

INTERNATIONAL TRADE AS A FACTOR OF ECONOMIC DEVELOPMENT IN THE CONTEXT OF GLOBALIZATION: CHALLENGES FOR COUNTRIES AND PRIORITIES FOR ECONOMIC DIPLOMACY

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Abstract. *Drawing on classical and modern trade theory and on official statistics for 2000-2025, this paper examines why the gains from international trade are shared so unevenly among countries. It compares the trade paths of Germany, China, India and Brazil, identifies challenges that countries face in world trade and sets out priorities for economic diplomacy at the multilateral level.*

Keywords: *international trade, globalization, development, comparative advantage, trade preferences, digital trade, economic diplomacy.*

International trade is the main channel through which globalization works in the 21 century, binding national economies ever more closely together through flows of goods, services, capital and technology. In this paper, international trade means the exchange of goods and services between countries and its volume is measured as the sum of exports and imports of goods and services¹. In 2025 world trade in goods and services grew by about 7.5 percent to a record 35 trillion USD². Yet about 831 million people still live in extreme poverty³. The paper therefore asks why, at a time of record trade, the gains are spread so unevenly and what economic diplomacy can do to make trade work for development.

Theoretical explanations of the gains from trade have evolved along with trade itself. Adam Smith tied a nation's wealth to the division of labour, which is limited by the size of the market and showed that foreign trade enlarges that market⁴. David Ricardo demonstrated that trade benefits even a country that is less efficient than its partner at producing everything, provided it specializes in the goods in which it has a comparative advantage⁵. In the twentieth century, Eli Heckscher and Bertil Ohlin traced specialization to differences in countries' endowments of labour and capital, Paul Krugman highlighted economies of scale and trade in similar goods between similar countries and Marc Melitz showed that the gains from opening markets go mainly to the most productive firms⁶.

¹ World Bank. World Development Indicators. Trade (% of GDP), indicator NE.TRD.GNFS.ZS. Data published by Our World in Data, University of Oxford, 2026. URL: <https://ourworldindata.org/grapher/trade-as-share-of-gdp?tab=table>

² United Nations Conference on Trade and Development. Global Trade Update (April 2026): Global trade growth continues, but fragility rises. Geneva, 2026. URL: <https://unctad.org/publication/global-trade-update-april-2026-global-trade-growth-continues-fragility-rises>

³ World Bank. Poverty. Washington, 2026. URL: <https://www.worldbank.org/ext/en/topic/poverty>

⁴ Smith A. An Inquiry into the Nature and Causes of the Wealth of Nations. London: Methuen, 1904 (first published 1776). URL: <https://www.econlib.org/library/Smith/smWN.html>

⁵ Ricardo D. On the Principles of Political Economy and Taxation. 3rd edition. London: John Murray, 1821. Chapter 7. URL: <https://www.econlib.org/library/Ricardo/ricP.html>

⁶ World Trade Organization. World Trade Report 2008: Trade in a Globalizing World. Geneva, 2008. URL: https://www.wto.org/english/res_e/publications_e/wtr08_e.htm

Modern empirical studies confirm these ideas, albeit with certain caveats. Using data on countries' geography, Jeffrey Frankel and David Romer found that trade has a positive impact on income⁷. Reviewing two decades of research, D.Irwin concluded that lowering import barriers speeds up growth on average, although the effect varies from country to country⁸. P. Goldberg and T.Reed found that globalization slowed after the crisis of 2008-2009 but did not go into reverse⁹.

Classical theory, then, promises gains for a country as a whole, whereas modern theory shows that those gains depend on scale, firm productivity and trade costs. Therefore, some countries use trade more successfully than others.

These differences show up clearly in the experience of Germany, China, India and Brazil (Figure 1). The four countries were chosen for three reasons. First, they come from four different regions and are at different levels of development. Second, each is a leading exporter: China is the world's largest exporter of goods and Germany the third largest, Brazil is the largest exporter in South America and India ranks fourth in the world in exports of digitally delivered services¹⁰.

