

International Business Theory and Policy in the Time of COVID-19

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Abstract

The international trade in the XXI century has been strongly affected by the force of the economic crisis and COVID-19. The changes are evident in the growing importance of international trade to national economies and to domestic groups within those economies, in the closer linkages between trade and other international issues. Different positions of the member states of the World Trade Organization (WTO) especially developed and developing countries and also USA, the European Union and Japan representatives were observed during the Doha Round of trade negotiations under the WTO. The problems of agriculture protection in the developed countries for example in European Union and USA and also in the developing countries, were becoming a serious obstacle during the negotiations. Despite the undeniable benefits of the multilateral WTO forum for trade liberalization, the rapid increase of North-South bilateral and multilateral Free Trade Areas (FTAs) begs a systematic explanation for why some forums are prioritized relative to others. The main aim of the article is the presentation of the international business theory and policy during the time of COVID-19. The article presents the mercantilist tendencies in the international trade policy, the theory of public choice in the foreign trade policy, protectionist pressures in different political systems, the level of protectionist pressures, food producers pressure and conflicts between the tendencies to sustainable international trade liberalization and environmental protection, the increasing importance bilateral agreements in the foreign trade policy, international economy in the time of COVID-19.

Keywords

International Business, Theory and Policy, Mercantilist Tendencies, Protectionist Pressures, Agriculture Protection, Bilateral Agreements, The Time of COVID-19

1. Introduction

Realistic point is important trend in the global trade regime during the economic crisis and COVID-19. The growing interdependence has led to increased competitiveness and greater temptations to resort to strategic trade policy. Trade policy takes on additional importance in economic battle of the valiant liberal reformers, fighting against self-dealing rent seekers profiting from inconsistencies of the transition economy. Many of the client policies that shelter rent seekers are impossible to maintain in the face of competition in the international economy. On the other hand, high tariff walls, export licensing, and artificial exchange rates provide numerous sources of rent for business people who are trying to promote their own loyalties.

The international business policy plays a key role in the maintenance of both economic and political liberalization. The prominence of rent seeking in a country can have far-reaching implications for its economic development. Especially in underdeveloped or transitional countries, rent seeking takes scarce resource out of productive areas in the economy, using them to promote and/or perpetuate further rents. It must be emphasized that openness to trade is associated with higher incomes and growth and there is the need for new approaches to trade cooperation in light of the forces that are currently re-shaping international business. The key to trade developments within the broader socio-economic context is especially the rise of global supply chains, the general shift of trade power away from the West towards Asia.

In the new circumstances for the development of the global economy and the global trade, the eyes of the world, have been turned to China. This country seems to be a production superpower, able to change world trade. In many areas it possesses comparative advantages. The access of China to WTO was a historical decision, the evidence of evolution which was taking place within that organisation, giving it a more universal, global form. This means also that it expands on a huge market which can open itself up to foreign competition. National power depends above all on the performance of the domestic economy and the ability to mobilize and allocate its resources. China's domestic reforms will determine whether its economy will be transformed into a more sustainable model. In this sense, Chinese foreign policies are an extension of China's domestic politics.

The decisions taken by the representatives of the governments participating in the World Trade Organization (WTO) are, to a significant degree, influenced by various lobbies, such as organizations and unions of food producers or other non-governmental organizations, including trade unions (Puślecki, 2002). The problems of mutual relations between the representatives of governments and those non-governmental organizations which influence on multilateral trade negotiations conducted on the forum of WTO (Puślecki, 2002) are the subject of the analysis in the undertaken research program, while special attention has been paid to the trade conflicts between the European Union and the United

States of America (Puślecki, 2003).

The biggest confrontations within WTO involved agricultural problems. They could also be observed in other areas, such as steel industry, textile industry or in an environmental protection (Puślecki, 2003). There are serious conflicts existing between the idea of international trade liberalization and environmental protection since one has to consider what is more profitable, environmental protection or international trade liberalization.

In the article presents the mercantilist tendencies in the international trade policy the theory of public choice in the foreign trade policy, protectionist pressures in different political systems, the level of protectionist pressures, food producers pressure, conflicts between the tendencies to sustainable international trade liberalization and environmental protection, the increasing importance bilateral agreements in the foreign trade policy and the international business policy in the time of COVID-19.

2. The Mercantilist Tendencies in the International Trade Policy

The tendencies in international trade development can create changes in domestic markets, placing pressure on political actors to obtain aid from the government especially during the economic crisis. There are also the groups which want to coordinate activities and change foreign trade policy. Government provide the justification for protection of the domestic market to response to global competition. Essentially, the government appears to supply protection for affected parties; yet, the overall impact on consumers, producers, and foreign competition is negligible (Thies & Porche, 2007). Significant government ownership of the productive resources of a country has a negative effect on trade liberalization, while fragmentation of decision-making authority, expressed as fragmentation within the government and pluralism in society, has a positive impact on the liberalization of trade policy (Kennedy, 2007).

In the area of foreign-policy analysis has focused on “three i’s”: interest groups, international structure, and ideas (Kennedy, 2007). In the interest groups literature, government policy is viewed as the outcome of competition between groups for trade policies that benefit their industry (Nau, 1989; Milner, 1995; Milner & Yoffie, 1989; Schattschneider, 1935). International structure suggests that freer trade was a reflection on U.S. interests and its hegemonic status after World War II, while a decline in free trade is a reflection of the U.S.’s hegemonic decline (Krasner, 1976). The literature on ideas suggests that policy beliefs are reflected in laws and institutions. These laws and institutions, in turn, carry a type of inertia that continues to influence policy outcomes long after changes in international and domestic structure would predict policy change (Goldstein, 1989; Goldstein, 1995). In contrast to these explanations government interests in the economy and in maintaining stability also play a large role in trade policy (Kennedy, 2007).

