









Distorsiones creadas por los subsidios internos en el comercio internacional de bienes: Un análisis bibliográfico

Distortions created by domestic subsidies in international trade in goods: A bibliographic analysis

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Submission Date: 03/02/2026 | Acceptance Date: 05/25/2026 |
Publication Date: 05/30/2026

How to cite (APA 7th edition):

Moncayo-Bernal, S, Tonon-Ordóñez, L. Altamirano-Flores, J. (2026). Distortions created by domestic subsidies in international trade in goods: A bibliographic analysis. *INNOVA Research Journal*, 11(2), 170-191. <https://doi.org/10.33890/innova.v11.n2.2026.2951>

Resumen

La presente investigación tiene como objetivo examinar mediante un análisis teórico las distorsiones que generan los subsidios a los productos destinados a la exportación, se pretende mediante un análisis Prisma identificar conceptos y características del tema evaluando varias fuentes de información mediante motores de búsqueda como Scopus, Scielo, Ebsco Host y Redalyc, también se emplearon fuentes de mayor antigüedad con un intervalo que va desde 1938- 2022 debido a su alto valor, se investigó el origen de los subsidios, para después indagar sobre las distorsiones que estas generan. Esta información pretende servir de referencia para la realización de futuros estudios donde se profundicen y adquieran nuevos conocimientos referentes al tema en cuestión. Se concluyó que los subsidios a las exportaciones son instrumentos distorsionadores que, aunque pretendan apoyar a las empresas nacionales tienen tanto ventajas como desventajas según el nivel de desarrollo económico del país que los implemente.

Palabras claves: dumping, exportación comercio internacional, subsidios, distorsiones al comercio.

JEL: F13, F12, F10, H23

Abstract

The objective of this investigation was to examine, through a theoretical analysis, the distortions generated by subsidies for products designed for export. It is intended, through a prism analysis to identify concepts and characteristics of the subject, evaluating various sources of information through search engines such as Scopus, Scielo, Ebsco Host and Redalyc. Older sources were also used with an interval ranging from 1938-2022 due to their high value, the origin of the subsidies was investigated, to later investigate the distortions they generate. This information is intended to serve as a reference for carrying out future studies where new knowledge regarding the subject in question is deepened and acquired. It was concluded that export subsidies are distorting instruments that, although they intend to support national companies, have both advantages and disadvantages depending on the level of economic development of the country that implements them.

Keywords: dumping, export, international trade, subsidies, trade distortions.

1. Introduction

Trade policy has been the subject of intense international negotiations for decades. Since the devastating tariff wars of the 1930s, negotiations have focused on gradually eliminating barriers to international trade, as imperfect competition scenarios have developed where companies seek to benefit from their economic concentration (Káiser & Frutos, 2018). Similarly, globalization has led to a growing process of integration among diverse economies, reducing obstacles and the costs of international trade (Granizo & Pazmiño, 2018). As a result, companies have developed various strategies to become more competitive (Calmet & Gastañeta, 2013).

In the face of these types of policies that end up being distorting, it is necessary to mention the World Trade Organization (WTO) in this area, since it has facilitated the exchange of both goods and services through different agreements, among them the Agreements for the protection of international markets: the Antidumping and Subsidies agreements, which allowed determining whether a country could establish measures in order to protect its economy following the rules of international trade (Johdo, 2025). It was explained that for these types of subsidies to be implemented, the agreement on Subsidies and Countervailing Measures (SCM) must demonstrate the existence of both injury to a branch of production and the existence of subsidized imports (Jaramillo & Duque, 2017).

The objective of this research was to examine, through a theoretical analysis, the distortions generated by subsidies on products designed for export. This research will serve as a reference for future studies that will further explore and acquire new knowledge on the topic. The study investigated these distortions created by subsidies through an in-depth examination of relevant scientific articles on the topic. First, the order and type of theoretical review were organized, the origin of the subsidies were investigated, and then the distortions they generate were investigated. Second, a search of scientific journal articles was conducted using digital libraries and search engines. A sample of fifty-nine scientific documents was obtained based on research questions, article selection criteria, information quality assessment, and the exclusion and inclusion of studies. Third and finally, all the information found was stored and that that significantly contributed to the research were preserved, to later write a theoretical review article in which their literature and writing could be analyzed.

2. Theoretical Framework

Trade has been developing at an unprecedented pace due to the synergies created by technology and globalization. Spontaneous and peaceful trade is desirable; however, conflict arises in the pursuit and defense of a nation's interests. Huesca (2012) explained that international markets consist of a set of economic transactions that involve the exchange of goods and services between different countries and their respective domestic or foreign markets. This type of market refers to all commercial activities related to the transfer of goods, resources, ideas, technologies, and services across different countries. It is carried out through foreign currencies, which are all those currencies used in a region other than their country of origin (Krugman et al., 2022).