Third, in large economies the indicator is not inflated by re-exports, as it often is in small open economies. The indicator used here is the ratio of trade to gross domestic product, which shows how deeply a country is integrated into world trade.

According to World Bank data, Germany's ratio rose from 59.2 percent in 2000 to 78.5 percent in 2025¹¹, a rise that can be explained by the country's deep integration into European production chains. After joining the World Trade Organization in 2001, China saw its ratio climb from 38.1 to 63.6 percent within five years, but by 2025 it had fallen back to 38.0 percent¹². This does not mean that China trades less. It remains the world's largest exporter of goods, with 14.4 percent of world exports¹³, but its domestic market has been growing faster than its foreign trade.

India's ratio doubled in twelve years, from 26.9 percent in 2000 to 55.8 percent in 2012 and has since settled at around 46 percent. Brazil remains a relatively closed economy, although its ratio rose from 22.6 to 35.3 percent¹⁴. The downturn of 2009 is visible in all four countries and that of 2020 in three of them and each time recovery took only a year or two.

⁷ Frankel J. A., Romer D. Does Trade Cause Growth? // American Economic Review. 1999. Vol. 89, No. 3. P. 379-399. URL: <https://frankel.scholars.harvard.edu/trade-and-growth>

⁸ Irwin D. A. Does Trade Reform Promote Economic Growth? A Review of Recent Evidence. Working Paper 19-9. Washington: Peterson Institute for International Economics, 2019. URL: <https://www.piie.com/publications/working-papers/does-trade-reform-promote-economic-growth-review-recent-evidence>

⁹ Goldberg P. K., Reed T. Is the Global Economy Deglobalizing? And If So, Why? And What Is Next? Policy Research Working Paper 10392. Washington: World Bank, 2023. URL: <https://openknowledge.worldbank.org/bitstreams/128cb53e-96af-464a-8f88-e36dfd2b61de/download>

¹⁰ World Trade Organization. Global Trade Outlook and Statistics: March 2026. Geneva, 2026. P. 35, 39. URL: https://www.wto.org/english/res_e/booksp_e/gtos0326_e.pdf

¹¹ World Bank. World Development Indicators. Trade (% of GDP), indicator NE.TRD.GNFS.ZS. Data published by Our World in Data, University of Oxford, 2026. URL: <https://ourworldindata.org/grapher/trade-as-share-of-gdp?tab=table>

¹² World Bank. World Development Indicators. Trade (% of GDP), indicator NE.TRD.GNFS.ZS. Data published by Our World in Data, University of Oxford, 2026. URL: <https://ourworldindata.org/grapher/trade-as-share-of-gdp?tab=table>

¹³ World Trade Organization. Global Trade Outlook and Statistics: March 2026. Geneva, 2026. P. 35. URL: https://www.wto.org/english/res_e/booksp_e/gtos0326_e.pdf

¹⁴ World Bank. World Development Indicators. Trade (% of GDP), indicator NE.TRD.GNFS.ZS. Data published by Our World in Data, University of Oxford, 2026. URL: <https://ourworldindata.org/grapher/trade-as-share-of-gdp?tab=table>

Consequently, there is no single model for participating in globalization and globalization itself proved to be resilient to two major shocks.

