labor, similarly rejects Ferguson's concerns, arguing that labor—fostered by a less protectionist state policy—is a positive force. Today, the mercantilist approach is still prevalent in certain countries, such as Japan, France, and the United States, particularly in sectors where they have lost their comparative advantage, such as agriculture.

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1 TERZEA, Elena Ramona: The Concept of international trade and main classic theories. *SEA Practical Application of Science* Volume IV, Issue 2 (11), Economic and International Affairs Doctoral School, Bucharest Academy of Economic Studies, Romania, 2016, 243–244.

2 A. Ferguson: *An Essay on the History of Civil Society*. Edinburg, 1767, 281.

3 E. Gellner: *Condiţiile libertaţiei. Societatea civilă şi rivalii ei.* Editura Polirom, Bucureşti, 1998.

2. The Need of International Trade

International trade plays a critical role in the global economy by enabling countries to compensate for their production deficits through exchange. As nations specialize in different goods based on their unique capabilities, they rely on trade to obtain products they cannot produce themselves. For instance, countries lacking oil resources import oil from producers, while oil-exporting nations import finished goods due to insufficient domestic production. This interdependence underscores the fact that no nation can achieve complete self-sufficiency, making international trade essential for global prosperity.

The significance of international trade lies in its contribution to the efficient allocation of scarce resources, both within individual countries and globally. By facilitating free trade, international markets promote competitive environments where the best products are produced, leading to higher quality goods and lower prices for consumers worldwide. One key principle of international trade is the comparative advantage of sourcing goods and services from countries that offer the lowest prices, and selling products to markets where prices are higher. These dynamic benefits both buyers and sellers and fosters economic growth, particularly in developed countries that can accelerate development by importing technology, machinery, and skills, while simultaneously adapting foreign innovations to meet local needs.

No country can maintain sustained economic growth without engaging in international trade. Even the wealthiest nations rely on raw materials from less-developed countries. If each country produced only for its own needs, it would face significant limitations in production and consumption, stalling progress. International trade, therefore, allows consumers worldwide to access goods and services that might not be available domestically, maximizing consumer satisfaction and improving living standards globally.

The scope of international trade encompasses a wide range of goods and services, including food, clothing, technology, and industrial components, as well as services like banking, transportation, and tourism. Goods acquired from foreign markets are classified as imports, while those sold abroad are exports. These transactions are recorded in a country's balance of payments (BOP), specifically under the current account. By participating in global trade, nations can utilize their resources more efficiently, tapping into their natural assets, labor, technology, and capital to produce and sell products at competitive prices[4].

Furthermore, international trade encourages global participation and attracts foreign direct investment, fostering competition and economic growth. This growth is particularly evident in developing economies such as India and China, which have experienced significant improvements in their economic standing after embracing

[4] A. PRASAD (Managing Editor): The Important of international trade in the world. International Journal of Marketing, *Financial Services & Management Research*, Enriched Publications Pvt. Ltd, 2024, 17.

trade liberalization and opening up to the global market. The benefits of international trade are evident in several areas:

1. *Increased Competitiveness:* Exposure to international markets compels domestic businesses to improve efficiency and adopt the latest technological innovations, which enhance productivity.
2. *Trade Protectionism:* Developing countries, often characterized by higher trade protection measures, tend to benefit from adopting an open trade regime, reaping the rewards of market liberalization.
3. *Export Growth:* Labor-intensive industries in developing countries, such as textiles and footwear, have seen substantial growth in exports to both developed and emerging markets, contributing to higher tax revenues.
4. *Poverty Reduction:* Globalization and trade have also been linked to poverty reduction. For example, India's transition from a closed economy to an open market has led to significant declines in poverty levels. As economic growth stimulates financial resources, these can be allocated toward anti-poverty programs, as well as improved education and healthcare.
5. *Impact on Agricultural Markets:* The elimination of trade barriers in agricultural products in developed countries can boost production and increase global prices, benefiting developing nations that export agricultural goods at higher market values.

And in my opinion, international trade fosters economic growth, reduces poverty, and increases global competition, all of which are vital for the continued development and prosperity of nations worldwide.