At one end, a multilateral forum with near universal membership offers maximization of gains from trade and reduced transaction costs. However, a single state cannot expect to have much control over trade partners or liberalization agendas at the multilateral level. At the other end, a bilateral FTA often yields very small gains from trade and usually increases transaction costs by producing idiosyncratic sets of rules. But at the same time, a large state can acquire a high level of control in terms of partners, issues and agenda selection, and sectoral exclusions or inclusions based on domestic political needs (Pekkanen, Solis, & Katada, 2007). One can contend that industrialized of aggregate economic gains in the interest of national welfare (largest in multilateral forums) or seeking control over rules in line with political interests (greatest in bilateral forums).

The liberalizing rules on agriculture, and other less competitive sectors, are no longer an acceptable political price for the economic gains bundled across sectors (Interview MOFA, 2004; New York Times, 2007). In the ongoing Doha Round, the agreement to end agricultural subsidies by 2013 calls for a substantial part of these subsidies to be eliminated well before then. Yet, this sort of vague statement fosters uncertainty for domestic actors at home in uncompetitive sectors like agriculture and in several cases like for exemple in Japan trade officials need to show that they have more concrete control for political reasons-an element more credible in a bilateral setting than a multilateral one (Pekkanen, Solis, & Katada, 2007). This situation may also indicat the back from globalisation to the mercantilist tendencies in the foreign trade policy (Puślecki, 2008).

3. The Theory of Public Choice in the Foreign Trade Policy

Traditionally, political economy models of trade policy have tended to focus on the demand for protection, with factor endowments driving political reactions to exposure to international trade. Such model simply assumed that adversely affected economic agents would organize to seek protection, which would be afforded to them by their elected representatives in the political system. The supply side for trade policy was either ignored or underspecified in most models (Thies & Porche, 2007).

In the foreign trade policy theory interesting are the reviews of Alt et al. (1996) and Nelson (1988) about the demand for trade policy in terms of the theoretical importance of factor specificity (Alt et al., 1996; Nelson, 1988). Factor specificity refers to the ease with which factors (land, labor, and capital) can move from one sector to another in an economy. The two dominant approaches to explaining the demand side of trade policy used radically different assumptions about the specificity of factors. The Heckscher-Ohlin model, used by Rogowski (1989) in his seminal contribution “Commers and Coalitions”, assumes very low-factor specificity (Rogowski, 1989). The low specificity of factors means that factor returns are equalized throughout a region’s economy. Producers should export goods that intensively use their abundant factors and import

goods that intensively use their scarce factors, with the result that owners of abundant factors will favor free trade and owners of scarce factors will favor protectionism. Trade policy coalitions will therefore be organized along factor or class lines. On the other hand, the Ricardo-Viner assumes that some factors are stuck in their present uses; therefore, factor returns are not equalized throughout a region's economy, but are industry specific. Trade policy coalitions should form along the lines of exporting versus import-competing industries.

Neither of these models explains how preferences over trade policies are actually translated into political action (Alt et al., 1996). In a discussion of the endogenous tariff literature, Nelson (1988) notes that the mobility costs of the specific-factors model may be a result of productivity differentials, labor union activity, or individual preferences for membership in a given geographic area, industry, or firm (i.e., some form of solidarity) (Nelson, 1988). In all of these cases, one can derive a link to preferences for tariff policy, "but without additional information on why the specific-factor model is chosen, it does not tell us much about political organisation".

Alt et al. (1996) suggest that one can begin to understand this process by assuming that rational individuals make cost/benefit calculations (Alt et al., 1996). The Heckscher-Ohlin and Ricardo-Viner models tell us the benefits that individuals hope to receive, but the costs of collective action also intervene as they organize to achieve those benefits in the political system. Olson (1985) argued that small groups with specialized interests are easier to organize and more effective in securing economic rents than large groups with diffuse interests (Olson, 1985). Small groups are better able to control free riders than large groups, and groups with specific or homogeneous interests can more easily coordinate and target their activities than groups with diffuse or heterogeneous interests. This approach is thought to explain the success of agricultural producer groups in developed countries in organizing for protection as well as the inability of agricultural producer groups to organize in developing countries (Anderson, 1995; Coleman, 1998; Olson, 1985; Olson, 1986; Sheingate, 2001).

However, Nelson (1988) points out that we should not assume that organized interests will be equally responsive to all issues (Nelson, 1988). Institutionalized interaction among actors may help to explain systematic patterns of action, especially as institutions created for specific historical purposes may outlive those purposes. Alt et al. (1996) suggest that if a particular group has paid the fixed costs of establishing collective action and developed well-worn channels of access to public officials, it may defend its trade policy preferences even when the stakes are low because the marginal costs of action are low (Alt et al., 1996). It may be the case that "a much more affected but inchoate group does nothing because the start-up costs of organization are too daunting". Past strength of an organization should therefore be an important intervening variable predicting group action on trade policy. Further, as Nelson (1988) argues, once these institutions exist, supply-side interventions may also affect

their usefulness as some are deemed legitimate or illegitimate aggregators of interest (Nelson, 1988). Thus, we must examine the way in which economic institutions and political institutions interact. Most economic models simply assume that a model of the economy is a model of the demand side for trade policy, but Nelson (1988) suggests that we must elaborate the mechanisms by which demand is articulated to the suppliers of trade policy (Nelson, 1988). For a good overview of this argument, especially as it pertains to agriculture (Thies & Porche, 2007).

If the political systems rewards small sectoral groups, than individuals will not pay the costs of organizing large intersectoral coalitions. If the political system rewards large mass movements (i.e., majoritarianism), than individuals will have to pay the costs of organizing large intersectoral coalitions in order to achieve any benefits. Collective action costs and political institutions are interactive with factor specificity. They suggest that Rogowski's (1989) Heckscher-Ohlin framework requires low factor specificity, low collective action costs, and domestic political institutions that favor mass movements (Rogowski, 1989). The Ricardo-Viner framework used by the endogenous tariff literature requires that factors are specific, collection action costs are high, and institutions are less majoritarian, with changes in any of these three variables also affecting the typ of coalitions that form.