The World Trade Organization (WTO) is the international organization responsible for the rules of trade between countries. Its objective is to help producers, exporters, and importers of goods and services carry out their activities, opening trade for the benefit of all (World Trade Organization, 2022a). This organization has a great impact on a country's economy and provides a place for member governments to discuss their trade issues through transparency and honesty to find solutions to trade problems (Poveda et al., 2018). Foreign trade refers to what a country exports and receives (imports). Exports are defined as the shipment or sale of goods or services originating in one country to another territory for

consumption or use. Imports, on the other hand, are the trafficking or acquisition of goods or services by a country in another territory for use or consumption within that country's territory (Domínguez et al., 2021).

The term subsidy is used in international economics and is defined as an amount of money given to an individual, entity, or institution as financial assistance to conduct a project or maintenance work, especially funds received from a state or official agency. This type of contribution may include a specific monetary amount per unit of the good or service, or it may be calculated *ad valorem* as a specific percentage of the unit price. These types of subsidies are intended to artificially stimulate the consumption or production of a good or service (González, 2018). Export subsidies are defined as policies whose main objective is to support, through payments, national producers who trade goods abroad (Krugman et al., 2022). However, implementing these types of instruments can have consequences in terms of trade relations, since they present complexities in their application (Perez-Cotapos José, 2003).

Guzmán-Barrón (1997) clarified that dumping is an English word with no equivalent in Spanish. Initially, it was used to describe any unfair practice that could damage a country's domestic industry by exporting to another country at a lower price than it charges in its home market, causing distortion for both the importing country and local industries.

3. Methodology

A PRISMA-guided literature search was conducted to identify studies addressing distortions generated by export subsidies in international trade. Searches were performed in Redalyc, Scopus, Dialnet, and EBSCO Host using the keywords "export subsidies" and "export subsidy distortions". The search initially identified 1,064 records. After screening, 77 records were excluded for lack of relevance. Of the remaining records, 219 could not be retrieved for full-text assessment. A total of 768 reports were assessed for eligibility, of which 214 were excluded due to insufficient materiality and 95 due to limited relevance to the research objectives. Consequently, 53 studies were retained for review. An additional six studies identified from previous versions and reference sources were incorporated, resulting in a final sample of 59 documents included in the analysis.

Figure 1

Depicts the PRISMA flow diagram.

