

### 1.3.2 Trade Integration

Trade is commonly understood as the exchange of goods and services across national borders. In practice, however, international trade is not a simple transaction between two producers or between two states. It is embedded within a complex economic and institutional structure involving producers, exporters, importers, transport companies, financial institutions, insurers, customs authorities, regulators, governments, and supranational institutions. Each actor occupies a different position within the process and may derive economic or political benefits from it. A product that crosses a border therefore passes through a chain of transactions, regulations, standards, certifications, financial arrangements, and administrative procedures before reaching its final market. **Trade consequently constitutes not merely an exchange mechanism but a structured system through which economic value is produced, distributed, regulated, and captured at different levels.**

The economic rationale for international trade is traditionally associated with the principle of comparative advantage, most prominently developed by Ricardo (1817), according to which specialization and exchange can allow countries to obtain goods at lower opportunity costs than if they attempted to produce everything domestically. This foundational perspective established trade as a mechanism through which specialization and exchange could generate mutual economic gains. Modern international trade, however, involves considerably more than the exchange described in classical theory. The expansion of international production, global value chains, investment, financial interdependence, and regulatory systems has made cross-border commerce increasingly dependent upon institutional arrangements that determine how economic activity is organized and governed. Governments are therefore not external observers of trade. They establish the legal and administrative framework within which private economic actors operate, collect revenue, protect domestic interests, and pursue broader economic objectives.

This bureaucratic dimension becomes particularly important as trade relations become deeper. At its most basic level, states may simply exchange goods under the general rules of international commerce. Beyond this, they may establish preferential trading arrangements that reduce selected barriers and provide specific advantages to one another. Deeper relationships can involve free-trade agreements, customs cooperation, investment provisions, mutual recognition of standards, common regulatory frameworks, and institutional mechanisms for managing economic relations. **Trade integration refers to this process through which economies become progressively more interconnected, not only through greater volumes of trade but through the reduction of barriers and the development of common or compatible rules governing economic activity.** Baldwin and Venables (1995) demonstrate that the effects of regional economic integration extend beyond the immediate allocation of resources to longer-term processes of accumulation and the geographical location of economic activity. Integration can therefore affect not only what countries trade, but also where production occurs, where investment is directed, and how productive capacity develops.

The distinction between trade and trade integration is therefore important. A country can trade extensively with another country without being deeply integrated into its economic system. Conversely, a country may become highly integrated into an external market through supply chains, investment, regulatory alignment, standards, and institutional cooperation even where the absolute volume of trade alone does not fully capture the depth of the relationship.

Integration therefore concerns the **structure and institutional depth of economic interconnectedness**, rather than trade volume alone.

This distinction becomes particularly significant when trading partners possess substantially different levels of economic and institutional capacity. Trade is formally based on exchange between participants operating under agreed rules, but the capacity to benefit from those rules is not distributed equally. Larger and more technologically advanced economies generally possess greater productive capacity, financial resources, infrastructure, bargaining power, and administrative capacity. Smaller or less developed economies may consequently face higher relative costs in accessing the same market. **The existence of equal rules does not therefore necessarily produce equal economic opportunities.** Preferential access illustrates this problem clearly. Pomfret (2001), examining trade preferences granted by high-income countries to less-developed countries, finds that their gross trade effects can remain limited where beneficiary countries possess low export-supply capacity or where the products in which they could respond most effectively are excluded from preferential treatment. Market access, in other words, has developmental value only to the extent that domestic producers possess the capacity to use it.

Trade integration can nevertheless generate significant developmental opportunities. Access to larger external markets can allow domestic producers to expand beyond the limitations of domestic demand, while imported capital goods, intermediate inputs, and technologies can contribute to productivity and industrial development. Greater integration may also encourage investment and participation in regional and global value chains. From this perspective, trade is not simply an exchange of finished goods but can become a mechanism through which economies gain access to capital, technology, knowledge, and wider production networks. Baldwin and Venables' (1995) distinction between allocation, accumulation, and location effects is useful here because it highlights that integration may influence both the immediate allocation of resources and the longer-term accumulation and geographical distribution of productive factors.

At the same time, **trade openness does not automatically produce economic transformation.** The developmental effects of integration depend partly on the domestic capacity of the participating economy. Rodrik (1999), for example, argues that successful integration into the world economy requires complementary domestic policies and institutions, including investment in physical and human capital and state capacity to manage the social and economic consequences of openness. This qualification is particularly important for weaker economies because the ability to exploit external market opportunities depends not only on whether access exists, but on whether domestic firms, workers, infrastructure, institutions, and financial systems are capable of responding to that access. Trade can therefore create opportunities for development without guaranteeing that those opportunities will be converted into productive transformation.

This creates an important distinction between **trade integration and trade dependence.** A country may become increasingly integrated into an external market while simultaneously strengthening its domestic productive capacity. In such a case, external trade can contribute to economic diversification and greater developmental autonomy. Conversely, integration may reinforce dependence where an economy becomes concentrated in a limited number of commodities, markets, technologies, or external sources of investment. The same relationship can therefore contain both developmental opportunities and structural vulnerabilities. Trade integration should consequently not be understood as inherently developmental or inherently

dependent; its implications depend on the structure of the relationship and the capacity of the participating economies.