In the state as a rational dictator model, the state may be seen as either pursuing "good government" goals along a social welfare function or intervening in the economy for their own self-interested model of the state views politicians as offering preferential trade policy to economic actors in exchange for political support (Magee, Brock, & Young, 1989), (Grossman & Helpman, 1994). On the other hand, pluralist theory typically views the state as a neutral aggregator of demands from groups in society. The supply of trade policy is then determined by the balance of power on any given issue. The supply side of trade policy is relatively undeveloped theoretically, and yet a crucial part of the equation (Puślecki, 2013). A variety of different characteristics of the political system are posited to affect the supply of trade protectionism, such as politicians incentives to cultivate personal votes, the size of electoral districts, party fragmentation, federalism, presidential versus parliamentary systems, and so on (Nielsen, 2003; Rodrik, 1995; Rogowski, 1987a; Rogowski, 1987b).

On a theoretical level, understanding the choice of trade policies in countries is very important (Puślecki, 2013). A survey of economists in 1984 suggested that one of the few things they agreed on was that, under most conditions, tariffs, and quotas reduce the general welfare (Frey, 1984). The stubbornness of protectionism in the face of international and academic pressure against it has led economists to seek explanations. These explanations range from the simple ignorance of politicians to arguments about the rationality of protection for "infant industries" and "optimal tariff levels" in developing states. Faced with this frustrating question, scholars have increasingly turned to political answers in

order to explain the choice of what would seem to be an “irrational” policy (Frey, 1984; Nau, 1989; Nelson, 1988).

4. Protectionist Pressures in Different Political Systems

It is important to indicate, that the role of trade unions in different political systems may be, to a high degree, different. In authoritarian systems it is, as a rule, smaller than in democratic systems. It would seem that if protectionistic pressure on the part of trade unions is weaker, the situation for economic growth is much better. Following that line of reasoning we could come to conclusion that the authoritarian system is better for the effectiveness of the labour market. The examples of Chile, South Korea, Singapore and Turkey from the seventies and early eighties could confirm that point of view. In many cases during those two decades the authoritarian regimes persecuted trade unions and put restrictions on basic labour rights. During that period of oppression, South Korea, Singapore and Turkey experienced a spectacular growth in the sector of processing industry and in the growth of demand for labour. Growing profits and the demand for labour in a processing industry, caused a general growth of prosperity of the employed. Although similar results were not noted immediately during the authoritarian phase of development in Chile, a number of observers express the opinion that the reforms introduced at that time helped to reorganise Chilean economy in the nineties of XX century. The application of democratic rules, on the other hand, may lead to lower productivity of labour force. In a number of years different democracies had to use significant financial resources for the employment of those who belonged to trade unions like for example in the European Union (Puślecki, 2002).

A different point of view says that government legislation concerning the labour market may be applied more effectively in an authoritarian system than in a democratic one. The authoritarian regimes often make use of individual interests of given circles. In most democratic countries there is no broad enough basis that would allow to use labour market policy for gaining the support from pressure groups, the urbanised labour marked elite included. The major difference between authoritarian and democratic regimes lies in the level of the outside influence. In a well functioning democracy, the outside opinions are also taken into account and there occur some limitations which come from the outside, which restricts the achievements of given groups of interest. In a dictatorship, a government cares only that those groups are not too strong (Puślecki, 2020c).

There is, however, a number of democracies among the industrialised countries where an effective labour market exists. There is also a number of democracies with effective labour market policy among the developing countries. Similarly, in the countries in which the transformation from the authoritarian regime towards a democracy is taking place, avoiding unfavourable phenomena on a labour market is often a priority. For example, the Chilean government moved towards democracy and to free trade unions without home income growth. The

end of oppression in South Korea, in 1987, started the partnership relations in full of conflicts industry (Banerji & Ghanem, 1997).

It is worth considering which of the two points of view presented above should be given support, that is, which of them is the proper one. The analysis of that problem may be based on the Grossman and Helpman model (Grossman & Helpman, 1994). This model describes economic development on the basis of two sectors—urbanised, regulated processing sector, and rural, unregulated agricultural sector. The protection of the labour market, especially of minimum wages, is usually applied in order to bring the benefits for the employees of the regulated sector, since the sector of unregulated employees does not come under the legislation concerning the labour market.

The sector of regulated employees, and also the owners, demands from the government that it leads an economic policy that is favourable to them. The employed demand high minimum wages, while capitalists demand high profits. Both groups demand the restrictions on the degree of economy openness. In a closed economy, higher market minimum wages and higher profits are usually connected with higher prices for home consumers, and this is not easy when those consumers are free to buy the substitutes in form of imported goods. Thus, incomes in an economy may be created by protection and later divided among the employees of the regulated sector and the capitalists, although sometimes the government itself takes a part of those incomes (Banerji & Ghanem, 1997).

A government conducting an economic policy takes into account a number of factors. Firstly, it has to decide the degree of obtaining the resources, that is, how much from those resources it wants to obtain. Hence the importance of investments and of future economic growth, and also of defining the possibilities for keeping the power it is currently holding. Secondly, the government should define the scale of support from each of the pressure groups that can influence the situation. The position and importance of each group for the development of political processes should be considered. For example, in the country where the regulated labour market is divided, and politically weak, only the capitalists may have a deciding voice in political processes. And the contrary also happens in the societies where the labour market is organised, it may play the important role in mobilizing voters (Puślecki, 2002).

How can we recognize the type of power, the type of rule? First of all, we should investigate what level of resources a given government is going to achieve. If an authoritarian government is more or less corrupted than a democratic one, it will be creating the income, to a bigger or lesser degree, through protectionism. It will also appropriate some part of that income. Secondly, a given type of government may remain under the influence of different pressure groups. If an authoritarian government is trying, to some extent, to subordinate special pressure groups including the regulated labour sector, it will be, to some extent, generating incomes through protection and it will be turning over some part of them to those special pressure groups.