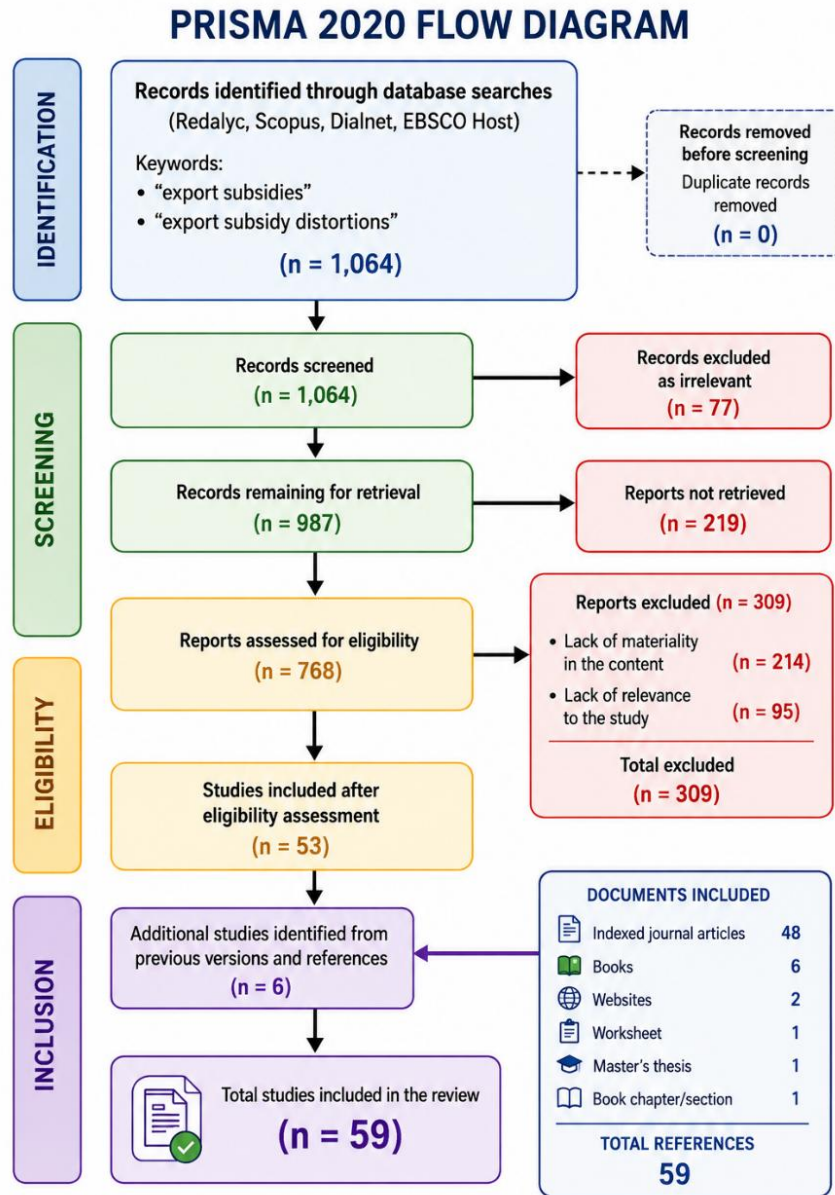


Figure. PRISMA 2020 flow diagram of the study selection process for the review of export subsidy distortions in international trade.

Figure 2

PRISMA flow diagram as a table for a better understanding of the stages.

PRISMA 2020 FLOW DIAGRAM – TABLE VERSION				
STAGE	DESCRIPTION	DETAILS	RECORDS (n)	FLOW
IDENTIFICATION	Records identified through database searches (Redalyc, Scopus, Dialnet, EBSCO Host) Keywords: "export subsidies" and "export subsidy distortions"	Initial search of literature related to distortions generated by export subsidies in the international trade of goods.	1,064	↓
SCREENING	Records screened	Titles and abstracts screened to assess relevance to the topic.	1,064	↓
	Records excluded as irrelevant	Records excluded for not being relevant to the research topic.	77	↓
	Records remaining for retrieval	Records that were potentially relevant and selected for retrieval.	987	↓
	Reports not retrieved	Reports that could not be retrieved for full-text evaluation.	219	↓
ELIGIBILITY	Reports assessed for eligibility	Full-text reports assessed for eligibility according to the inclusion criteria.	768	↓
	Reports excluded (Total excluded)	<ul style="list-style-type: none"> Lack of materiality in the content Lack of relevance to the study Total excluded	214 95 309	↓
	Studies included after eligibility assessment	Studies that met the eligibility criteria and were included in the review.	53	↓
INCLUSION	Additional studies identified from previous versions and references	Relevant studies obtained from previous versions, reference lists and other sources.	6	↓
	Total studies included in the review	Total number of studies included in the final review.	59	✓

DOCUMENTS INCLUDED	Indexed journal articles 48	Books 6	Websites 2	Worksheet 1	Master's thesis 1	Book chapter/section 1	TOTAL REFERENCES 59
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Note: PRISMA 2020 (Preferred Reporting Items for Systematic Reviews and Meta-Analyses).

4. Literature Review

4.1 Arguments for Distortions from Domestic Subsidies

There are several studies on the distortions created by domestic subsidies in international trade in goods. Neary and Seirsen (1989) summarized the theoretical literature on export subsidies and determined that they can be part of a perfect optimal argument for policy packages in large open economies. They mentioned that, on the contrary, in the simple Cournot duopoly model, subsidies are certainly desirable, although this result is sensitive to changes in the underlying assumptions. Antón (1996) analyzed using a Government Oligopoly model in a global market for a homogeneous good, where the model develops a two-stage non-cooperative game in which governments maximize their political preference function, deciding first the domestic price and then the volume of subsidized exports, reaching the conclusion that the decision to subsidize exports can only be optimal if government preferences are biased by the welfare of producers and not by that of consumers and taxpayers.

Girma et al. (2009) explained the relationship between production subsidies and firms' export performance using a comprehensive firm-level database. The authors documented strong evidence that production subsidies effectively encouraged the export activities of existing exporters but were not very useful for firms attempting to enter the export market.

Calmet and Gastañeta (2013) explained how, in the case of Peru, the State made the decision to increase trade openness for the country's development; however, this openness led to the emergence of unfair practices such as dumping and the effect of subsidies, harming national production and adversely affecting a country's economy. However, these practices can be counteracted with corrective trade measures stipulated by the WTO. Narayanan and Rungta (2014) explained how India's textile and apparel exports have been steadily increasing in recent years and how governments have provided several incentives for the export of these products. The authors explained how export promotion schemes can play an important role in a country's development strategies, especially a developing country like India that seeks to make exports an engine for economic growth. Subsidies are one of the many trade policy instruments that present complex problems for policymakers as these incentives can be defined in different ways due to methodological differences between the implementing countries.