3. The Theory and Policy of International Trade

The foundations of international trade theory are built on three primary models that aim to explain the factors driving international trade and specialization:

1. The classical (Torrens-Ricardo) theory, which attributes these factors to technological differences between nations.
2. The Heckscher–Ohlin theory, which emphasizes the differences in factor endowments between countries.
3. The neoclassical theory, which has evolved over a longer period (with early influences from J. S. Mill, A. Marshall, and many modern scholars who have refined it with greater formal sophistication). This theory asserts that the determinants of international trade are found in the differences in technologies, factor endowments, and preferences across countries. The inclusion of tastes explains the possibility of international trade even if technologies and factor endowments were identical between countries.

Chronologically, model (2) follows model (1), while model (3) has developed alongside the others due to its longer gestation period. It is important to note that the Heckscher-Ohlin theory is also considered part of the neoclassical framework (which contrasts with the classical perspective), as it adopts the logical assumptions and methodology of the neoclassical approach. In fact, the Heckscher–Ohlin model can be seen as a special case of the neoclassical model, where internationally identical production functions and tastes are assumed. This simplification, according to some scholars, is a necessary trade-off for drawing specific conclusions about a country's international trade structure[5].

4. International trade and Economic Grow

Developing countries have increasingly become significant drivers of global economic growth, with trade between these nations now equally important as trade between developing and developed economies. By expanding their domestic markets and pursuing regional economic integration, developing countries can reduce their dependence on traditional export markets in Europe and North America. Economic growth in these nations is fundamentally linked to improving productivity in labor, capital, land, and knowledge. However, the barriers to growth in these economies remain significant, including regulatory failures, poor private sector investment conditions, limited access to financial services, and poverty, which restricts internal consumer demand and encourages informal economic practices[6]. Moreover, challenges in accessing international markets, due to technical trade barriers and protectionist policies, further hinder growth prospects. In addressing these issues, organizations like HTSPE play a vital role by assisting governments in trade policy formulation and implementation, promoting export market development, enhancing international competitiveness, and conducting market research that uncovers constraints to inclusive growth. International trade, as highlighted by Krugman, acts as a dynamic force that optimizes the use of global production capacities, stimulates innovation, and raises productivity, ultimately driving economic development. Similarly, Professor Béla Balassa emphasizes that export trade is key to acquiring technological know-how and skills that accelerate economic progress. Countries like India, which have substantial industrial infrastructure, rely heavily on foreign trade to meet the demand for capital goods and raw materials. This highlights the importance of international trade not only in providing foreign exchange reserves but also in improving resource allocation, technology, and product quality.

Since India's economic liberalization in the 1990s, its trade sector has seen rapid growth, and it continues to benefit from its integration into the global economy. The rising share of international trade in India's GDP underscores the growing importance of foreign trade in shaping the nation's economic future. The debate between inward-looking strategies, such as import substitution, and outward-looking strategies, such as export-led growth, reveals differing approaches to industrialization,

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5 F. TRIONFETTI, G. GANDOLFO: *International Trade Theory and Policy*. With contributions by Federico Trionfetty. Second Edition, Springer Texts in Business and Economics, 2014, 5.

6 *World Trade Report 2020: Government policies to promote innovation in the digital age*. World Trade Organization (WTO), 2020. https://www.wto.org/english/tratop_e/dtt_e/dtt_e.htm, 21. January 2025.

with the latter becoming more dominant[7]. Ultimately, foreign trade remains an indispensable engine of growth, offering both opportunities and challenges for developing countries seeking to boost their competitive advantage and stimulate sustainable economic development. As India's case demonstrates, the expansion of international trade is crucial to the realization of long-term economic progress and the fostering of greater global integration[8].

5. Disadvantages of International Trade

International trade, while fostering economic growth, also presents various disadvantages that impact both social welfare and the environment. A key issue is the potential neglect of societal well-being in pursuit of profit. This often manifests in practices that exploit vulnerable populations, particularly in developing nations, where workers may endure poor working conditions, receive low wages, and face unhealthy environments, with the benefits of trade concentrated in the hands of a small, often foreign, elite. This can lead to widening inequalities and social injustice.

Another significant concern is the cultural impact of international trade. While global exposure to diverse cultures can have positive effects, it can also undermine local traditions and social norms, especially when foreign goods and services, such as music, movies, or media from developed nations, are introduced into societies where cultural or religious values take precedence. The influence of such imports can alter mentalities and behaviors, sometimes leading to a loss of cultural identity[9].