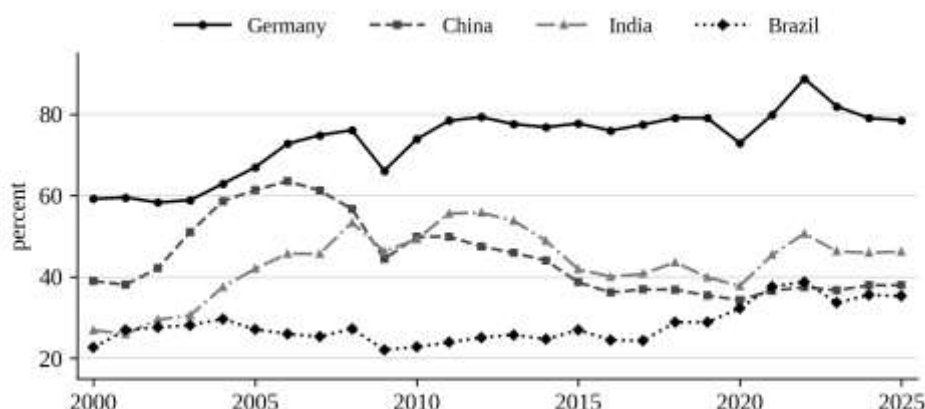


Figure 1 - Trade in goods and services as a share of gross domestic product, 2000-2025, percent

Source: World Bank data¹⁵.

An analysis of official data makes it possible to identify seven problems that countries face in global trade. The first is unequal participation of countries in trade. The thirty largest exporters account for 83.4 percent of world merchandise exports, including China, the United States and Germany together accounting for 29.4 percent, while all the least developed countries together account for just 1.21 percent¹⁶. Trade costs for these countries in manufacturing and services are roughly 50 percent higher than for high-income countries¹⁷. As a result, one third of low- and middle-income countries grew more slowly than developed countries between 1996 and 2021, even though falling trade costs accelerated income convergence overall by 20-35 percent¹⁸.

The second challenge is commodity dependence. Out of 143 developing countries, 95 earn more than 60 percent of their export revenue from commodities and the same is true of more than 80 percent of the least developed countries. Even so, Indonesia and Guatemala have brought this share below the threshold within a decade, which shows that diversification is achievable¹⁹.

The third challenge concerns tariffs: not only how high they are, but how unpredictable they have become. The share of world trade conducted on most-favoured-nation terms has fallen from 80 to 72 percent since the start of 2025 and changes in tariff conditions have affected about 11 percent of trade.

¹⁵ World Bank. World Development Indicators. Trade (% of GDP), indicator NE.TRD.GNFS.ZS. Data published by Our World in Data, University of Oxford, 2026. URL: <https://ourworldindata.org/grapher/trade-as-share-of-gdp?tab=table>

¹⁶ World Trade Organization. Global Trade Outlook and Statistics: March 2026. Geneva, 2026. P. 19, 35. URL: https://www.wto.org/english/res_e/booksp_e/gtos0326_e.pdf

¹⁷ World Trade Organization. World Trade Report 2026: A critical juncture for the world trading system. Executive summary. Geneva, 2026. URL: https://www.wto.org/english/res_e/booksp_e/wtr26_exec-summ_e.pdf

¹⁸ World Trade Organization. World Trade Report 2024: Trade and inclusiveness - How to make trade work for all. Geneva, 2024. URL: https://www.wto.org/english/res_e/booksp_e/wtr24_e/wtr24_e.pdf

¹⁹ United Nations Conference on Trade and Development. The State of Commodity Dependence 2025. Geneva, 2025. URL: <https://unctad.org/publication/state-commodity-dependence-2025>

Transport equipment, clothing, footwear and furniture have been affected most. Because clothing and footwear are the mainstay of exports from countries such as Bangladesh and Cambodia, the cost of uncertainty is particularly high for them.

The fourth challenge relates to trade preferences. Preferential tariffs apply to 16 percent of world trade and a further 5 percent is eligible for preferences but does not use them because complying with rules of origin is too costly²⁰. Furthermore, preferences are also temporary. The United Nations Conference on Trade and Development estimates that losing preferences on graduation from least developed country status could cut exports by 32 percent for Bangladesh, 17 percent for Myanmar and 16 percent for Cambodia²¹. Success in using preferences therefore carries a risk of its own if a country has not become more competitive in the meantime.

The fifth challenge is government support for agriculture. Across 54 countries it averaged 842 billion dollars a year in 2022-2024 and about half of that sum took the form of measures that distort trade the most. On the positive side, support to producers fell from 20 percent of gross farm receipts in 2000-2002 to 12.6 percent²².