5. The Level of Protectionist Pressures

The above arguments show that the policy is defined by political factors (including the type of the government and the burdens resulting from obligations towards employees and capitalists), and by economical factors (wages, prices, the structure of production and consumption). On the basis of the present discussion, we can present two equations, one pertaining to the level of protection, and the second pertaining to the national economy and deformation of wages.

$$1) \pi = f(e, l, k, R).$$

$$2) \varphi = f_1(\pi, e, l, k, R).$$

The level of protection (π) depends on the economic parameters (e), a relative political importance of urbanised employees and capitalists (l and k , respectively), and on the type of the government (R). Deformation of wages is, on the other hand, the function of (π) and of e , l , k and R . In case of a small economy, economic parameters that can influence (π) and φ include flexible consumer and producer prices, demand flexibility, wages and the demand for labor force, and also the price of goods on an international market.

One can expect, a priori, that the growth of π depends on l and k . If interest groups become stronger, the pressure to form incomes based on protectionism may become stronger. The influence of R , that is, the influence of a political authoritarianism on the level of protectionism, that is π depends on the fact whether the opinion, that the level of protectionism depends on the effects of democratisation, is correct. It is also thought that the increase of the deformation of wages depends on π and l , while its decrease depends on k . As long as the incomes are obtained from trade protections, those incomes can be handed over to urbanised employees. An important problem in case of urbanised labour force as an interest group with growing strength is the fact that urbanised employees may gain a big share in the division of incomes but the growth of political importance of the capitalists may cause that the shared incomes, handed over to the labour force in regulated sectors of economy will become smaller (Banerji & Ghanem, 1997).

There is no doubt that it is easier for wealthy rather than poor societies to choose democracy (Helliwel, 1992). Since those wealthier societies at the same time have a tendency to a bigger openness, the direction of cause-result events may run from the openness of society to the political system, and not, as was suggested earlier, in the opposite direction. The research showed also that the level of education plays an important role in this respect. The countries with a higher level of education of labour force are more open (Puślecki, 2002).

On the basis of the earlier considerations, one can come to the conclusion that authoritarian systems have a tendency towards a broader application of protectionism than democratic systems, and that, in turn, the trade restrictions accompany significant deformations of wages on the labour market. This opinion may be justified on the basis of the observations of the situation in a number of countries.

Freedom of association is one of the elements of good management and the

necessary condition for development. The authoritarian governments do not respect, however, the freedom of association, which is connected with the policy of trade restrictions and with the deformations on the labour markets. One cannot state, however, that improper or ineffective policy on the labour market belonged exclusively to authoritarian regimes or that authoritarianism automatically generates this kind of policy. There are a number of examples of authoritarian countries which do not conduct policies of that kind. The works of such authors as Fields or Freeman show that the repressions against the labour force are not necessary, if one wants to achieve a required economic growth (Fields, 1994; Freeman, 1993).

Finally, it should be pointed out that there exists a close relation between democracy and an economic growth (Puślecki, 2020c). There are well known examples of open societies that stimulate the economic growth. This is true mainly in case of highly developed and strongly urbanised countries. In the countries with a developed democracy, the pressure groups have a bigger opportunity for acting. The research shows that the presence of trade unions helps to accelerate the economic reforms (Devarajan, Ghanem, & Thierfelder, 1997). The benefits resulting from liberalisation of the international trade are bigger when the trade unions exist in the sector of the economy under protection. The growth of import abilities leads to the decrease of wage pressures, and when the trade unions agree to that, such a situation allows for a better allocation of labour force in the economy. This is true both in the case of active and passive trade unions, although the effects are better in case of active trade unions (Puślecki, 2020b).

The trade unions active on an urbanised labour market had a significant influence on the decisions of governments, in the course of multilateral trade negotiations within WTO. It was especially evident in the negotiations on lowering customs duties and non-tariff measures in steel, shipbuilding, textile and clothing industries, and in coal mining. In the so-called "sensitive" industries, which, for example, in the European Union were under special trade protection, the position of trade unions was very strong.

6. Food Producers Pressure

The biggest conflicts between the United States and the European Union within WTO (Puślecki, 2003) were caused by agricultural problems also during the Doha Round (Puślecki, 2020c). The governments of the two economic powers were in many times under a very strong pressure of food producers, who had problems with the sale of agricultural products surpluses in the situation of the shrinking world market and lower prices (Puślecki, 2003).

The problem of liberalization of agricultural products trading is linked to the problem of subsidies application. According to the WTO decisions (art. XVI), exports of the agricultural products, as so-called basic goods, can be subsidised, if this fact does not interfere with the economic interests of other participants of the agreement. Actually, subsidising exports of agricultural products may have

many different forms, starting with a direct subsidy, through variable compensatory fees, and finally through various forms of government guarantees and preferential credits. In the ministers declaration we read only about a better discipline among the members of WTO (Puślecki, 2009a).

In an effort to limit the EU budget expense for subsidising agricultural products, it was decided, among other things, that in case of fats, the money will be transferred from the processing sector to the production sector. Instead of compensating the industry for higher costs of purchasing more expensive, local raw materials (the prices paid to the growers of rape or sunflower in the EU are much higher than the world prices), it was decided that subsidies would go directly to farmers, and the size of farms was to be the basis for calculations. At the same time, the Union authorities disclosed that they will be trying to reduce gradually those expenses by reducing guaranteed prices (Puślecki, 2009b).

This reform was the first in which the attempt was made to eliminate the structural surpluses, the surpluses which had been disorganising the EU agricultural market and the international trade for many years. It is worth pointing out here that the direct result of announced changes in the agricultural policy of the EU may not be favourable in the abroad. The simplest form of compensation for farmers is usually the restrictions for the suppliers from abroad. The agricultural lobby in France is especially active in this area. As a result of its activity and the pressure exerted on the government the agricultural goods from abroad have been successfully blocked from the EU market. The position taken by that agricultural lobby influenced also the position of the EU representatives in the debates on the agricultural questions during the multilateral trade negotiations also in the framework of the Doha Round.