The global exchange of goods and services can result in domestic job losses in developed countries. This is especially true when emerging economies, which often have lower production costs, are granted access to international markets, making it harder for developed nations to remain competitive. As a result, industries in wealthier nations may collapse, causing significant economic disruption.

International trade can also contribute to environmental degradation. Some countries, in their drive for economic revenue, over-exploit natural resources, leading to long-term environmental damage. Often, the entities responsible for resource extraction or manufacturing processes fail to consider the environmental impact, which exacerbates the strain on ecosystems. In many cases, there are insufficient resources to address the resulting environmental challenges.

Additionally, trade dependence can create power imbalances, particularly between smaller and larger economies. Small nations, heavily reliant on trade with larger, developed countries, may find themselves vulnerable to economic manipulation. These powerful nations may use their leverage to influence political decisions that extend beyond trade, thus exacerbating inequality. Furthermore, when

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[7] N. SUKUMAR, B. Basudeb: Exports and Economic Growth in India: Empirical Evidence, *The Indian Economic Journal* 1997, 70–85.

[8] V. N. Attri: Export Led growth in Developing Countries, *The Indian Economic Journal* Vol. 43, No. 31, 1996, 19–34.

[9] C. P. KINDLEBERGER, *Foreign Trade and the National Economy*. Yale University Press, New Haver, 1962, 3–4.

one country holds a dominant position as a supplier of essential materials or services to another, it may impose trade barriers or embargoes during political disputes, further destabilizing international relations.

These disadvantages highlight the complexities and risks associated with international trade, which can harm the social fabric, disrupt labor markets, damage the environment, and perpetuate unequal power dynamics between nations. And in my opinion addressing these challenges is crucial for creating a more equitable and sustainable global trade system.

6. AI and International Trade

Over the past two centuries, innovations like artificial intelligence (AI) have significantly impacted economies, potentially raising incomes and improving overall well-being. However, AI also presents challenges, such as disrupting labor markets, exacerbating inequality, and driving non-inclusive growth. While advancements in understanding AI's impacts have been made, its international dimensions remain underexplored.

This is especially critical as countries negotiate international agreements, such as NAFTA and TPP-11, that may limit governments' ability to regulate AI. At the same time, governments are investing heavily in AI clusters—such as the Vector Institute in Toronto and the Tsinghua-Baidu deep learning lab in Beijing—to shift international comparative advantages towards their regions. These international dimensions of AI development and policy are complex and have not always been carefully considered.

China has become a central player in the global AI conversation. The U.S. narrative suggests that Chinese protectionist policies have hindered U.S. companies like Google and Amazon from entering Chinese markets[10]. This has allowed China to cultivate robust AI capabilities, with companies like Baidu, Alibaba, and Tencent gaining ground. While Chinese AI companies may not yet have global household recognition, this is expected to change. Moreover, regulatory differences between nations may enable Chinese firms to successfully penetrate markets in the U.S. and Canada. [11]

AI developments are also impacting military strategies, with advanced Chinese missile systems potentially shifting global power dynamics. This has raised concerns within the U.S. defense sector, where AI-driven smart weapons may render traditional military assets, such as aircraft carriers, vulnerable. As international economists, we are familiar with market hype, but the rapid integration of AI into global economic and social systems necessitates careful examination of its international implications and the development of appropriate policy responses.

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10 https://www.nytimes.com/2017/02/03/technology/artificial-intelligence-china-united-states.html, February 3, 2017, downloaded: 21. January 2025.

11 J. Jacobs, T. Poutanen, R. Zemel, G. Hinton, E. Clark (n.d.). *Artificial intelligence is the future, and Canada can seize it*. https://www.theglobeandmail.com/report-on-business/rob-commentary/artificial-intelligence-is-the-future-and-canada-must-seize-it/article33532668/, 21. January 2025.

The prevailing narrative among some policy experts, which suggests a zero-sum competition between the U.S. and China in AI development, may not be the most accurate framework for understanding the broader impacts of AI.[12] Furthermore, proposals from prominent figures such as Bill Gates and Elon Musk advocating for immediate action may prompt governments to increase public spending. However, the effectiveness of such subsidies in fostering widespread prosperity remains uncertain, and there is a risk that these funds could become another form of corporate welfare.

