

THE GROUNDS OF PROTECTIONISM IN INTERNATIONAL TRADE IN THE 21st CENTURY IN THE CONTEXT OF MULTILATERAL TRADE NEGOTIATIONS

Agnieszka Piekutowska

*Faculty of Economics and Finance, University of Białystok
piekutowska@uwb.edu.pl*

ABSTRACT

As the importance of tariffs diminishes, to avoid underestimation, analysis of the dynamics of protectionism implies the use of more complex data. Hence, this research explores the Global Trade Alert database, which covers a wide range of measures used by countries within trade policy. Once the dynamics of protectionism in trade is presented, the analysis of its grounds might be undertaken to answer the question: what are the reasons for high levels of protectionist tendencies in the 21st century? Is this a post-crisis repercussion only? Or is the failure of multilateral negotiations under the auspices of the WTO which, in turn, makes space for increased levels of protectionism? While many analyses highlight the indisputable impact of the crisis on the growing protectionist tendencies in the 21st century, it has been over ten years since the crisis, which requires a search for alternate or additional premises. The hypothesis was therefore adopted that the failure of multilateral negotiations within the Doha Round may make space for increased protectionism in the 21st century. Taking into consideration all of the negative consequences of protectionism, the analysis of its causes has a justification. Successful treatment requires a diagnosis of the sources of the problem; only once these are identified can an appropriate action be undertaken. The main conclusion from the research is that because of the diversification within the WTO, the multilateral liberalization agenda has been limited. Hence, “next generation” issues are addressed elsewhere, like within regional trade agreements, which, as a result, became very popular after 2001. However, RTAs should not be perceived as an alternative to liberalization under the auspices of the WTO, as they are not free from protectionist tendencies.

Keywords: *trade, protectionism, liberalization, WTO, multilateral trade negotiations*

JEL classification: *F13, F14*

1. INTRODUCTION

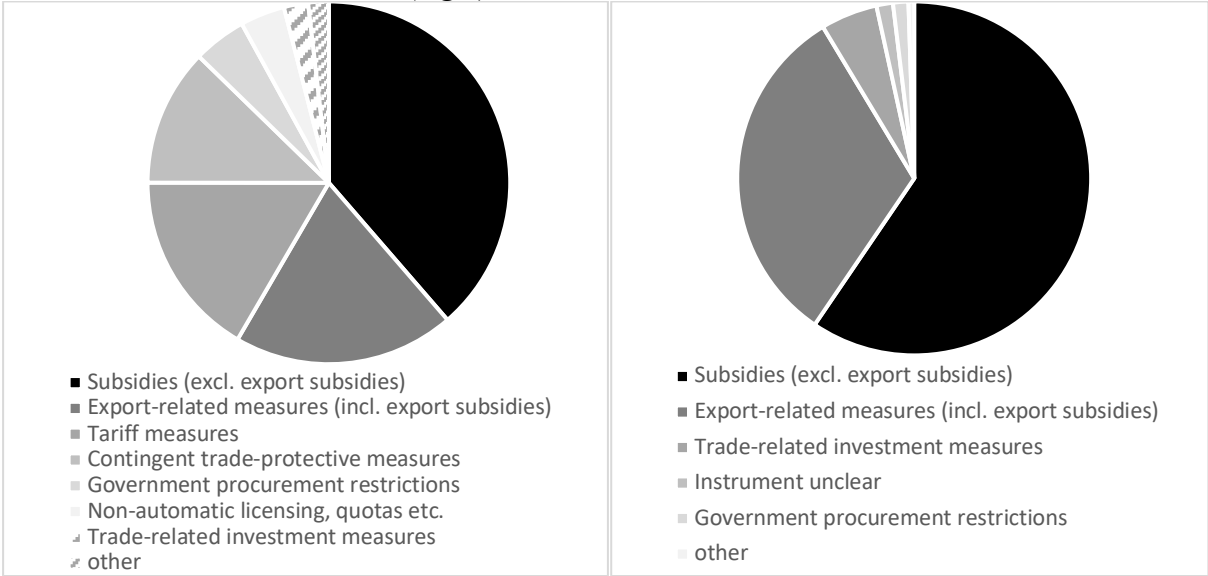
Protectionist tendencies in the 21st century raise the question: what are the reasons for increasing protectionism? Is this a post-crisis repercussion only? Aid packages or public aid have changed the direction of international trade policy set by the WTO for many years; however, in the time of global crises, they seemed to be justified as necessary (Grottel, 2016). Still, ten years after the onset of the crisis, further explanation is needed. The aim of this paper is to consider whether or not the failure of multilateral negotiations under the auspices of the WTO is making space for increased protectionism. The analysis led to the conclusion that rising diversity among WTO member states, which brings with it varying approaches and policy outlooks, impedes multilateral negotiations. This, in turn, encourages some members to engage in regional negotiations that address the multifaceted issues of 21st century international trade. Although there is no premise to conclude that the Doha Round failure directly resulted in an increase in protectionist measures, the diversity among WTO member states had, until this point, resulted in a limited liberalization agenda. RTAs can contribute to rising protectionism both toward non-members and, counterintuitively, within integration groups.