It is worth mentioning the case of China, where Gambrell (2015) explained how the country negotiated an accession protocol to the WTO with flexible application of rules on multilateral subsidies. This arrangement allowed it to maintain key aspects of its previous industrialization model, which, together with guaranteed market access, further accelerated its export success. Chinese exports took off, and industrial modernization continued uninterrupted until the specialization pattern of these exports changed. Likewise, Kâhya and Kuhar (2016) investigated the “chocolate law”, which explained that it is a type of subsidy intended for Swiss milk and wheat producers on the condition that their products are destined for export after processing and thus reach the sales potential abroad, however, the WTO made the decision to repeal this law by 2021.

Similarly, Joneghani and Joneghani (2018) investigated the relationship between subsidies and Iran's export development, aiming to enhance exports through appropriate subsidies. This study was conducted within the framework of a descriptive survey. It was concluded that, when prices remain higher than the final cost of exports, export subsidies are one of the support programs to improve the relative position of state-owned enterprises in competition with other enterprises and to expand market share hence export expansion will increase domestic welfare.

Granizo and Pazmiño (2018) explained how the Italian company “Colavolpe” is dedicated to the production and marketing of typical dried fruits and sweets and has been recognized both nationally and internationally and has managed to penetrate the markets of the United States, Canada and Finland; that is why the main problems of international marketing that it faced are investigated: Government policies that are broken down into the absence of tax incentives and export subsidies, high marketing costs and high production costs.

Clements and Parry (2018) argue that subsidies make sense when used as a sound policy tool, that is, to correct so-called market imperfections or when perfectly competitive markets fail to achieve socially desirable outcomes. This is what this text refers to as the Pigouvian Subsidy. Another case that provides an argument in favor of subsidies is the distribution function of the State, when monetary subsidies are delivered, allowing the beneficiary to spend the money as they see fit. Zahid et al. (2019) discussed the importance of export subsidies in the economic development of Pakistan, since, throughout history, Pakistani policy has sought to promote exports through government support and incentives. That is why, through the multiple regression model, the results of export subsidies showed a positive effect, which means that there is a directly proportional relationship, that is, when the government of Pakistan increases export subsidies, exports will increase.

Defever et al. (2020) evaluated the impact on firm-level export performance of the Cash Incentive Scheme for Exports program provided by the Government of Nepal. The analysis used customs-level data for the period 2011–2014, combined with information on subsidy payments made to individual firms provided by the Central Bank of Nepal. The cash subsidy is available to firms exporting a select group of products and requires firms to export to countries other than India. The study found a small positive effect on the number of eligible products exported to countries other than India and the number of destination markets reached among firms receiving the subsidy. These results were consistent with the fact that the subsidy was provided primarily to large exporters that were already shipping eligible products to countries other than India.

4.2 Arguments against distortions due to domestic subsidies

Díaz (2015) showed how, after 10 rounds, progress in the negotiations for the Free Trade Agreement between the United States and the Andean countries (Peru, Ecuador, and Colombia) was slow. There are different positions that existed between the negotiating teams on these issues, which were so distant that it was even decided to negotiate the agricultural issue bilaterally between the United States and each of the Andean countries. Particularly regarding agriculture, the problem is the amount of subsidy (Abreo, 2024). U.S. agricultural subsidies cause distortions in international trade, which become a potential threat to domestic producers by depressing international prices, in many cases, even below domestic production costs.

Acosta and Bozzani (2015) mentioned how the Bali Ministerial Conference generated debates regarding Trade Facilitation Agreements, development, and agriculture. Two groups of states were evident: on the one hand, the more developed countries, which, due to their privilege and position, promote trade liberalization and the elimination of barriers. On the other hand, developing countries displayed protectionist profiles, but they seek to reach a compromise between the two positions. Within the Bali Declaration, foreign and trade ministers from 160 countries agreed to address the issue of export subsidies, as these have a highly protectionist effect that distorts trade and competition in the export sector. The conclusion was reached that it is necessary for the State to regulate policies for integration

into international markets, as trade liberalization would be meaningless if not all countries could have food security. This does not necessarily imply the isolation of a country from international trade; it is simply necessary to establish a strategy that benefits all.

Faría (2017) explained how the 2015 Nairobi Conference produced significant results for international trade, particularly in agriculture. The Nairobi Package emphasized export competition and its relationship to subsidies, establishing that developed countries must eliminate export subsidy policies. It also prohibited the use of other policies as covert forms of subsidies, thereby allowing agricultural markets to be leveled. However, an analysis by the Institute for the Integration of Latin America and the Caribbean (INTAL) showed that eliminating subsidies would not significantly affect global agricultural trade.