Using comparative advantage theory, economists have long debated the role of government intervention in promoting industry. While free trade models have been the standard, theories developed since the 1980s suggest that certain types of government interventions—such as those emphasized by Krugman, Grossman, and Helpman—can be effective. These interventions focus on scale, knowledge creation, and competition. However, applying these theories to AI remains challenging, as there are no models that account for the specific characteristics of AI's scale and knowledge requirements.

This paper aims to identify these key features and propose potential models for understanding AI's economic impact, alongside policy suggestions. These models will lay the groundwork for assessing the potential benefits of public investments in AI but also highlight existing regulatory challenges such as privacy policies, data localization, and technology standards.

Lastly, they explore behind-the-border policies that currently influence AI and discuss their implications for comparative advantage and trade agreement design. By reviewing the international landscape of AI, they can begin to understand how these policies shape the global AI economy and how countries may navigate these issues moving forward.

7. The role of WTO in liberalising international trade

The World Trade Organization (WTO) is often seen as a promoter of global prosperity through trade, particularly advocating for the economic growth of developing nations. This goal is framed within the context of achieving "fair trade" and economic advancement in less developed countries (WTO, 2013). The Doha Round of global trade negotiations, conducted under the WTO's framework, reflects this vision. Proponents of trade liberalization argue that expanding trade and enhancing the interdependence of goods, services, and financial markets emphasize the necessity for international collaboration to mitigate crises and foster growth. However, critics contend that the WTO's trade rules, along with the influence of international financial institutions, may concentrate power in ways that constrain the ability of developing countries to exercise independent economic policies.

Globalization is commonly described as a process of integration into the world economy, encompassing trade, investment, and finance. This integration is associated

[12] https://www.economist.com/business/2017/07/15/china-may-match-or-beat-america-in-ai, downloaded: 21. January 2025.

with increased economic openness, interdependence, and deeper economic integration within the global marketplace. The purpose is to critically analyze the concept of "free trade" from a historical perspective, drawing lessons from past experiences to assess its implications and future prospects for developing nations[13].

The historical evolution of free trade policies, particularly focusing on the actions of European powers in the late 19th century, when military force was used to open economies in the colonies under the guise of "free trade". Britain, with its advanced technological and industrial capacities, adopted free trade policies in the 19th century, extending these policies to its colonies to further its economic interests. By the mid-19th century, African and Latin American nations were incorporated into the world economy, primarily as suppliers of raw materials, in accordance with the "comparative advantage" model.

However, after World War II, these countries shifted towards industrialization through various forms of "import substitution industrialization" (ISI), though these policies met with limited success due to structural constraints. Despite these challenges, the growth performance of these countries exceeded that of the period characterized by market liberalization. However, ISI policies eventually stagnated due to debt crises and the changing international economic environment (Ghose, 2004; Siddiqui, 2012a).

In response to these pressures, developing countries faced significant coercion from institutions such as the International Monetary Fund (IMF) and the World Bank to embrace trade and financial liberalization. The challenges of the Doha Round negotiations within the WTO were not solely attributed to disagreements over agricultural policy but also to the diminishing capacity of developing countries to pursue independent national economic strategies. These nations found themselves constrained by the proposals under WTO negotiations, which adhered to the comparative advantage theory—an approach critiqued for its inability to address market failures, environmental externalities, and the need for investment in education and infrastructure.

Empirical evidence from the successful economic development of East Asian nations, such as Malaysia, South Korea, Singapore, Taiwan, and China[14], suggests that government intervention played a crucial role in facilitating industrialization and economic growth. These countries pursued policies such as infrastructure investment, educational advancements, and strategic industrial policies, which contributed to the development of robust manufacturing sectors. The state's role in these economies exemplifies how targeted economic policies, including subsidies, import licensing, and exchange rate controls, can foster industrialization. Despite critiques that subsidies may encourage "rent-seeking" behavior, evidence suggests

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[13] K. SIDDIQUI: International Trade, WTO and Economic Development. *World Review of Political Economy* Winter 2016, Vol. 7, No. 4, 424–427.