This analysis is based on multi-faceted data that goes beyond the average tariff rate. As countries use more sophisticated measures in protectionism policy, this complex data approach avoids the risk of underestimating the actual degree of protectionism. Thus, statistical analysis was based on Global Trade Alert (launched in 2008), WTO, and IMF data.

2. PROTECTIONISM – SCALE AND DYNAMICS

Many events, data, and information signalled a growing level of protectionism in international trade in the first decade of the 21st century, indicated by increased mentions of protectionism in media news, political statements, declarations, notification, and reports. For instance, the Japanese Ministry of Economy, Trade and Industry uses a Protectionism Indicator that measures coverage of protectionist policies by tracking the share of articles that included "protectionism" or any synonym for the term on *The Washington Post*, *The New York Times*, *Nihon Keizai Shimbun*, *Yomiuri Shimbun*, *Le Monde*, *The Guardian*. This indicator reveals a rise in protectionism ideas and movements. Likewise, the US Monthly Trade Policy Uncertainty Index developed by S. R. Baker, N. Bloom and S. J. Davis (2016) reflects the frequency of articles in national newspapers that discuss policy-related economic uncertainty and contain one or more references to trade policy. As S. R. Baker, N. Bloom and S. J. Davis (2016) explain, newspaper text search can yield useful proxies for economic and policy conditions, which is particularly valuable for earlier eras and in countries with fewer data sources. Indeed, capturing the whole picture of protectionism is challenging, considering that countries use complex measures within their trade policy that go far beyond tariff measures (Figure 1).

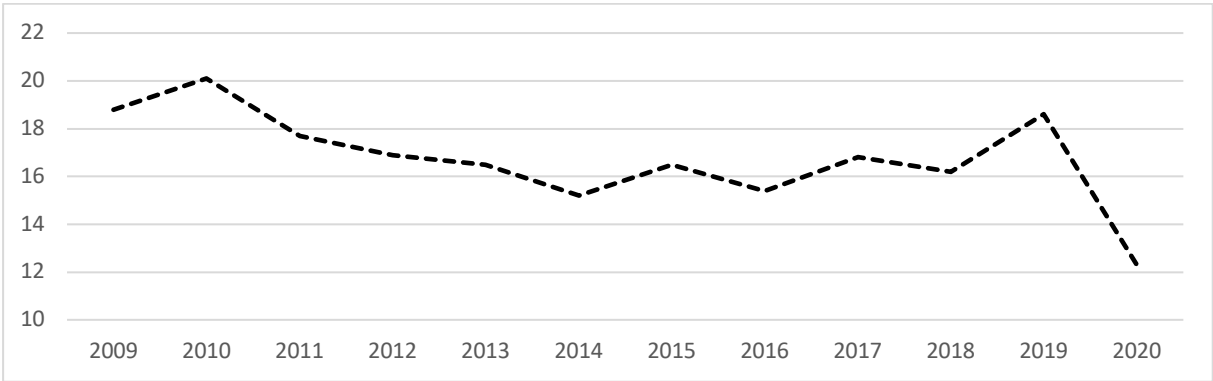
Figure 1: Harmful policy instruments in relation to global trade in goods (left) and services (right) between 2009 and 2020



(Source: Own elaboration based on Global Trade Alert database)

For this period, tariffs were never the most popular protectionist policy measure. With regard to trade in goods, almost 39% of all harmful instruments were subsidies (excluding export subsidies) and another 19.8% were export-related measures (including export subsidies). In relation to trade in services, 66.3% of all harmful instruments were subsidies and export related measures. Between 2009 and 2020 the role of tariffs has been falling - albeit inconsistently - with the share of 18.8% among harmful policy instruments in 2009, and 12.3% in 2020 (Figure 2).

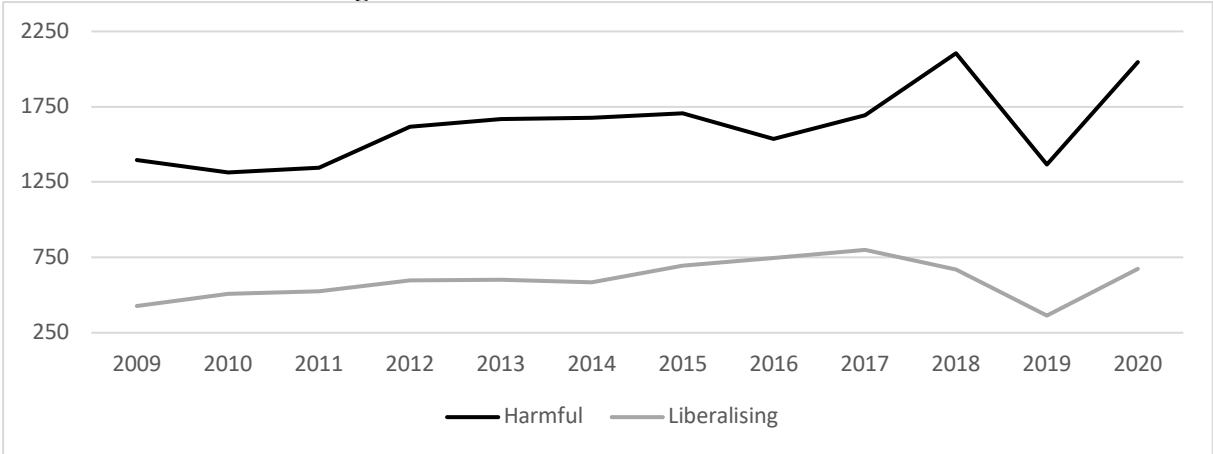
Figure 2: The share of tariffs among harmful policy instruments with regard to trade in goods between 2009 and 2020



