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SPECIAL ISSUE ON TRADE POLICY

ELINA LEPOMÄKI

Let's empower the European way

CHEN LI

China is committed to building an open world economy

PETRI VUORIO

Lessons learnt from the 1930s: Protectionism is not the way to exit from the COVID-19 crisis

STORMY-ANNIKA MILDNER

Protectionism, managed trade, and transactional deals: Trump's 'America First' trade policy

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EXPERT ARTICLES

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ELINA LEPOMÄKI

Let's empower the European way

Expert article • 2699

We are in the midst of a global crisis. The decisions people and governments take in the next few weeks will shape the future of our societies for years to come. Within only a short period of time we make choices that affect people's lives over the next decade. The nature of emergencies is that all of a sudden processes that used to be stuck in bureaucracy start running in leaps.

In the past years, it had become so common to refer to the European Union as a project which evolves through crises. Well, every project is shaped by the obstacles it faces. But it is not as obvious that the choices made will always be for the better.

Hungary has effectively turned into a dictatorship. The evolution of the political system under Fidesz was not healthy in the first place. Under his ten year premiership Viktor Orban has centralised power to his party at every possible junction. In the end of March he passed a law which suspends elections and effectively ends the freedom of press. There is no sunset clause on his new supremacy. It is an anathema to anything the EU stands for.

This is the situation where the EU can claim back its power, being the lighthouse of individual freedom. Instead of turning its back against the Hungarian people, the EU should ban the government from joint decision making and close access to all EU funds. Indeed, the EU should even consider sanctions against Orban. At the same time, it should use all its power possible to grant Hungarian people the same human rights available to EU citizens. Also in protesting against its own government.

> We are in the midst of a global crisis. The decisions people and governments take in the next few weeks will shape the future of our societies for years to come.

Many countries have claimed the European response to the coronavirus crisis being too weak or lacking solidarity. Instead of insisting on Eurobonds, these people should take a look at the Luftwaffe flying patients cross-border to Germany for care. This is what the EU should be about. Reaching out to people, more than and even rather to their governments. At the same time, the European Central bank has stepped in with a massive programme to help sovereigns in their growing funding needs. Thus far there have been no restrictions to market access to any crisis-struck countries. Even Italy has been able to access funds with an affordable yield. We are in this together.

We are in the driving seat now in forming the EU's future. This should be the time of empowering citizens. Knowledge is power, it has always been. These days even dictatorships fail to contain the vast amount of information available to its citizens over the world wide web. For some reason, in the case of an emergency, many are trying to do the same. Even if Western countries are luckily not going the censorship way, many governments still have failed to inform the public accurately, openly and timely of the measures taken and especially of the knowledge base behind those measures. It should be very much the opposite.

The severity of the corona crisis took most of our governments by surprise. It should not be a point of shame but rather an impetus to learning. Instead of embarking onto a process of pepping up preparedness for next time, we should be reshaping the process as we move along in the current crisis.

There is no choice between appeasing public opinion or providing (too much) information. There is almost no such thing as too much information. If it's not the officials disclosing their strategies, people and media will speculate and find out. That lies within the nature of an open society.

In my home country Finland, before more drastic measures were taken to contain the virus, there was a wide-spread discontent with the information handed out by the Institute for health and welfare, whose strategy the government was basing its response on. The research published by Imperial College London before and at the outbreak of the coronavirus in most of Europe had a remarkable impact on the opinion of the informed what comes to the government response to containing the virus. In many countries the government strategy changed, not least due to public pressure.

We should not turn nationalistic in a situation which easily could be mistaken for a natural response to "too much globalisation". Yes, too many companies had placed too much of their production not just overseas but into one location: China. When those value chains broke down, those companies at the other end of the world had to tell their clients they couldn't deliver. That's not a failure of globalisation, though. That is a lack of diversification.

As we speak, China and most of Asia is recovering from their coronavirus epidemics and showing, just like Trump had demanded from his economy, that they are open for business. The beauty of globalisation is just that when European countries are closing their doors, we can still buy supplies from the rest of Europe and the world. Imagine we were bound to only domestic produce and our own economy would shut down for three months. For this purpose alone, cross-border trade is ever so important. For the exact same reason we should be very focused on the economic recovery during and after the crisis. It has never been as obvious: Europe needs structural reform to be able to cope in the future economic scenery.

When we emerge from the crisis, the world will look very different from just a meager few weeks ago. There is a significant power shift going on. If we in Europe fail to deliver, we will - by a giant leap - be more exposed to the decisions and more importantly, values chosen elsewhere. Instead, we should grasp this unfortunate crisis as an opportunity to envision and enhance the European way. Individual liberties, privacy, freedom of trade and expression, justice and the European welfare state. Let's make it a winning recipe. ■

ELINA LEPOMÄKI
Member of Parliament
National Coalition Party
Finland

CHEN LI

China is committed to building an open world economy

Expert article • 2700

In January this year, China and the United States reached the phase-one economic and trade agreement, representing an important step towards resolving China-US trade friction. The agreement not only serves the interests of the two countries and their peoples, but also has strengthened the confidence of the market, stabilized market expectations, and created a good environment for business activities, especially when the global economy is currently under downward pressures.