In spite of the trade conflicts, most clearly visible in the USA—the EU relations, all the countries participating in the international trade were interested in the successful of the international trade negotiations. The reduction or the elimination of trade restrictions stimulates significantly the growth of the world trade exchange, while the foreign trade, in turn, is an important factor of the economic growth of individual countries.

7. Conflicts between the Tendencies to Sustainable International Trade Liberalisation and Environmental Protection

The tendencies to liberalize the international trade often stand in clear conflict with the protection of the natural environment which, during the intensification of production, found itself in the centre of attention. The process of pollution was one of the negative results of scientific-technological revolution. Many countries introduced special legal regulations in order to protect the environment against pollution. Ecological organisations of different types were established, and also the pressure groups, especially in industrialised countries, interested in the use of trade restrictions by governments for protection of the envi-

ronment.

The pressure groups acting for natural environment protection see the trade policy in two aspects: as the way of improvement the standards of environmental protection in individual countries and over their borders, and as the instrument for persuading those countries to sign the international agreements on environmental protection. The imports restrictions against the producers coming from the countries with low standards of environmental protection may lead to the improvement of production standards by the local companies resulting from fighting with low competitiveness, and from the attempts to compete with foreign firms (Anderson, 1997).

The application, in trade policy, of discriminating means in relation to the environment, which happened in the countries of Western Europe, is in accordance with the article XX of WTO, and it testifies to the fact that trade barriers are used for the protection of the environment. Thus, the activities related to environmental protection are in conflict with the tendencies leading to international trade liberalisation, and with higher investments. From the theoretical point of view, we cannot say that trade liberalisation may help the environmental protection, especially when serious steps have to be taken in order to protect this environment against further degradation (Chichilnisky, 1994; Copland & Taylor, 1995; Corden, 1996). On the other hand, when some government find itself in a difficult situation, the trade reforms will be much more advantageous for that government than the actions in the environmental protection area (Bhagwati & Srinivisan, 1996). That is why the pressure groups connected with the environmental protection are against the international trade liberalization.

The actions of those groups on WTO forum, and their regional activity against the reduction of trade barriers, have three reasons: 1) free trade means the growth of production and income, which, in turn, leads to the degradation of the environment, 2) free trade and growing investments cause the growth of transport activity and encourage companies to transfer the production to the countries with low ecological standards, which from the environmental point of view is wrong, 3) freedom for foreign investments discourage local companies to develop the technologies favourable for environmental protection (Anderson, 1997). The question of reaching some form of an agreement between the problems of international trade liberalisation and the protection of natural environment especially in the context of the sustainable development became an important task for the WTO. The program of WTO activities included:

- the relations between the means used in trade and in environmental protection;
- the relations between multilateral trade systems and the environmental protection means, applied for protection of the environment;
- the influence of the effects of environmental protection on the liberalisation of international trade;
- the relations between the mechanisms leading to compromises within WTO and within the multilateral agreements on environmental protection.

Reaching the effective agreements on the international trade liberalisation and on environmental protection in the light of sustainable development is considered to be both very difficult and very delicate question. The problems of environmental protection have become most important issues. Therefore, it is evident that the international market has to take them into account. In the context of the sustainable development, the key problem is to make a proper choice: is the introduction of restrictions on international trade the best solution, or will the benefits from environmental protection (as applied by a multilateral trade system) be higher than the costs?

It is necessary also to emphasize that if the rules of international trade are clear and if they are perceived to be supportive of important environmental values then their legitimacy will be much greater. Over the long term, public support for the WTO depends on a perception that it is balanced and fair (Esty, 1998). Efforts to address the issues identified above could greatly enhance the WTO's reputation. Competing trade and environmental principles could best be balanced through creation of an interpretive statement that focuses on how the "exceptions" spelled out in Article XX would be implemented, rather than through full-blown renegotiation of the environmental elements of the trading system (Esty, 2000).

Finding ways to address the environmental issues that inescapably arise in the context of deeper economic integration and tendency to the sustainable development must be seen as an important trade policy priority, as a matter of WTO commitment to undergirding the trade regime with sound economic theory, and as a matter of political necessity (Puślecki, 2013a; Puślecki, 2013b). Building a trading system that is more sensitive to pollution control and natural resources management issues is mandated by the growing degree to which these realms intersect with trade and environmental policies mutually reinforcing are also advisable to the extent that the presence of trade rules that internalize externalities will prove to be more economically efficient over time. Institutionalizing the links from the trade regime to environmental actors and other elements of civil society will also pay dividends. A culture of openness within the WTO is likely to generate policies that the public accepts and that therefore become more useful and durable (Esty, 2000).

8. International Economy in the Time of COVID-19

The fact that it has hit China first and hardest makes it something new since China has, in recent decades, become the 'OPEC of industrial intermediate goods'. Manufacturers around the world rely on parts and components made in China—many of them made in the hardest-hit provinces (Puślecki, 2019). While the disease seems to be subsiding in China, the Chinese manufacturing miracle has not yet returned to its miraculous volume of production (Chart 1) (Puślecki, 2020a). Moreover, the virus has hit three other leading members of Factory Asia—Japan, Korea, and Singapore. The virus-related disruptions in these East

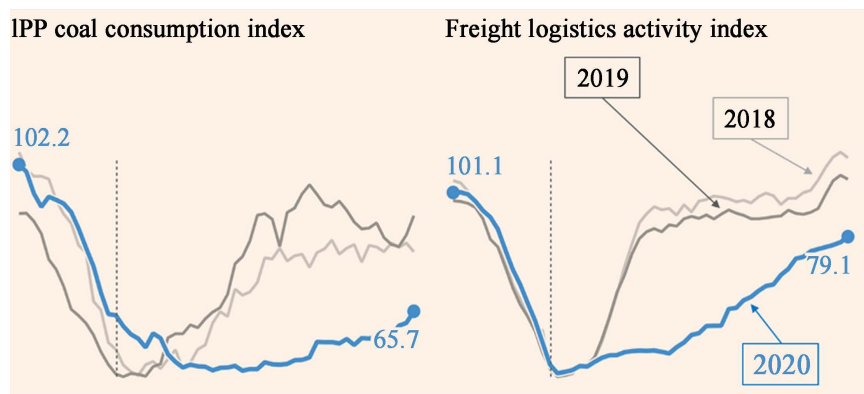
Asian nations alone will cause “supply chain contagion” in virtually all nations’ manufacturing sectors (Baldwin & Weder di Mauro, 2020).