Zelicovich (2017) analyzed how after more than a decade of blockages in multilateral trade negotiations, both at the Bali Ministerial Conference in 2013 and at the Nairobi Ministerial Conference in 2015, WTO members managed to unblock multilateral agreements. The author mentioned export subsidies, which have been a controversial issue in the WTO, as a highly trade-distorting instrument: they include payments linked to export performance, which artificially lower export prices. Opposition is divided between those who want to gradually reduce subsidies and those who want to eliminate them immediately.

Hidalgo (2018) identified the main trends in international trade in goods and the most relevant features of trade policy. In addition, the position of multilateral trade negotiations in the World Trade Organization was evaluated. In the face of instability and uncertainty in international trade, countries have adopted trade policies aimed at reinforcing protectionism. Since 2009, the use of non-tariff measures (NTMs) has been recorded. Among the most used are export subsidies, especially in the case of agricultural products. These measures have allowed for an increase in the volume of exports from the subsidizing country, thereby gaining a greater international market share. However, at the Fifth Ministerial Conference in Nairobi, several negotiations were held on export competition. The gradual elimination of agricultural export subsidies was determined, as the system has been weakened using these tools, which have called into question its ability to successfully confront the challenges of international trade relations.

4.3 Trade agreements

Becerra (2017) took agriculture as the core of study to investigate the economic policies that employ the free trade agreements between the United States and Colombia and the impacts that these generated in their respective economies with respect to the United States. The United States seeks to open markets in order to allocate its products to foreign markets to further its interests without eliminating its share of subsidies to its farmers, harming in this case the recipient economies. As a possible solution, governments should take protective measures, in the case of the agricultural sector, safeguard agricultural producers and generate adequate support conditions to confront foreign producers. In addition, it is necessary to

balance the effects of the entry of cheaper products into the domestic market to take care of production and thus protect jobs.

Lozano (2017) explained how, due to the constant changes in global markets, Colombia has been expanding its economic policy options to sign an increasing number of free trade agreements where exporters can expand into larger markets. The purpose of this work was to demonstrate the types of obstacles that Colombian producers must face to export to Canada to obtain a positive trade balance. The author also mentioned that subsidies also gradually affect commercial exchanges in international markets and can be considered a type of unfair practice, since by granting this type of subsidies they facilitate access and participation with advantageous conditions compared to local producers, being considered as "unfair" competition.

Díaz (2017) analyzed the effects of the free trade agreements (FTA) between Colombia and the United States on the Colombian agricultural sector and determine how it affected the competitiveness of products such as rice and yellow corn, which is why the effect of macroeconomic policies was examined, one of them being the subsidy policy, and to be able to evaluate the behavior of these products in the face of these measures. To analyze these effects, a gravity model was made taking production and imports as dependent variables. The independent variables considered were the interest rate (DTF), the nominal exchange rate, tariffs, national and international prices and some dummy variables such as the FTA, subsidies, analyzing only the case of rice and corn in the period 1980-2012.

Zelicovich (2020) highlighted the transformations that international trade relations underwent, leading to a new trade policy with higher levels of protectionism and the distorting use of subsidies. The author also mentioned the importance of the role that China played in issues of production and world trade, resulting in a growing development of subsidies, allowing local producers to become global competitors. However, these trade policies have generated disruptions in international trade relations, limiting the participation of the World Trade Organization (WTO), since these types of policies turn out to be a threat to the WTO since they weaken its capacity to be an organization that allows negotiations between its members, diminishing the importance of its function as a problem-solving mechanism.

Hernández (2021) explained how with the abandonment of classical liberal economic assumptions, state interventionism in the economy emerged, a trend that proposed concessional loans and subsidies to promote the development of certain sectors of the economy. Although it is a lost fund, that is, there is no obligation to return it, it must be equivalent to a counterpart for the State. However, in many cases, this state support was obtained by fraudulent means or diverted to activities unrelated to the activities for which it was granted, delaying or hindering the development of economic sectors that the State is interested in promoting. Robledo (2015) explained how in most developed countries, except for Australia and New Zealand, there is a wide variety of support mechanisms for milk production, such as export subsidies. Overviews of the dairy production system in both Australia and New Zealand were presented. Despite being very efficient in said production

and having a strong presence in international markets, they are harmed by the drop in milk prices caused by high subsidies allocated to production in other countries, thus reducing their income levels.