Economic globalization is a historical trend that no one can stop. The free flow of goods and factors through globalization has created huge wealth for the world. David Ricardo rightly pointed out that trading each others comparative advantages would increase welfare for all, and China's experience in economic reform and opening up has been a solid proof. Trade protectionism and unilateralism will only disrupt the global industrial and supply chain, bring disorder to the world economic and trade system, negatively affect businesses and people's well-being, and lead the global economy into a recession trap. Great depression in the 1930s has shown that the trade war could have the most dire consequences. In the 21st century, the ideas of unilateralism, protectionism and decoupling draw a very frightening picture and will be extremely harmful if put into practice. Every member of the international community should resist those ideas and defend the multilateral trading system and the economic globalization.

> In January this year, China and the United States reached the phase-one economic and trade agreement, representing an important step towards resolving China-US trade friction.

China is a staunch defender of globalization and free trade. Our philosophy is to be open and inclusive, and to seek win-win outcome through mutual beneficial cooperation.

Over the past year, China successfully hosted the second Belt and Road Forum for International Cooperation. 283 new cooperation agreements were reached during the Forum. Until now, a number of economic and trade cooperation zones have been set up in countries along the BRI routes. They have attracted $35 billion of investment from Chinese companies, paid more than $3 billion in tax to host countries and created 320,000 jobs for the local communities. After six years since it was launched, BRI has become the largest platform for international cooperation and most popular public goods in the world.

The second China International Import Expo (CIIE) attracted an impressive gathering of 181 countries, regions and international organizations, more than 3,800 exhibitors and over 500,000 buyers from home and abroad. Business deals worth more than US$71 billion were concluded, up by 23% from previous year. Finland has participated for two consecutive years, and achieved very positive results. Finnish products and services have won large number of Chinese admirers.

China has an enormous market of nearly 1.4 billion people. Domestic consumer demand for quality goods and services has been growing at a fast speed. The new Foreign Investment Law and its implementing regulations took effect on January 1st this year. This law further broadens market access for foreign investment, enhances protection of IPR and opens up the financial sector further. It will benefit firms in such sectors as securities, futures, fund and life insurance. I am quite sure that foreign investors will find more business opportunities in China.

It is true the COVID-19 pandemic has brought a negative effect on Chinese economy as well as world economy, yet I believe its impact on Chinese economy will be short-term and temporary. It will not change the fundamentals of Chinese economy, which is highly resilient and has enormous potential for growth. China will beat the virus, and has the capability and confidence to minimize the economic impact of the epidemic. From another point of view, the pandemic demonstrated the necessity for international community to come together in fighting the virus and to restore economic growth. We are all in this. All human beings share a common destiny, where either we enjoy prosperity together or we suffer the pain together in this globalized world. Certainly I hope for the common prosperity.

The year 2020 is a milestone for China's development. In this year, China will achieve its first centenary goal, that is to eliminate absolute poverty and complete the building of a moderately prosperous society in all aspects. 2020 is also the 70th anniversary of the establishment of diplomatic relations between China and Finland, and the 45th anniversary of the establishment of diplomatic relations between China and the EU. All these provides unique opportunities. China is willing to work together with Finland and other EU countries to strengthen cooperation, and work together to maintain an open and inclusive world economic and trade structure, continue to inject "positive energy" into economic globalization and trade liberalization, and share these development opportunities with our partners. ■

CHEN LI
Chinese Ambassador to Finland

VANI RAO

India can build tech-partnerships with Finland and Estonia

Expert article • 2701

India, home to one sixth of humanity, is relying on technology as it leap frogs to achieve sustainable development goals while meeting the aspirations of 1.3 billion with average age of 28 years and a growing middle class. Sanitation, clean water, affordable housing, public healthcare and skill development are priority areas. With rapid urbanization, India is keen to ensure quality of life and governance in cities and towns. Startup India is powering disruptive innovation and entrepreneurship of the youth. Reforms in the financial sector are enabling bank accounts for the marginalized; digital and mobile payments; and a unified taxation system.

Given India's transformational agenda, there are many opportunities for Finland and Estonia. Both countries have economies based on technology and innovation, successful startup ecosystems and have the ability to adopt new technologies. Finland excels in the telecom sector, AI, ed-tech, gaming, vocational education, and clean tech. Estonia punches beyond its weight with its expertise in cyber security and e-governance. Both countries are well integrated with the EU, and rely primarily on European markets. With ageing populations, both are looking beyond Europe for mobility of skilled manpower.

Some sectoral opportunities for collaboration with India are:

Healthcare: India launched in 2019, Ayushman Bharat, the world' largest public healthcare programme. Its growing healthcare industry shows trends such as affordable diagnostics; using AI for health records; mobile & wearable devices; remote health care; telemedicine through PPPs; automation; and robotics surgeries. India has thriving biotech and pharma industries; abundant STEM talent and has streamlined clinical trials. Finland and Estonia with their capabilities in biotech and healthcare, e-prescriptions and digital healthcare records, can forge partnerships with Indian healthcare providers.