Over half the world’s economy in time of COVID-19 was infected (Chart 2). Table 1, illustrates this point using data from 5 March 2020. The US, China, Japan, Germany, Britain, France, and Italy account for:

- 60% of world supply and demand (GDP).
- 65% of world manufacturing.
- 41% of world manufacturing exports.

To paraphrase an especially apt quip: when these economies sneeze, the rest of the world will catch a cold. These economies—especially China, Korea, Japan, Germany and the US—are also part of global value chains, so their woes will produce “supply-chain contagion” in virtually all nations (Puślecki, 2020d).

Data are already reflecting these supply shocks. The February 2020 (Table 2) read out on China’s key index of factory activity, the Caixin/Markit Manufacturing Purchasing Managers’ Index (PMI), showed its lowest level on record. “China’s manufacturing economy was impacted by the epidemic last month,” said Zhengsheng Zhong, chief economist at CEBM Group. “The supply and demand



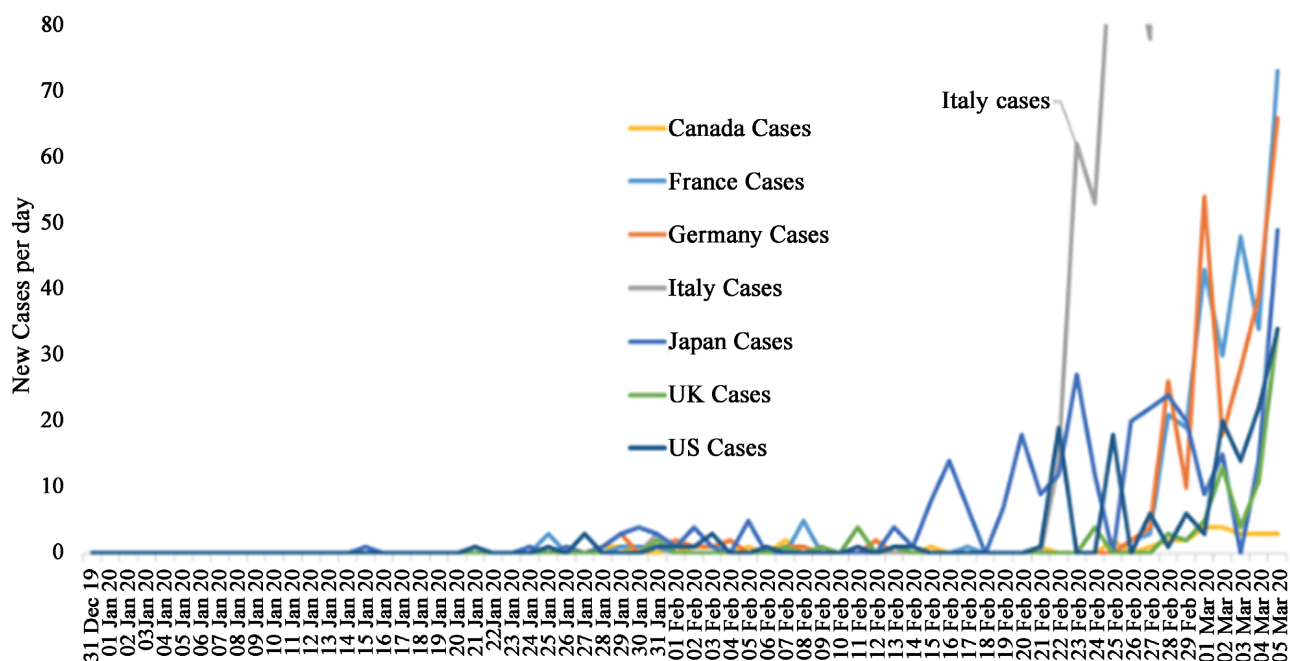
Source: Financial Times COVID tracker.

Chart 1. China’s economy is recovering, but not recovered.

Table 1. New cases of COVID-19 reported per day, 5-6 March 2020.

	06/03/20	05/03/20	Growth in the number of new cases per day
US	74	34	118%
UK	30	34	-12%
Canada	12	3	300%
France	138	73	89%
Germany	138	66	109%
Italy	769	587	31%
Japan	32	49	-35%

Source: R. Baldwin and B. Weder di Mauro, Economics in the Time of COVID-19, a VoxEU.org eBook, CEPR Press (Baldwin & Weder di Mauro, 2020).



Source: ECDC (<https://www.ecdc.europa.eu/en/geographical-distribution-2019-ncov-cases>).

Chart 2. G7 medical shock: COVID-19 epidemiologic curve (new cases per day).

Table 2. Large economies and COVID-19 (updated 29 February 2020).