The sixth challenge concerns services and the digital divide. Exports of digitally delivered services have reached 5.26 trillion dollars, but 94.3 percent of them come from Europe, Asia and North America. India, which ranks fourth in the world with exports of 328 billion dollars, shows that a developing country can secure a firm place in this market²³. There are still no common international rules for digital trade, however. At the Fourteenth Ministerial Conference of the World Trade Organization in March 2026, members reached no decision regarding the imposition of customs duties on electronic transmissions and the issue was referred to the General Council²⁴.

The seventh challenge is new. Technical regulations now affect roughly two thirds of world trade, environmental standards and carbon pricing weigh increasingly on competitiveness and almost two thirds of trade takes place within value chains that are currently being reorganized²⁵. Goods related to artificial intelligence, the fastest-growing segment, accounted for 42 percent of the growth in world merchandise trade in 2025, yet 62 percent of this trade is concentrated in Asia and 16 percent in North America²⁶.

²⁰ World Trade Organization. Global Trade Outlook and Statistics: March 2026. Geneva, 2026. P. 30-34. URL: https://www.wto.org/english/res_e/booksp_e/gtos0326_e.pdf

²¹ United Nations Conference on Trade and Development. Trade Preferences Outlook 2025: Navigating in times of uncertainty. Geneva, 2025. URL: <https://unctad.org/publication/trade-preferences-outlook-2025-navigating-times-uncertainty>

²² Organisation for Economic Co-operation and Development. Agricultural Policy Monitoring and Evaluation 2025. Paris, 2025. URL: https://www.oecd.org/en/publications/agricultural-policy-monitoring-and-evaluation-2025_a80ac398-en/full-report/overview-of-agricultural-policies-and-support_68470b91.html

²³ World Trade Organization. Global Trade Outlook and Statistics: March 2026. Geneva, 2026. P. 27, 39. URL: https://www.wto.org/english/res_e/booksp_e/gtos0326_e.pdf

²⁴ World Trade Organization. MC14 concludes with adopted decisions, progress on key outstanding issues. News item, 30 March 2026. URL: https://www.wto.org/english/news_e/news26_e/mc14_30mar26_354_e.htm

²⁵ United Nations Conference on Trade and Development. Global Trade Update (January 2026): Top trends redefining global trade in 2026. Geneva, 2026. URL: <https://unctad.org/publication/global-trade-update-january-2026-top-trends-redefining-global-trade-2026>

²⁶ World Trade Organization. Global Trade Outlook and Statistics: March 2026. Geneva, 2026. P. 23-24. URL: https://www.wto.org/english/res_e/booksp_e/gtos0326_e.pdf

The problems listed cannot be solved by the efforts of a single country, which is why the role of economic diplomacy, primarily multilateral diplomacy, is growing. In a review of 32 studies, S. Moons and P. van Bergeijk found that embassies, consulates and export promotion offices have a positive and statistically significant effect on trade and investment²⁷. Multilateral economic diplomacy should therefore focus on five priorities. The first is to preserve most-favoured-nation treatment as the basis for predictable tariffs.

The second is to agree on transition periods for countries graduating from least developed country status and to simplify rules of origin. The third is to continue reducing trade-distorting support for agriculture. The fourth is to develop common rules for digital trade. The fifth is to promote mutual recognition of certificates and to provide technical assistance, both of which lower the cost to exporters of meeting technical and environmental requirements.

The conducted study allows to formulate the following conclusions. First, both classical and modern theory confirm that trade promotes development, but the gains depend on trade costs, the composition of exports and the terms of market access. Second, the comparison of Germany, China, India and Brazil shows that there is no single model of participation in globalization and that globalization itself is resilient to shocks. Third, long-standing problems such as tariffs, preferences, agricultural support and trade in services have been joined by new ones: the digital divide, technical and environmental requirements and the concentration of trade in high-technology goods. Fourth, tackling these problems calls for active economic diplomacy at the multilateral level, because that is where the rules are made that determine whether trade becomes a source of development for every country.

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