(Source: Own elaboration based on Global Trade Alert database)

The decreasing role of tariffs is also reflected by the world average applied tariff. In 2018, it was approximately 9%, a one percentage point reduction from 9.9% in 2008 (WTO, 2019). It follows that an analysis based only on the tariffs risks underestimation when analysing protectionism. Countries use more complex methods and measures as protectionist policies skilfully adapt to the prevailing conditions (Sporek *et al.*, 2019). Thus, to better understand protectionist tendencies, this paper analyses the more complex data provided by Global Trade Alert, an easily understandable database that considers a variety of trade policy instruments. Whether or not an instrument is classified as harmful or liberalizing ‘is one of the attractive features of this initiative’ (Evenett, 2019). The division of harmful and liberalizing interventions gives a broad picture of policy instruments used with respect to international trade of goods and services (Figure 3). Here harmful interventions are defined by all policy interventions that worsened the relative treatment of some foreign commercial interest, while liberalizing interventions are defined by those that would likely improve the relative treatment of foreign commercial interests.

Figure 3: The number of new interventions implemented each year affecting global trade in goods and services between 2009-2020

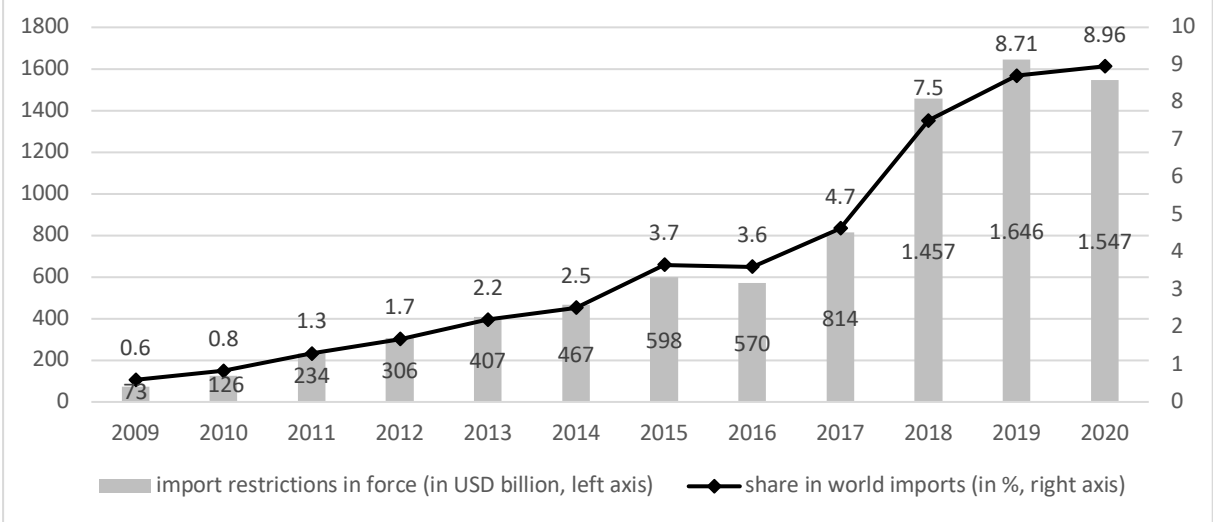


(Source: Own elaboration based on Global Trade Alert database)

Between 2009 and 2020, almost 27,000 policy interventions regarding trade in goods and services were undertaken. Of these, 73% were considered harmful ones, and of this 73%, the majority of them refer to trade in goods. What is striking is the high level of harmful interventions not only during the financial crisis, but also for many years after it. This suggests that protectionism was widely used during the recovery phase of national economies. The last

three years of analysis (2018-2020) show significant volatility: after a fall in protectionism in 2019, the Covid-19 pandemic caused a spike in protectionism in 2020. Notably, import-restrictive measures cover more and more trade – both in terms of values and as a percentage of world imports. In 2019, 8.7% of world imports were affected by import restrictions that were implemented in 2009 and beyond. This was the equivalent to 1.6 trillion USD out of a total of 18.9 trillion USD in world imports. Provisional data for 2020 indicates that almost 9% of world imports were affected by import restrictions that were implemented in 2009 and beyond (Figure 4).