[14] K. SIDDIQUI: Experiences of Developmental State in India and Taiwan. *Think India Quarterly* 16 (4), 2013, 91–121.

that such measures, when paired with strong institutional oversight and reciprocal control mechanisms, can lead to significant developmental success.

The experiences of East Asian economies challenge the notion that market liberalization alone guarantees economic progress. Successful development in these regions was not achieved through unregulated free trade but through a combination of market forces and strategic state intervention, demonstrating the importance of tailored policy frameworks in fostering national economic growth. These examples provide a compelling argument for the necessity of governmental involvement in the development process, particularly in the early stages of industrialization, and highlight the complex interplay between trade policies and national economic sovereignty.

8. The WTO's Dispute Settlement Body: A Distinctive Voice Mechanism (Veto By the United States 2016 present)

Despite the vast amount of writing on the WTO Dispute Settlement, surprisingly little attention has been paid to the Dispute Settlement Body (DSB) specifically, that is, the diplomatic body, consisting of representatives of all WTO members, with responsibility for establishing panels, adopting panel and Appellate Body (AB) reports, monitoring implementation of rulings, and authorising the suspension of concessions.[15]

A significant illustration of the Dispute Settlement Body (DSB) functioning as a forum for member states to express their views can be seen in the ongoing crisis over appointments to the Appellate Body (AB). This issue has involved the United States blocking the reappointment of a sitting AB member, obstructing the appointment of new members to fill vacancies, and challenging the validity of AB reports signed by members whose terms had expired during the appeal process.

The United States has long been critical of certain aspects of the AB's adjudicative approach[16], but the current crisis began on May 11, 2016, when the United States notified the DSB Chairman of its refusal to support the reappointment of Seung Wha Chang[17]. As outlined, the appointment or reappointment of AB members falls under the purview of the DSB and is subject to consensus decision-making, meaning any member can block a decision if they object[18]. During the DSB meeting on May 23, 2016, the United States explained its position by citing three

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[15] Cosette D. CREAMER, Zuzanna GODZIMIRSKA, Deliberative Engagement within the World Trade Organization: A Functional Substitute for Authoritative Interpretations (trans. by Szabó Béla), *NYUJ International Law & Politics* 2016, 48, 413.

[16] DSB: *Minutes of Meeting 7 June 2000*. para 7.

[17] DSB: *Minutes of Meeting Held in the Centre William Rappard on 23 May 2016*. WT/DSB/M/379 (29 August 2016), para 6.1; Victoria GUIDA, 'Morning Trade', *Politico* (12 May 2016) < https://www.politico.com/tipsheets/morning-trade/2016/05/tpp-death-watch-wto-appellate-body-soon-to-haveanother-vacancy-kerlikowske-time-for-cbp-to-get-tough-214258>;

[18] J. K. PIETER: *The US Attack on the WTO Appellate Body*. 2018, 45 LIEI 1, 10.

reports in which Chang had been involved[19], arguing that these reports exceeded the AB's proper role by including extensive obiter dicta and questioning on issues not in dispute. In response, 29 other WTO members expressed their disapproval of the U.S. stance, emphasizing that dissatisfaction with AB decisions should be addressed at DSB meetings, not through vetoing reappointments. Several members, such as Brazil, underscored the importance of the DSB as a forum for discussing concerns, highlighting its significance for the international trade community and its role in safeguarding the independence of the AB.

In subsequent meetings, members continued to voice concerns about the United States' actions, warning that such tactics threatened the integrity of the dispute settlement system. For instance, Korea, speaking on behalf of a broad group of WTO members, expressed deep concern that the U.S. veto was undermining the foundational trust in the WTO system. Similarly, Morocco cautioned that linking reappointments to specific case decisions could harm the integrity and rule of law within the system. As the crisis unfolded, members acknowledged the systemic challenge posed by the U.S. position and emphasized the need to preserve the impartiality and independence of the AB. In June 2016, although no consensus was reached, members reiterated their concerns about the potential long-term impact of the U.S. actions on the WTO's dispute settlement system. By July 2016, an agreement was reached to initiate an appointment process to fill the vacancy left by Chang[20], but the debate over reforms to the reappointment procedure continued, with proposals for changes to the current consensus-based system.