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Batavia and Nandakumar (2017) used a general equilibrium macroeconomic model to study the equivalence of export subsidies and import tariff reductions in increasing the production of goods for export. They found that the qualitative effects of both policies were equal; a reduction in import tariffs was an equally viable option for expanding exports. Related to these studies, Parashar et al. (2018) analyzed the case of India, which has enjoyed a highly positive trade balance in both the apparel and clothing sectors. However, its export growth has stalled, forcing the country to face competition from other developing countries such as China, Vietnam, and Bangladesh in key export markets such as the United States and the European Union. The paper noted that government support should focus on improving the industry's competitiveness. The analysis also suggested that subsidies may not have resulted in increased exports or improved business competitiveness.

Uribe (2019) explained that Mexico's domestic agricultural policy is influenced by its foreign trade policy, which is why the State's participation in three important aspects was analyzed: market access, support for producers, and export subsidies. Reducing agricultural subsidies in developed countries is not enough to overcome the disadvantages of small agricultural producers. It is necessary to incorporate policies such as reducing export dumping, reducing global overproduction of key crops, and reducing the influence of agro-industrial conglomerates in the markets. Export subsidies are considered a highly distorting tool for global trade, incentivizing overproduction and the placement of surpluses on the global market at dumped prices. Their elimination would improve trade opportunities for developing countries.

Girma and Görg (2020) used an estimation approach to determine whether export subsidies had any impact on the role played by Chinese exporting firms, identifying both direct and indirect effects. Their results showed that trade-related subsidies increase the proportion of subsidized firms in the cluster, making firms that already receive marginal cost subsidies more likely to export relatively to non-subsidized firms.

4.4 Dumping in International Trade and Measures to Prevent It

González (2021) studied the international trade practice of "dumping," defining it as international price discrimination. This is because it not only generates harm to the importing country but also to international markets, caused by strong globalization and the constant opening of markets. Therefore, possible control measures were mentioned to protect free trade and the market in general (Guzmán-Barrón, 1997).

José Perez-Cotapos (2003) explained in more depth the concept of unfair practices within what is known as international trade through a literature review, as well as how these practices refer to two specific behaviors: government subsidies and dumping. Their different classifications, their legal regulations, and when these should be applied were considered. The author also expressed how these practices have acquired relevance in the face of globalization and concluded that these types of practices only seek to discriminate against prices.

Arroyo (2003) developed research in which the main unfair practices within international trade were analyzed; dumping and government subsidies, their definition in economic theory, their classification and regulation in international law; said author carried out a more in-depth study on the basic elements of the application of antidumping duties within the framework of the General Agreement on Tariffs and Tariffs (GATT) 1994. It was concluded that a preventive analysis of export operations is essential to correct risky behaviors and minimize the danger of antidumping duties abroad.

Kong (2019) explained how foreign companies or other countries' governments can sometimes engage in unfair international trade practices when they export their products at a price that harms the domestic industry. Therefore, the paper discussed how to identify unfair international trade practices, as well as the legal mechanisms available to address such practices. There is a domestic industry whose economic situation is affected by imports; and there is an investigating authority that imposes trade defense measures, antidumping or countervailing duties, to combat unfair trade practices.

Reyes and Peña (2020) determined the effects that dumping has on the competitiveness of the textile industry in the Gamarra Commercial Emporium in Peru, in order to determine how growth, positioning and profit have been affected by the dumping in question. This research concluded that the entry of goods into the country at prices below the price of the product destined for the exporting country in the country of manufacture seriously affects the growth and development of businesses in this sector, both domestically and internationally. It also affects the company's profits, generates unemployment, reduces productive and competitive capacity, and results in the bankruptcy of companies.

Strong cases such as Zhou and Qu (2021) who explained how China has been at the center of academic and political debates due to considerable concerns about the influence of the Chinese government on commercial activities, including through state-owned entities, and the growing impact of such activities worldwide. These concerns are reiterated in the trade policy agendas of the United States (US) and the European Union (EU), where China's "unfair trade practices" are further investigated, that is, it was assessed that due to China's

economic power and global impact, its development model has been directed towards the implementation of subsidies and tariffs, generating an existential challenge for its trading partners and the multilateral trading system.

Zhao et al. (2018) explained how as the world becomes economically globalized and has an unequal allocation of resources, it has become necessary for each nation to deal with dumping problems and seek different anti-dumping mechanisms effectively. For example, (Choi, 2016) examined the effect of anti-dumping measures for the United States, the European Union, the People's Republic of China, and India; the results indicated that a 1% increase in anti-dumping duties would reduce imports of the target product by approximately 0.43–0.51%. However, total imports of the products increased by around 30% while an anti-dumping duty was in place.