Figure 4: Cumulative trade coverage of import-restrictive measures in force since 2009 to 2020 (USD billions and % of world merchandise imports)



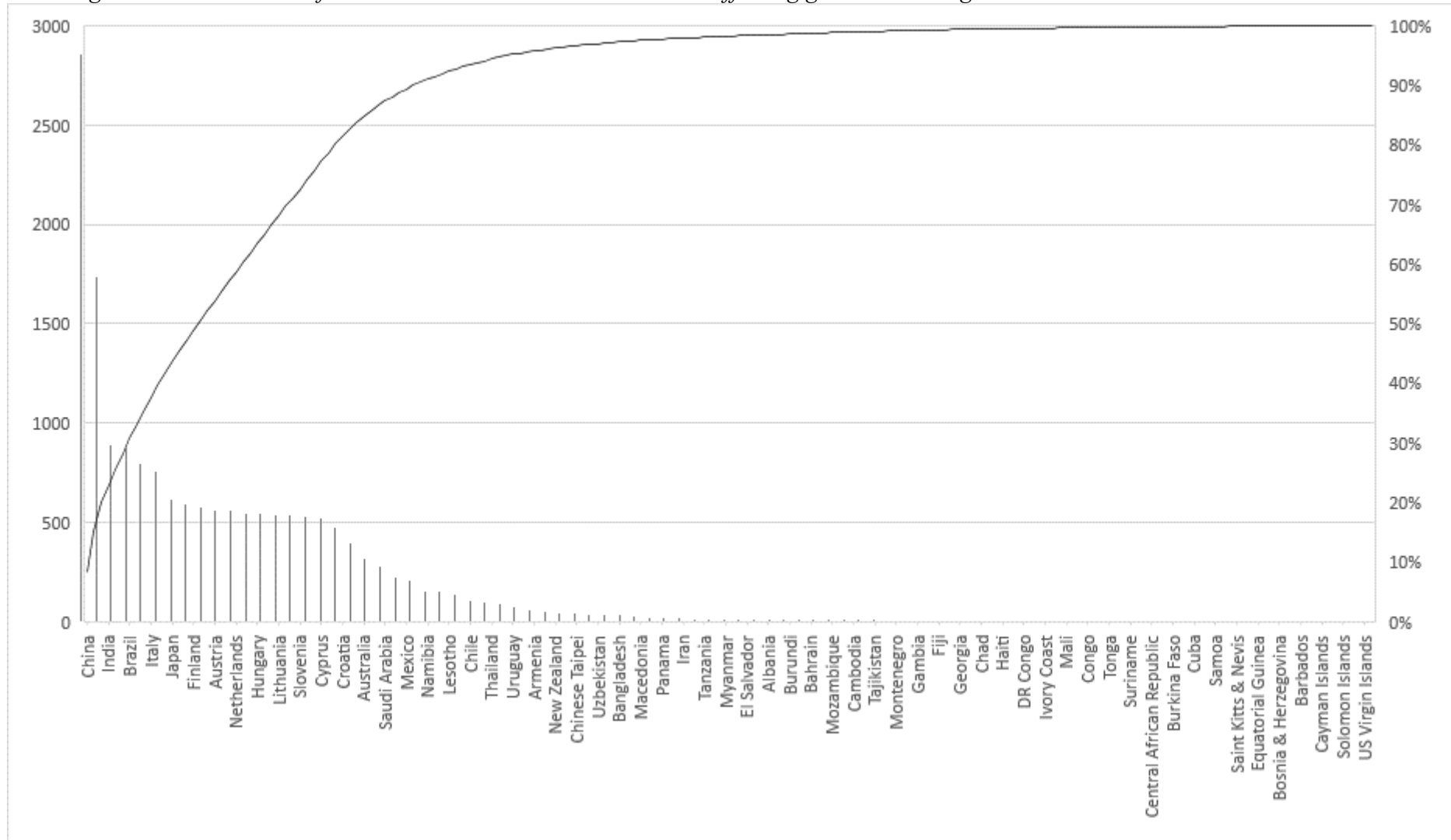
(Source: WTO, 2020, WTO, 2021b)

It is worth noting that the data presented in Figure 4 concerns regular, non-COVID-related measures implemented during 2020; therefore, an increase in the share of import-restrictive measures in world imports shall not be associated with pandemic. Furthermore, a significant increase in import-restrictive measures from 2017 to 2018 can largely be explained by both measures introduced on steel and aluminium and by increases in tariffs introduced as part of bilateral trade tensions (WTO, 2021b).

Indeed, particular countries have different contributions to interventions, and countries were not affected the same way. China is at the top of the list of countries contributing to harmful interventions between 2009 and 2020, while the United States of America and Germany are at the second and third place, respectively. Importantly, protectionist policies are concentrated within a small subset of countries: just 17 countries are responsible for 50% of all harmful interventions and just 30 countries are responsible for 71.1% of all interventions affecting global trade in goods and services (Figure 5).

Conversely, many countries were affected by harmful interventions. China, followed by Germany and the USA, is the most affected country in the world with 7,474 harmful interventions for Chinese trade in goods and services between 2009 and 2020. This is a much broader scope than countries that implemented harmful measures with 50% of measures harming 31 economies and approximately 70% of all measures harming 49 countries. Therefore, many more countries were affected by the harmful instruments that were implemented by far fewer countries.