The developmental potential of trade also raises a broader question concerning the relationship between **trade and aid**. Conventional aid primarily operates through the transfer of external resources to a recipient state. It can finance infrastructure, public services, institutional capacity, or investment that domestic resources cannot immediately support. Trade operates through a different mechanism. Rather than transferring resources directly to the recipient, market access can potentially enable domestic producers to generate income through participation in economic activity. In this sense, trade integration may contribute to development by expanding the productive and revenue-generating base of an economy rather than simply compensating for its resource constraints.

This distinction does not mean that trade is inherently superior to aid. Aid can provide resources precisely where productive capacity is insufficient, while trade access can remain ineffective where domestic producers lack the capacity to respond. Pomfret's (2001) analysis of trade preferences demonstrates this limitation: preferential access can have relatively modest effects when beneficiary countries cannot adequately expand their export supply. The relevant theoretical distinction is therefore between **resource provision and productive integration**. Aid can compensate for an existing shortage of resources, whereas trade integration can potentially contribute to the creation of new productive capacity. Whether the latter actually occurs, however, depends on the conditions under which integration takes place.

The depth of trade integration also introduces a further dimension: **regulatory influence**. As economic integration deepens, market access increasingly becomes connected to product standards, sanitary and phytosanitary requirements, customs procedures, competition rules, intellectual property, environmental requirements, labour standards, and other forms of regulation. These rules are not simply technical obstacles to trade; they define the conditions under which economic actors can participate in a market. Consequently, deeper integration can require domestic institutions and firms to adapt to regulatory frameworks originating outside their own jurisdiction.

This dimension is particularly important in the case of the European Union. The EU is not simply a large trading partner but a highly institutionalized market governed by an extensive body of common rules and standards. Access to this market can therefore create both economic opportunities and incentives for external actors to adapt to European regulatory requirements. Bradford's concept of the "**Brussels Effect**" provides a useful theoretical framework for understanding this phenomenon. Bradford (2012) argues that the size and regulatory capacity of the EU market can allow European rules to influence markets beyond the Union's territorial boundaries, while her later work specifies the conditions under which this market-driven externalization of EU standards occurs. Trade integration with the EU can consequently involve not only increased exchange but also the adaptation of domestic economic and regulatory practices to the requirements of the European market.

This does not necessarily imply political control. Regulatory adaptation may be economically rational for firms and governments seeking access to a valuable market, and European standards may sometimes provide genuine benefits in areas such as consumer protection, product safety, environmental regulation, or institutional quality. Nevertheless, where the regulatory capacity and bargaining power of the two partners differ substantially, the process

can produce an asymmetrical relationship in which the stronger market has greater capacity to shape the conditions of economic participation. The EU's regulatory influence therefore represents an additional dimension through which trade integration can affect the policy space of weaker partners.

Within this thesis, **trade integration is therefore understood as the increasing economic and institutional interconnectedness between a state and an external market, encompassing not only the expansion of trade but also the rules, standards, productive relationships, and institutional arrangements governing that trade.** This definition deliberately moves beyond trade volume because the central concern is not simply how much a country trades with the EU, but how deeply its economy becomes incorporated into the European market and the institutional structures associated with that market.

This conceptualization provides a second analytical dimension alongside aid dependency. **Aid dependency concerns the degree to which external resources become structurally important to a state's development trajectory, whereas trade integration concerns the degree to which domestic economic activity becomes incorporated into an external market and its associated rules.** The two relationships may reinforce one another, but they do not necessarily produce the same form of dependence. A country may depend heavily on external assistance while remaining relatively weakly integrated into the donor's market. Conversely, a country may receive comparatively little aid while becoming deeply integrated through trade, investment, production networks, and regulatory cooperation.

The distinction is therefore particularly relevant to the comparative framework of this thesis. **Aid may compensate for insufficient domestic resources, while trade integration may potentially expand the productive basis from which domestic resources are generated.** Yet integration may also reproduce dependence when a weaker economy lacks the capacity to exploit market access or becomes excessively dependent on a particular external market, commodity structure, source of investment, or regulatory framework. The theoretical question is consequently not whether trade is simply “better” than aid, but under what conditions **integration into a major external market can function as a form of development support and under what conditions it may generate another form of structural dependence.**

For this reason, trade integration is examined in this study not merely as an indicator of commercial exchange but as a potential relationship between **market access, productive capacity, external influence, and developmental sovereignty.** It provides the conceptual basis for examining whether incorporation into the EU market can expand a partner state's capacity to generate and sustain its own development, or whether the benefits of integration remain accompanied by forms of economic and regulatory dependence. The comparison with aid dependency therefore allows the thesis to examine two different pathways through which the EU can become economically significant to weaker Global South partners: **through the provision of external resources and through incorporation into an external market.**