Lee et al. (2017) studied the effects of antidumping (AD) actions initiated by the United States (US) against China, which have increased significantly in recent decades. It was argued that the US tends to initiate more AD actions against China because the threat of retaliation from China is lower than that of countries that import significant quantities of US products or actively use antidumping actions. A key aspect of antidumping investigations has to do with the biannual meetings held by the WTO to evaluate different issues related to the Antidumping Agreements, where questions are raised based on the laws and different agreements of various countries regarding AD issues. In this way, the facts and interpretations of the law can be identified so that the decisions taken are not based on their opinions (World Trade Organization, 2022 b).

Although economists have long established that this and other types of protectionist measures are likely to reduce the overall surplus in the importing economy, the argument continues to be that these policies protect U.S. producers from unfairly low prices for imports. Furthermore, antidumping actions were found to cause some reduction in the volume and value of imports from China, as well as an increase in the price of those goods in the U.S. market. These effects were found to be short-lived, dissipating approximately two years after the anti-dumping decision.

Jabbour et al. (2019) used industry- and international trade transaction-level data from both France and China to further examine the effects of European Union (EU) anti-dumping measures on Chinese products. They identified that EU anti-dumping hampers the productivity, labor, and international competitiveness of Chinese import-dependent firms. The authors found that the effects of anti-dumping vary across industries and are driven by the performance of import-dependent firms. They found that the negative impact of anti-dumping measures is focused on the most profitable import-dependent firms.

5. Discussion

When economic competition is neither free nor fair nor equitable, the harm caused affects not only the producers of certain goods and services or the corresponding consumers,

but society. Theoretically, the concept of unfair practices refers to two behaviors: dumping and government subsidies, which are penalized by both international treaties and the domestic legislation of each country (Perez-Cotapos, 2003). However, export subsidies are not intended to distort a country's terms of trade; their intention is to promote the economy's relevant industries (Krugman et al., 2022).

An important use of subsidies is to allow governments to implement their redistributive policies and provide incentives for economic growth and development (Clements & Parry, 2018; Rojas, 2019). Therefore, a projected social evaluation of these policies is imperative, and only those policies that demonstrate they will increase net social welfare should be adopted. There are advantages and disadvantages to the application of subsidies in practice; this is because they are not free, so their application is not recommended, thus demonstrating that the harm outweighs the benefit (Mora, 2008).

Subsidies, when used properly in practice, are used to finance state redistribution policies, external economic adjustments and economic incentive policies to encourage or stimulate economic growth and development, all for the benefit of the citizens of the State. The resources used to pay for these types of subsidies come from tax collection, which comes from the citizens themselves, thus demonstrating that these types of subsidies are not free for society since they are the ones who finance them (Akgündüz et al., 2018; Ambaw & Mugan, 2022; Girma & Görg, 2020).

Export subsidies allow products to be sold in world markets at prices below international prices (Huamán et al., 2021). Consumers in subsidized countries see their well-being reduced because they must pay higher prices in the domestic market. Furthermore, the cost of addressing these subsidies is generally financed by taxes, which represents a burden for taxpayers. What is important to understand in this context is that, while subsidies can increase social welfare, they can also cause a loss of social welfare both in terms of financing (fiscal costs) and in terms of the costs that the subsidies themselves can generate because they are selective, the result of tax legislation that benefits specific groups or industries in the economy (Hernández, 2021; Jaramillo and Duque, 2017).

This is why the impact of export subsidies is so pronounced. The terms of trade have improved at the expense of the subsidizing country, making them better for foreigners. Similarly, the country that implements these types of subsidies ends up harmed due to the worsening of the terms of trade and the distorting effects of its policies, which is why it is difficult to imagine a scenario in which export subsidies benefit the national interest. These types of policies are generally more related to trade policy than to economic logic (Batavia and Nandakumar, 2017; Hidalgo, 2018; Krugman et al., 2022).

Contreras (2005) identifies that the adverse effects of subsidies can have a significant impact on private investment and, paradoxically, also on final consumers. While they can be powerful tools to encourage certain sectors in the short term, in the long term these types of measures could lead to delays in competitiveness and production, harming domestic consumers who pay taxes to subsidize the welfare of other countries.

Von Mises (2019) demonstrated that this type of subsidy tends to prolong the life of inefficient firms at the expense of efficient firms, distorting production systems and discouraging the flow of factors from less productive to more productive locations. This is because the subsidies issued have not undergone subsequent evaluation, and there are cases in which the benefits of subsidized projects cannot offset the costs.

One point to take into consideration are the export subsidies in agricultural markets which establish a serious problem for certain countries that try to be competitive (Acosta & Bozzani, 2015; Becerra, 2017; Uribe, 2019) who also evidenced the position of two groups of States; the most developed countries, which due to their privilege, position and weight in the economy, have directly promoted free trade and the removal of barriers, achieving a certain influence over developing nations, which seek to protect their economies from uncertainty in competitiveness and displacement by foreign companies.