Figure 5: Pareto Chart of countries contribution to intervention affecting global trade in goods and services between 2009 and 2020



(Source: Own elaboration based on Global Trade Alert database)

3. THE INSTITUTIONAL ASPECT OF LIBERALIZATION, MULTILATERAL NEGOTIATIONS AND DYNAMICS OF DEVELOPING COUNTRIES ROLE

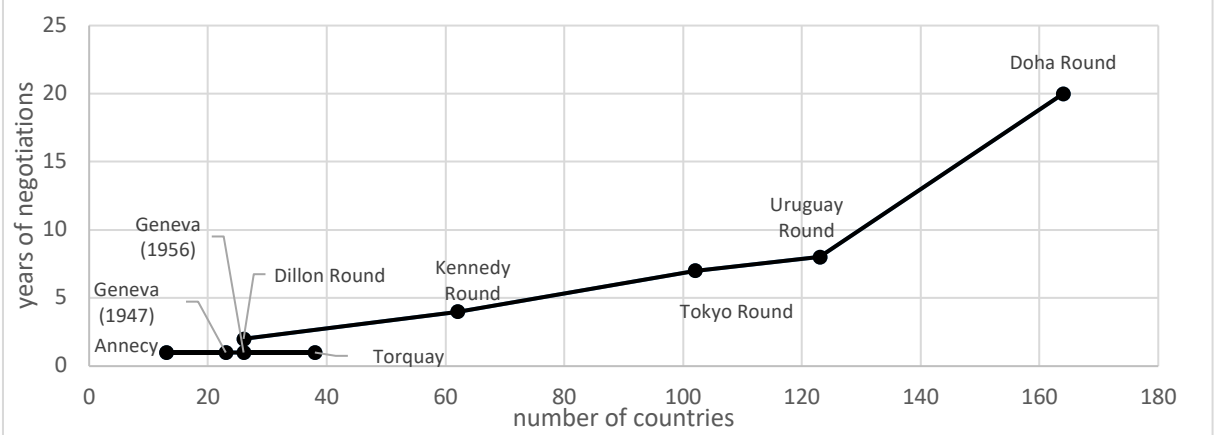
There are many premises for protectionism in international trade (Rynarzewski, 2007), but according to Bhagwati (1988), the forces behind free trade are stronger than the forces of protectionism. Consequently, according to the author, free trade ideology is likely to succeed in the future, but only when the institutions promoting these ideologies work properly. Therefore, an institutional aspect in regulating international trade is necessary. In this framework, many analyses and summaries focus on promoting trade liberalization within the GATT/WTO. Although tariffs have been reduced significantly since launching GATT, “the victory is never total” (Baldwin, 2000). Several barriers, with varying scopes and impacts, remain. However, reflections on the consequences of imperfections in international trade institutions’ role in protectionism are scarce. Therefore, the question arises: are imperfections within the institutional framework of trade liberalization the reason for the increase in protectionism? Notably, it is worth discussing if the failure of multilateral negotiations under the auspices of the WTO is making space for more and more protectionism?

Most countries recognize the importance of negotiations in restraining protectionist pressures (Baldwin, 2004). As a result of the limited agenda of a multilateral negotiation process, the space for liberalizing developments is limited as well. The failure of the WTO Ministerial Conference at Cancún in 2003 resulted in the General Council’s decision that issues of the relationship between trade and investment, competition policy, and transparency in government procurement will not be part of the Work Programme set out in the Ministerial Declaration. Therefore, no negotiations around these topics would take place during the Doha Round.

Still, one success can be mentioned here. In 2017 Trade Facilitation Agreement (TFA) entered into force. According to estimations, full implementation of the TFA could reduce trade costs by an approximately 14.3% and boost global trade by up to \$1 trillion per year (WTO, 2021c). It became clear, that international trade is facing different types of barriers, including also administrative (complicated customs procedures and complex documentation requirements) and informal obstacles. As soon as it was realized that these barriers slow down the trade of goods, it became obvious that additional liberalization should be focused on trade facilitation (Toshevska – Trpchevska, Kikerkova, Makrevska Disoska, 2016).

On one hand, the growing number of WTO members increases the magnitude of the impact of trade liberalization actions. One the other hand, with more and more countries at different development levels and with different goals, multilateral negotiations are more difficult because reaching a compromise requires longer negotiations (Figure 6).

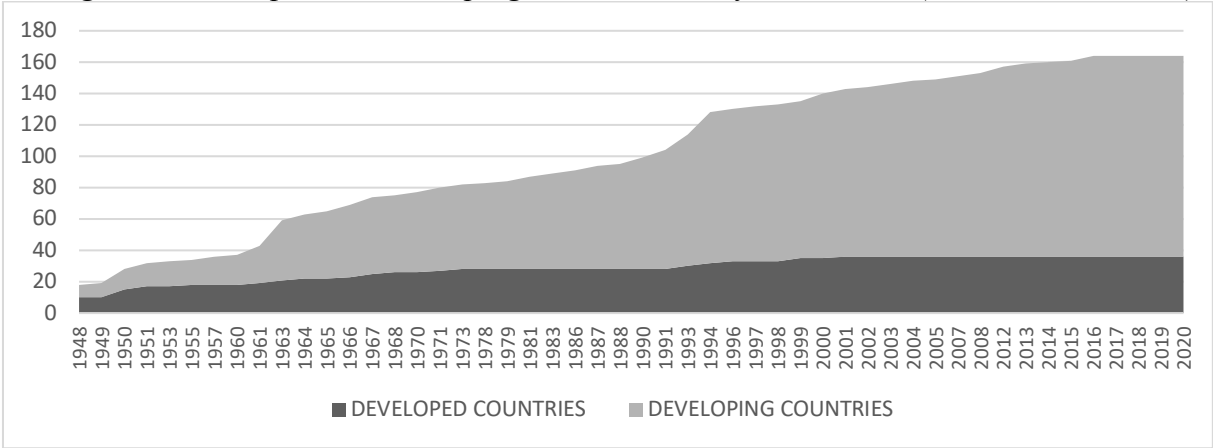
Figure 6: The number of negotiating countries versus years of negotiations under GATT/WTO auspices