As the crisis continued, the United States escalated its objections, particularly with respect to the appointment of new members and the continued participation of former members in pending appeals. By August 2017, the AB faced significant vacancies, and the U.S. persisted in its objections, linking them to concerns over Rule 15 of the AB's working procedures. These actions prevented the DSB from initiating a selection process to fill vacancies, further delaying the functioning of the AB. Despite these challenges, many WTO members, including Mexico and Brazil, expressed strong support for the AB and voiced concerns that the United States' actions were undermining the system[21]. The crisis highlighted the potential for a dissatisfied member to exercise disproportionate influence over the dispute settlement system, given the requirement for positive consensus in the appointment of AB members. This situation illustrates the dangers of a system where the consensus requirement effectively grants each member a veto, potentially allowing individual states to obstruct the functioning of the dispute resolution mechanism.

In summary, the ongoing AB crisis exemplifies the complexities and vulnerabilities of the DSB as a voice mechanism. While the United States has effectively used its voice to block appointments and influence the functioning of the

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19 DSB: *Minutes of Meeting 23 May 2016*. para 6.2.

20 DSB: *Minutes of Meeting Held in the Centre William Rappard on 21 July 2016*. WT/DSB/M/383 (11 October 2016), paras 11.1–11.3.

21 DSB: *Minutes of Meeting 22 January 2018*. para 8.10.

AB, the responses of other WTO members reveal a strong sense of loyalty to the institution and a commitment to preserving the integrity of the dispute settlement system. This episode underscores the challenges posed by a system in which the appointment and reappointment of adjudicators depend on unanimous consensus, which can expose the international court to disruptive actions by dissatisfied member states.[22].

CONCLUSION

This study set out to explore the vast and interconnected world of international trade, uncovering its critical role in shaping economies, driving innovation, and fostering collaboration between nations. From its humble beginnings in barter systems to the intricate networks that define today's global markets, trade has always been a cornerstone of human progress. By examining its historical development, theoretical foundations, and modern applications, this research has offered a detailed picture of how trade continues to influence global growth and cooperation.

One of the core findings is that international trade is much more than just an economic activity—it's a driver of opportunity, efficiency, and innovation. Countries that engage in trade benefit from access to goods and services they cannot produce themselves, while specialization and competition fuel advancements in technology and productivity. Yet, trade also brings its share of challenges, including economic dependency, inequalities, and environmental concerns. These complexities remind us that while trade opens doors, it also demands careful navigation to ensure its benefits are shared equitably.

A significant focus of this research was the role of modern technologies, particularly artificial intelligence, in reshaping global trade. AI offers unprecedented opportunities to optimize supply chains, enhance decision-making, and reduce costs. At the same time, it raises tough questions about privacy, labor markets, and regulatory oversight. As AI continues to transform industries, governments and institutions must adapt quickly to ensure these technologies serve the broader goals of sustainable and inclusive growth.

Institutions like the World Trade Organization also play a vital role in managing global trade relationships. While the WTO has been instrumental in promoting free trade and resolving disputes, its ability to address today's pressing issues—such as digital trade, sustainability, and the unique challenges faced by developing countries—remains under scrutiny. This study highlighted the need for reform in these institutions to ensure they remain relevant and effective in an ever-changing economic landscape.

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[22] J. A. KAREN, T. G. JAMES, R. H. LAURENCE: Backlash against International Courts in West, East and Southern Africa: Causes and Consequences. *EJIL* Vol. 27, Issue 2, May 2016, 293, 311–314.

This research has its limits. The fast-paced nature of technological advancement and the constant evolution of trade policies mean that some conclusions may not hold indefinitely.

Additionally, there is still much to learn about how trade impacts less-studied regions and smaller economies. These gaps present exciting opportunities for future research, particularly at the intersection of trade, technology, and sustainability.

Looking ahead, it's clear that the future of international trade will require innovative thinking and cooperative effort. Questions around fairness, environmental impact, and inclusivity are central to ensuring that globalization benefits everyone—not just a privileged few. Researchers and policymakers alike must work together to balance economic growth with the need for social and environmental responsibility.

In summary, international trade is more than an exchange of goods and services; it's a powerful tool for connection, progress, and mutual benefit. By understanding its complexities and addressing its challenges, we can harness its potential to create a more equitable and sustainable world, The journey of international trade is far from over, and its evolving story will continue to shape the future of our interconnected world.

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