China is a country that plays an important role in global production and trade, controlling key resources, thus being an influential country globally (Zelicovich, 2020). Thanks to its high trade surplus, China has managed to become one of the largest exporters in the world due to its free trade policies, as well as its technological development, which has improved its productivity, making it highly competitive (Zelicovich, 2017; Girma & Görg, 2020; Ambaw & Mugan, 2022).

On the contrary, in the case of "developing" countries, they have incomplete industrialization in addition to a deep technological gap, and are commonly exporters of raw materials, thus causing unequal competition between countries (Mora, 2008; Díaz, 2005; Díaz, 2017; Lozano, 2017). This is why it was established that developed countries eliminate their export subsidy policies due to the absence of strict control (Cárdenas et al. 2025). In addition, it was prohibited to use other policies such as covert forms of subsidy or obtaining state support through fraudulent means or diversions towards activities other than exporting subsidized products, delaying or hindering the development of economic sectors that the State intends to promote, where money laundering or the creation of fictitious companies are only a means to benefit from the "collection" of these fictitious exports (Hernández, 2021).

Ambaw and Mugan (2022) explored the impact of Chinese subsidy interventions, particularly the causal effect of Chinese subsidies on base metal products on the export competitiveness of downstream or downstream industries in other major trading countries. They further suggested that researchers should focus on three issues for future research. First, future research should focus on quantifying the impact of the level of subsidy support. Second, the analysis can be extended to firm-level studies to obtain micro-level evidence regarding the role of subsidies in the participation and upgrading of foreign firms and companies in the global value chain. Finally, more research should be conducted to properly quantify the mechanism by which this type of Chinese policy intervention decreases firms' exports and productivity.

So while the function of export subsidies is to position and encourage a country to participate in international markets, it is necessary to balance the effects of the entry of cheaper products into the domestic market to protect national production. Governments need to focus on the implementation of technology to be more competitive. In addition, it is necessary to improve their production both in terms of cost and productivity in order to ensure the long-term stability of national producers (Díaz, 2017). This is why Uribe (2019) explains that the elimination of this type of incentive would improve opportunities for developing countries in addition to converging trade towards a level playing field and thus avoid trade tensions (Lee & Lee, 2024; Zelicovich, 2020).

6. Conclusions

In theory, a particular set of export subsidies can increase national welfare, but any government agency attempting a sophisticated program of trade intervention would fall prey to interest groups and become a device for redistributing income in favor of politically influential sectors. The question of who wins and who loses from the implementation of export subsidies is quite simple. Foreigners' terms of trade improve at the expense of the implementing country's terms of trade, allowing countries to benefit from these types of policies. At the same time, the country implementing the subsidies will tend to suffer losses due to the deterioration in its terms of trade and the distortions of its policies.

There is little evidence that government export promotion policies are effective in eliminating or at least mitigating such export difficulties, as various institutional arrangements exist, complicating the distinction between effective and ineffective export promotion mechanisms. This analysis seems to suggest that export subsidies have never made sense. In fact, it is difficult to imagine a situation in which export subsidies serve the national interest, since such policies directly affect a country's terms of trade, and export subsidies can worsen the terms of trade, that is, despite the subsidies, the domestic relative price of exported goods falls, contrary to expectations. While pursuing their own interests, even with the same objectives, harm can occur due to a lack of cooperation between countries and their policies. This suggests that export subsidies make no sense from a domestic perspective, and foreign export subsidies will be welcomed rather than rejected.

That is why this study was able to meet the objectives set out, where through a bibliographic review it was possible to review the theoretical principles on the effect that subsidies cause on international trade, where both the costs and benefits that this type of subsidy generate for exports could be determined. Finally, this research aims to serve, through critical analysis, both students and the scientific community investigating issues related to product subsidies in the context of international trade. This research will serve as a guide regarding the distortions these types of policies generate and whether they should be implemented depending on the level of development of the country implementing them.

Funding

This research was funded by the authors' own resources.

Conflict of Interest

The authors declare that there is no conflict of interest in this research.

Author Contributions (CRediT)

Samantha Mishel Moncayo Bernal: Conceptualization, Data curation, Formal analysis, Investigation, Methodology, and Writing – original draft. **Luis Bernardo Tonon Ordóñez:** Conceptualization, Formal analysis, Investigation, Methodology, Project administration, Supervision, Writing – original draft, and Writing – review & editing. **Jorge Enrique Altamirano Flores:** Formal analysis, Validation, Writing – original draft, and Writing – review & editing.

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