(Source: Own elaboration)

Since the first negotiation round in Geneva, the number of negotiating countries and the length of negotiations has increased significantly. However, this is only part of the reason negotiation regarding trade liberalization has become more time-consuming. Another contributing factor is that as the number of GATT/WTO member states increased, the differentiation between these countries increased as well (Figure 7).

Figure 7: Developed and developing member states of GATT/WTO (cumulative numbers)



(Source: Own elaboration)

With the accession of Afghanistan and Liberia to the WTO in July of 2016, developing countries now comprise almost four-fifths of all WTO members. This shows a continued widening of the gap between the number of developed and developing countries that began in the 1960s. When the WTO was founded, developing countries comprised three-fourths of all WTO members. Furthermore, in 2019, developing countries represented 44.4% and 41.8% of world exports and imports, respectively (UNCTAD, 2020). This represented a large increase; in comparison, in 1995, the share of developing countries in export and import was 28% and 29%, respectively.

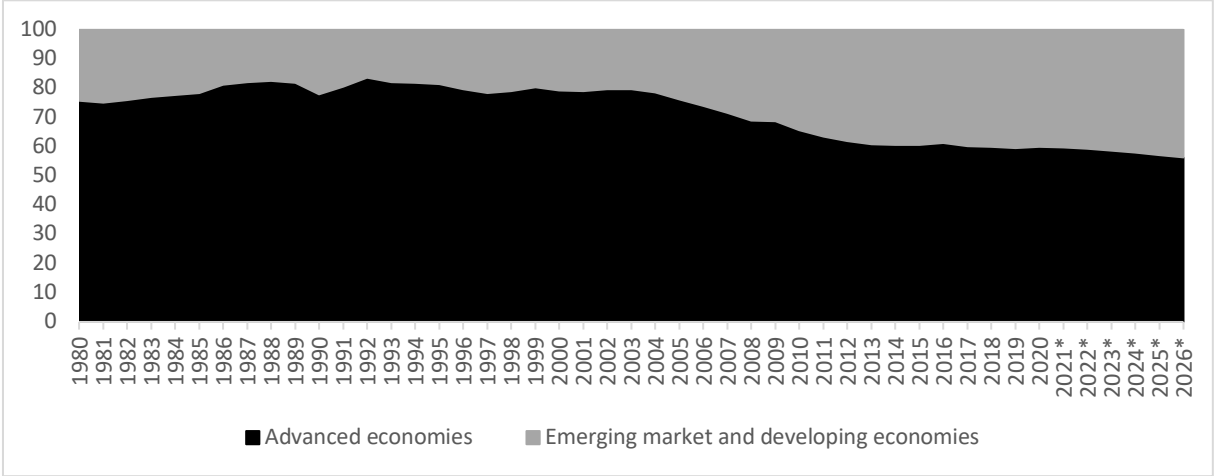
The differing development levels of member states brings challenges: it is argued that the two decades-long negotiations within the Doha Round are symptomatic of diametrically opposed perceptions of the nature of the round between developed and developing countries (Cho, 2010). From the analysis of Dugiel (2008), it follows that one of the main obstacles to progress in the Doha Round negotiations is the dissatisfaction of developing countries with existing WTO provisions and the demand for special status in the world trade system.

The discussion about the diverse perspectives on the process of trade liberalization among developed and developing countries prompts additional reflection about which countries are considered developed versus developing. There are no agreed upon formal definitions of "developed" and "developing" established by the WTO, and countries' varied ideas about self-identifying as "developed" or "developing" is another symptom of the increasingly diverse makeup of the WTO. The status of "developing country" brings some advantages, such as a longer transition period or "special and differential treatment" provisions. Since there are no minimum requirements to be classified as a "developing" country, there are a few striking examples of "developing countries" like Singapore, Hong Kong, United Arab Emirates or Qatar (WTO, 2019b).

The growing diversity of WTO's member states, which contributes to their varied expectations, are some – out of many – factors that explain the inability to conclude trade multilateral trade negotiations. Some reasons include both more emerging economies and more assertive developing country coalitions; additionally, countries' positions and negotiating interests have

changed over time (Bellmann, *et. al.*, 2012). In a couple of decades, the sharp growth of emerging economies has shifted the centre of gravity of economic power. While in 1980 the output of developed economies represented 76% of world GDP, by 2020 the share of output from advanced economies had fallen to 59.8%, and the share of emerging market and developing economies rose to 40.2%. Moreover, the increase in developing countries' share of global GDP is expected to continue to increase (Figure 8). Since the turn of the century, countries such as China, India, Brazil and South Africa have experienced significant economic growth resulting in them striving to maintain their political space within the WTO. At the WTO forum, this meant rejecting the proposals by developed countries regarding, among other things, a strengthening of international investment rules, intellectual property rules and government procurement (Gallagher, 2012).