	GDP	Manufacturing	Exports	Manufactured exports	COVID19 cases	COVID-19 deaths
US	24%	16%	8%	8%	159	11
China	16%	29%	13%	18%	80,410	2,991
Japan	6%	8%	4%	5%	331	6
Germany	5%	6%	8%	10%	262	-
UK	3%	2%	2%	3%	85	-
France	3%	2%	3%	4%	285	4
India	3%	3%	2%	2%	28	-
Italy	2%	2%	3%	3%	3,089	107
Brazil	2%	1%	1%	1%	4	4
Canada	2%	0%	2%	2%	34	-

Source: Baldwin, R and B Weder di Mauro, Economics in the Time of COVID-19, a VoxEU.org eBook, CEPR Press (Baldwin & Weder di Mauro, 2020).

sides both weakened, supply chains became stagnant.” While China’s workforce is gradually returning to work, the Purchasing Managers Indices from across East Asia are showed sharp declines in production, especially in South Korea, Japan, Vietnam, and Taiwan (Baldwin & Weder di Mauro, 2020).

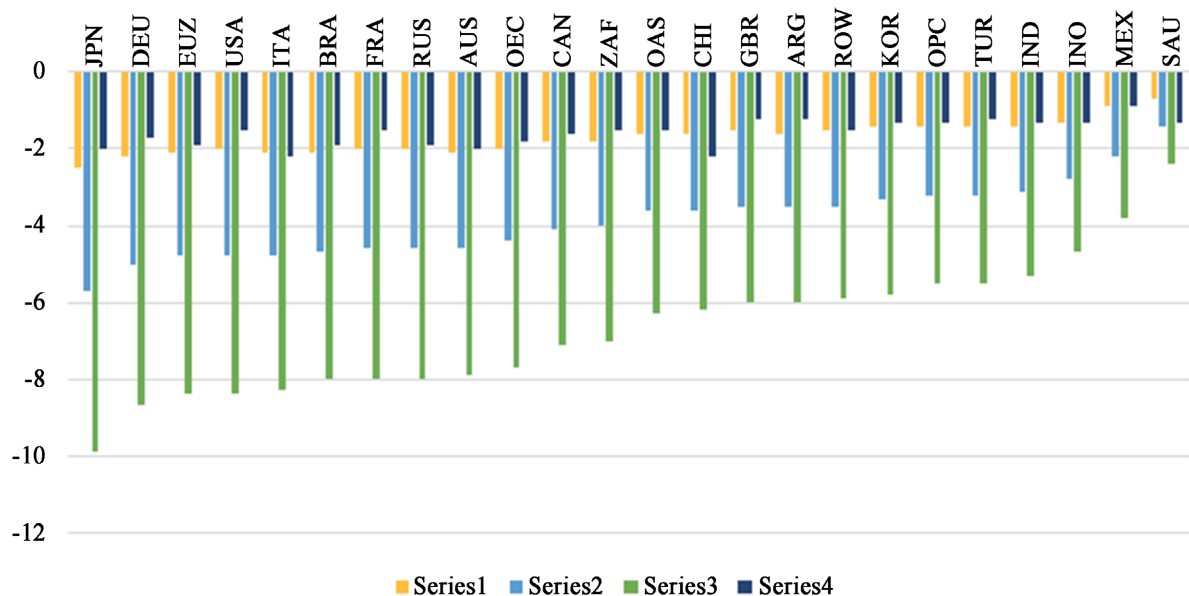
Macro modellers are busy producing estimates of the size of the shock on the world economy. The OECD estimates that a base scenario, in which the outbreak is contained to China and a few other countries, could imply a world

growth slowdown of about 0.5% in 2020. In a downside scenario, where the spread is spread widely over the northern hemisphere, the 2020 world GDP growth would be reduced by 1.5%. Most of the impact is attributed to lower demand, but in this scenario the negative contribution of uncertainty is also significant (Baldwin & Weder di Mauro, 2020).

Mann discusses the possibility that this crisis will be U-shaped rather than V-shaped, as has been the case for similar epidemics and other recent supply shocks (Puślecki, 2021a). Her point is that the linkages discussed will affect different nations differently. It may be a V shape, i.e. short and sharp with full recovery to the old growth path for some sectors and nations, but much more lingering for others (Puślecki, 2021b).

This suggest that in aggregate it could, at least for manufacturing, look more like a U-shape in the global data (Baldwin & Weder di Mauro, 2020). For services, the shock will be hard to recover, from so it may look more like an ‘L’. Growth drops for a while, and while it will resume eventually, there will be no catch up. People who skip a few restaurant meals, cinema outings, and holidays in the sun are unlikely to double-up on dining, movie-going and holidaymaking to catch up. The shock to tourism, transportation services, and domestic activities generally will not be recovered. Mann predicts that domestic services also will bear the brunt of the virus outbreak (Puślecki, 2020a).

McKibbin and Fernando estimate the impact of different degrees of severity of a China-only shock and a global shock (Chart 3). In their most severe scenario (with very high infection rates), the impact on 2020 growth is four time greater



Source: Baldwin, R and B Weder di Mauro, Economics in the Time of COVID-19, a VoxEU.org eBook, CEPR Press (Baldwin & Weder di Mauro, 2020).

Chart 3. GDP loss in 2020, deviation from baseline Estimates by McKibbin and Fernando, S4-S7, global pandemic scenarios.

than in Boone's adverse case. In this scenario, Japan is the country with the highest hit of almost 10% GDP loss, followed by Germany and the US with losses of about 8% each (Baldwin & Weder di Mauro, 2020).

The behaviour of the virus is one thing; governmental reaction is another. As Weder di Mauro puts it: "The size and persistence of the economic damage will depend on how governments handle this sudden close encounter with nature and with fear". On the dark side, it could become an economic crisis of global dimensions and a long-lasting reversal of globalisation. On the bright side, it could be the moment when policymakers manage a common crisis response. They might even manage to rebuild some trust and create a cooperative spirit that helps humanity tackle other common threats like climate change.

One idea of consideration is scaling up the EU Solidarity Fund. The fund was created in 2002 to support EU member states in cases of large disasters, like floods, earthquakes, volcanic eruptions, forest fires, drought and other natural disasters. The fund can be mobilised upon an application from the concerned country provided that the disaster event has a dimension justifying intervention at the European level. In 2018, the EU Solidarity Fund dispensed almost €300 million for relief following natural disasters in Austria, Italy and Romania.