Figure 8: Share of advanced economies and emerging markets & developing economies in global GDP, in %



*Note: estimates start after 2020

(Source: Own elaboration based on IMF, WEO Database, 2021)

Exceptions to the trend toward liberalization under GATT were present from the outset, the diversity of countries played a role in these exceptions. One exception was that agriculture was not included in the liberalization agenda. For example, the United States, and major developed countries of Europe, perceiving its comparative advantage in agricultural trade, were influenced by strong protectionism lobbies. On the other hand, developing countries protected their manufacturers. The second exception is a compromise regarding the Most-Favoured-Nation Treatment in the context of integration. Exceptions reflected adjustment to the political objectives of powerful GATT members, with the United States broadly sympathizing with European integration. However, omissions (agriculture) and commissions (exceptions to MFN-based multilateralism) were influenced by the political weight of the powers. The special and different treatment of developing countries was grounded in their relative economic insignificance in world trade. Thus, the cost to others of these asymmetric solutions in the process of liberalization was small enough to invite indulgence (Bhagwati, 1988).

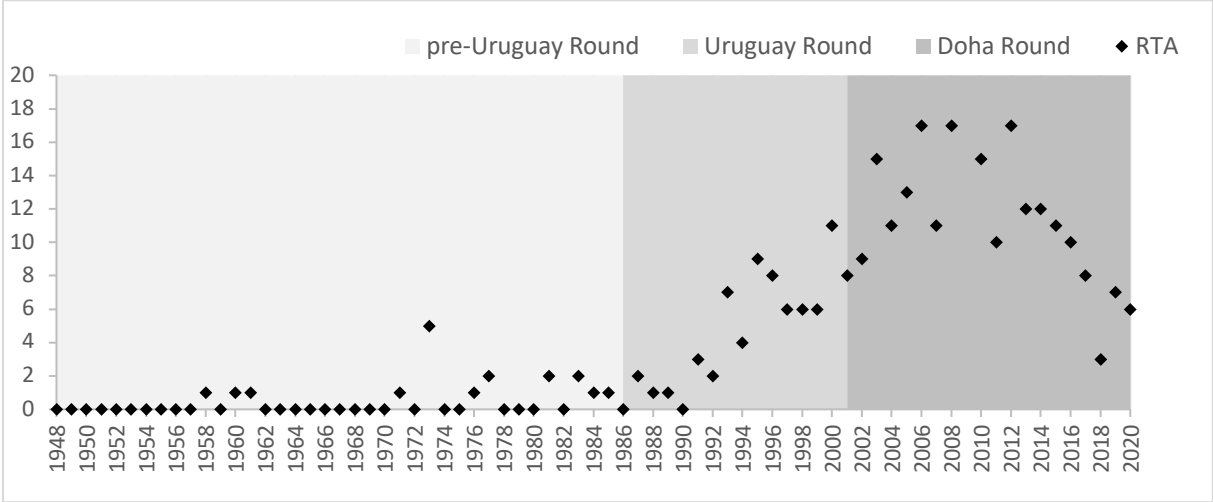
It would seem that free trade theory is widely recognized among participants of international trade. However, the liberal directions of actions in trade policy do not reflect the universality of their application. Such a trivial fact is at the same time strongly symptomatic: none of the world's economies are characterized by purely free trade policy. Many economies started to follow the idea that on a regional level there may be a consensus on the elimination of differentiated restrictions but only to a limited extent (Sporek, *et. al.*, 2019).

4. MULTILATERAL NEGOTIATIONS VERSUS REGIONAL LIBERALIZATION IN THE CONTEXT OF PROTECTIONISM

Some authors argue that WTO members, in light of the failure of multilateral negotiations, treat RTAs as an alternative to the WTO. Some scholars state that the tariffs reduction in the Uruguay Round might have helped in RTAs development by lowering the cost of creating regional agreements (Forere, 2015).

The significant development of RTAs is visible and unquestioned (Figure 9). However, there is uncertainty about the fundamental cause of this increase. Undoubtedly there is more than one cause of the increase in RTAs, and it is difficult to determine which factor has the greatest effect. Nevertheless, the vast majority - 73.5% - of active RTAs was created after 2001. This notable increase in the number of RTAs during the Doha Round is too overt to be considered just a coincidence.

Figure 9: Number of RTAs in force (not cumulative).



(Source: Own elaboration based on WTO, Regional Trade Agreements Database)

However, the rise of RTA’s goes beyond tariff reductions. As the GATT and WTO established a multilateral trade system that has remained largely unchanged since 1995, some WTO members called for new rules that address potential nontariff barriers to trade – including public health, product safety standards, international investment, digital trade and e-commerce. This want is one of the most important drivers for negotiations of new RTAs as in the case of Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP (Bown, 2017). As all “next generation” issues that go beyond those in the WTO’s rulebook are addressed elsewhere (like through regional trade agreements), the real threat, therefore, is the erosion of the WTO’s centrality in the world trade system (Baldwin, 2012). One might recall here the reasons for the failure in creating the International Trade Organization. The Havana Charter went beyond world trade issues and eventually the ratification process ended disastrously. Were issues inserted into the Havana Charter, like fair labour standards or internal taxation, too ambitious then? GATT undoubtedly played a role in the process of trade liberalization after World War II - apparently, the countries were not ready for broader terms then. The same might apply to a WTO – GATT successor. The rise of alternative liberalization forums at regional level potentially threatens the multilateral system. This, in turn, raises the question: is this system relevant enough to address the challenges of 21st century international trade?