Certainly, the disruptions caused by COVID-19 do amount to a natural disaster. Scaled up, the EU Solidarity Fund could step in to provide relief for affected regions and people and, beyond immediate relief, it would send an important signal (Baldwin & Weder di Mauro, 2020).

9. Concluding Remarks

In the 21st century, bilateral agreements are becoming increasingly important. They already account for over 70% of liberalized trade. The role of the G20 group has clearly increased. Both the WTO and G20 should jointly undertake and coordinate efforts to develop the principles that would promote not only international trade of developed countries but also increase access of developing countries to the global market. The promotion of global trade rules will increase the legitimacy of the G20 group and the reformed global trade system whereas its modified management within the WTO framework, which will take into account the specific interests of individual countries, may contribute to further dynamic development.

Structural and micro-political economy analyses of international business policy in the context of sustainable development have missed the impact of changing ideas about protectionism and relatively unchanging institutions designed to handle domestic producer complaints. The political consensus on the supply of international business policy and protectionism has changed over time. During the economic depression, tariffs revenues and protectionism played important roles in the politics of political parties. At the same time in the market economy even during the economic depression one can observe a little support for liberal foreign trade policy. It is necessary to emphasize that in the

international business policy there are not pure liberalism and pure protectionism. In high economic growth there is a tendency to liberalism in international business policy and in the economic crisis there is a tendency to protectionism.

During the rise of global supply chains the development of various firm models has made it possible to explore the effects of differences in firms on the political economy of trade. It must be underlined that trade opening has two opposing effects on domestic firms within the same industry. First, the cost of exporting decreases, which allows more firms to export and increases the sales of established exporters. Secondly, competition increases, which harms domestic firms. Which of these channels dominates for an individual firm depends on firm characteristics, such as size. As a result, lobbying competition arises not only between sectors but also within sectors in which some firms benefit and some loss due to trade. This effect might especially arise in the context of fixed costs because they rise entry costs and thereby shield existing producers or exporters from competition.

The least and most productive firms during the rise of global supply chains oppose more open trade when it comes to a reduction of NTMs because the competition effect outweighs the sales effect. It is the firms close to the export cut-off, i.e. those that just break even taking into account the costs of exporting, which benefit from trade opening and support it. These results we can use to explain a persistent feature of trade policy, namely the reluctance to accept opening trade in homogeneous goods and during the rise of a global supply chains. The emergence of supply chains exacerbates the issue and might weaken reciprocity in trade negotiations. It must be underline that as the largest firms are engaged in global production networks, they support NTMs to protect their foreign affiliates. The mechanism is similar to the one described above: multinational affiliates have fewer problems to overcome fixed exporting costs compared with less productive competitors.

In the conditions of the rise of global supply chains the large firms promote NTMs not only to reduce domestic competition but also to shield their foreign affiliates from export competition. One implication of the argument is that market access based rules of reciprocity might be insufficient to address the distributional effects of NTMs because reciprocal tariff concessions cannot account for them. Overall, these theoretical studies suggest that while the largest firms benefit from tariff reductions, they may not support the reduction of NTMs that have an effect on fixed costs. Large firms can more easily pay the sunk costs of adapting products to different specifications and benefit afterwards from less competition.

The harmonization of standards and rules on investment, intellectual property and services has become a standard part of new trade bilateral agreements. The differences among firms involved in trade are also important for the future development. The picture that arises from the trade is that even if many firms are indirectly involved in trade-related activities, only relatively few are exporting or

importing and these firms tend to be larger and more productive than others. Such firms also have a role in technology advancement and the diffusion of know-how through supply chains.

It must be underline that if trade during the rise of global supply chains is perceived by a majority of voters as causing unemployment and/or increasing inequality, governments could refrain from pursuing further trade opening and may even be tempted by protectionism. Another possibility would be for governments to use more intensively public policies for protectionist purposes. With regard to trade negotiations, focusing exclusively on the efficiency effect of trade opening may no longer be possible. Distribution and labor-market effects will also need to be considered and accompanying measures may need to be proposed in order to win the support of a majority of voters for open trade by bilateral agreement especially in the conditions of the rise a global supply chains.

Firms compare the cost savings from global supply chains—the difference in wages in low wage countries relative to wages in their home market inclusive of transport costs—with the cost savings from using robots instead of workers in production. The Global Crisis was a total shock to this comparison in cost savings. Global supply chains became more costly when the risk of a nondelivery of an input good increased substantially after the Global Crisis. Firms may have also expected higher tariff rates after the Global Crisis, which shrinks advantage of GVCs as input goods pass the border several times. At the same time, the Global Crisis made robot adoption less costly, with the sharp decline in interest rates relative to wages when central banks started to fight the adverse effect of the crisis. As a result, many firms in rich countries started to reshore production back to their home country and invested in robots instead.

In the wake of the Global Crisis, uncertainty in the world economy led many firms to reassess their business models. Rather than relying on global supply chains, an increasing number of firms invested in robots, which prompted a renaissance of manufacturing in industrialised countries. Changes in the world economy due to COVID-19 make a V-shaped recovery from the coming recession unlikely, more likely is U and in services L. Instead, COVID-19 will accelerate the process begun after the Global Crisis by encouraging firms to re-shore activity back to rich countries.

Economic relations in the 21st century have significantly enlargement, which is due to the common interests. The economic crisis of the world economy breakthrough first and second decade of the 21st century contributed to the stimulus and strengthening mutual relations. This 21st-century initiative is not merely for China to romanticize its historical legacies: it carries major strategic economic and geopolitical calculations. Realistic point is important trends in the trade regime. The commercial relations are too important to become hostage to political grandstanding or airy rhetoric by politicians performing for domestic galleries. Disturbing this relationship would have ramifications for sales, growth and employment especially in the time of COVID-19. Commercial interests in

autocratic regimes cause political dilemmas especially in the time of COVID-19.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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