The lack of progress in WTO negotiations in the past decades has led to the development of Mega-RTAs, defined here as strong partnerships between countries or regions with a large share of world trade and foreign direct investment (Meléndez-Ortiz, 2014). Since current WTO rules

are seemingly unable to regulate the complex, multi-layered network of global value chains, there is a space for Mega-RTAs which require not only at-the-border liberalization (like free trade in goods, services, and foreign investment), but also beyond-the-border economic reforms (Kimura, Chen, 2016). The emergence of Mega-RTAs is the answer to unsatisfactory negotiation progress in the international forum resulting in countries liberalizing at different speeds. Examples include the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU or Agreement between the EU and Japan for an Economic Partnership.

The development of Mega-RTAs raises concerns not only about the role of the WTO in managing world trade in the 21st century, but also about the risk of rising protectionism. Although exclusion from Mega-RTAs is not in itself enough to assume that countries will readily implement protectionist measures, the risk remains, particularly in places where the influential domestic electorate is hostile to trade. The disappointments with multilateral actions and exclusion from the most crucial parts of world trade may be a basis for antiglobalization lobbies (Dadush, 2014).

On the other hand, some proponents argue that these types of deeper integration agreements could be beneficial since many of the provisions provided are likely to be implemented on a non-discriminatory basis. Furthermore, if these rules are a part of Mega-RTAs that apply to a large amount of global trade, they may serve as templates for global trade rules when and if other WTO members are ready to negotiate them (Elliott, 2019). Some observations reveal, however, that the bilateral trade negotiations often put developing countries in a less advantageous position than multilateral trade negotiations (Stiglitz, 2010).

Moreover, an in-depth analysis by Wandel (2019) focusing on the protectionist potential of recently signed RTAs: CPTPP, USCMA, and CETA leads to the conclusion that all of them are far from the classical liberal ideal of totally free trade and have a high content of back door protectionism. This analysis proves that some agreements' (United States-Mexico-Canada Agreement, USMCA) protectionist provisions might outweigh their liberalizing stipulations, whereas others (CPTPP, CETA) can be deemed net liberalizing. The study of Ghosh and Yamarik (2004) composed of observations of 186 developing and developed countries during 1970, 1975, 1980, 1985, 1990 and 1995, leads to a similar conclusion, as any type of RTA results in a fall of trade outside the bloc of 6%. A study of Magee (2008), which, like previous research, is based on the gravity model, regarding the participation of 133 WTO member states in regional agreements between 1980 and 1998 brought different results: that aggregate trade creation significantly outweighs trade diversion. Additionally, according to the Wajda-Lichy study (2014), in the post-crisis era, protectionist actions were implemented not only towards the third countries, but also among the members of free trade areas like the EU, NAFTA, or BRICS countries. It follows that the net effect of RTAs is peculiar, therefore, one should be sceptical of general conclusions covering all RTAs and case studies are desirable. Still, several studies indicating protectionism within integration groups led to the conclusion that liberalization at the regional level cannot be taken for granted.

As Foroutan states in his 1998 paper 'Does Membership in a Regional Trade Arrangement Make a Country More or Less Protectionist?', RTAs do not necessarily lead to a more liberal import regime (Foroutan, 1998); therefore, regionalization as an alternative to multilateral liberalization process may be questionable. As no regional trade agreement is free of protectionist provisions, either within the group or in relation to non-members, the rise of RTAs, including Mega-RTAs, stemming from the disappointing results of multilateral negotiations within the Doha Round, threaten to raise protectionism. It follows that a progress of multilateral negotiations would be desirable to address the risk of rising protectionism within regional integration as well.

5. CONCLUSION

With the growing diversity of WTO member states resulting in varied expectations, the ability to conclude multilateral trade negotiations falls. These manifold postures already resulted in a limited agenda of multilateral negotiations. As a result, the pace of liberalization developments has been limited. Some countries search for more liberalization that goes far beyond those in the multilateral agenda; yet, “next generation” issues are addressed within regional trade agreements. As presented, there is a high rate of RTA development after 2001. The question is: are these developments, including the emergence of Mega-RTAs, an alternative to multilateral liberalization under the auspices of the WTO? On the one hand, the dimension of liberalization of Mega-RTAs exceeds the multilateral one; on the other hand, case studies reveal their high protectionist potential. It should not be surprising that the increase in the number of RTAs in the 21st century was not accompanied by a decline, but rather an increase in protectionism? Along with these studies, the results of which indicate protectionism of regional economic groups both towards non-members and between member states, the contribution of RTAs in the process of regional liberalization is questioned. Thus, with the limited role of RTAs as an alternative to liberalization under the auspices of WTO, the progress of multilateral negotiations is desirable to address the risk of rising protectionism. Still, further case-studies of particular RTAs are needed as they give insight into the risk of regional protectionism, which should be a matter of global concern.

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