Clean-technologies: In India, renewable energy, energy efficiency, and clean water and waste management are priority areas. With one of the world's largest clean-energy expansion programs, India is committed to 175 GW from renewables by 2022 with 100% FDI; and tax breaks for mega-manufacturing plants for solar cells, lithium storage batteries, electric vehicles and charging infrastructure. Finland and Estonia can offer products and technologies for generation, distribution and storage of clean energy, emission reduction, energy efficiency, and all related to EVs. Asia's biggest bio-refinery plant under construction at Numaligarh (Assam, India) as an Indo-Finnish JV is an indication of biofuel opportunities.

Education: By 2025 India aspires to earn 25% of GDP from manufacturing, by imparting skills to 400 youth to power 'Make in India'. As India's education ecosystem is revamping, Finnish vocational education schools can help upscale skilling as per global standards. India's online learning and games market is expected to grow up to 38% in next 2-4 years (IBEF Dec, 2019). As Indian youth signup for online courses and platforms to prepare for academic tests and obtain job-related skills, edtech companies can localize in partnership with Indian players to find a lucrative market. Other areas are e-learning, distance learning, Joint Degree Programs with foreign Universities and short-term exchanges of students.

Information Technology and cyber security: India is a leading provider of technology and associated services with 55 % share of global services sourcing market in 2017–18. Indian IT companies have more than 1,000 global delivery centres and 75 % of world's digital talent is in India. The country is transitioning to a digital economy with projects to enable better governance, transparency and accountability. With E-commerce booming, cloud and cognitive technologies have enhanced. To counter cyber-attacks, stringent regulatory frameworks and enhanced cyber security are in the works. As India's cybersecurity market would amount to US$3.05 billion by 2022 (PwC & Data Security Council of India, Dec 2019), Finnish and Estonian cyber security companies can find clients in India's banking and financial services industry; IT& IT-enabled services; and the Government. India's IT business chamber NASSCOM can be a nodal organization.

How can these opportunities be tapped: Current volumes of India's trade and investment with Finland & Estonia are well below potential. In recent years there is enhanced awareness of each other's strengths and capabilities. There is considerable merit in expanding interaction beyond conventional goods and services. Finnish and Estonian companies with cutting edge technologies can solve specific business issues of Indian companies. Indian tech companies have the reach and access to global clients. With these synergies, companies from both sides can market and evangelize adoption across verticals. Mutually beneficial tie-ups could range from strategic investments, acquisitions, co-creation, co-R&D, and capacity augmentation. Localization and manufacturing in India would ensure commitment to quality and cost-effective pricing, to cater to one of the largest emerging global markets.

Business delegations from Finland and Estonia can visit India to explore the market, and build partnerships. Similarly Indian business chambers can develop strategies for Nordic-Baltic countries and engage frequently with these markets. Indian companies, investors and VCs can explore opportunities in Finland and Estonia by attending events such as Slush, Arctic 15, Latitude 59, Dare to Learn etc. Incubators from India can exchange startups with these countries for co-development of products and technologies. The opportunities are obvious - concerted efforts are required to build partnerships based on technology and innovation. ■

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EIJA ROTINEN

Stable and prosperous Chile in turmoil

Expert article • 2702

Chile feels like the mentally closest Latin American country from the Finnish or Nordic point of view. It is the second least corrupt Latin American country with a business friendly policy. Chile is very dependent on foreign trade and thus very free trade oriented. It has numerous free-trade agreements with different partners. Chile has been generally characterized by responsible macroeconomic policies and sound fiscal management. It attracts more foreign investment than other Pacific Alliance countries. It is also known as a good starting point for foreign companies when coming to Latin America. It is the first South American country with which the EU made an association agreement in 2002. At the moment, the EU and Chile are negotiating on the updating of the agreement.

Since 2010 an OECD member country, Chile has ambitious development goals regarding modernization of the country. It also has good results to show of its policies on poverty reduction and economic growth during the past 30 years of democracy. Irrespective of the political affiliations of its governments, Chile has kept its investment climate positive and predictable. From the foreign investor's perspective, there are some challenges in the Chilean society, e.g. ineffective and onerous bureaucracy and restrictive labour legislation. Some sectors are also relatively strictly protected against foreign competition. Among the challenges Chile faces are low export diversification, dependence on commodity prices especially that of copper and low productivity. Chile is highly vulnerable to climate change and drought has proved to be a serious threat to Chilean agriculture, one of the most important export sectors. Chile has during recent years developed ambitious programmes to reduce carbon dioxide emissions. It has a huge potential of solar and wind energy.

Chile's reputation as the most stable Latin American country has suffered a blow since the social upheaval that started in October 2019. The most visible setbacks were the cancellations of the UN climate change conference (COP25) and APEC summit that Chile was going to host at the end of 2019. Statistics show that Chile is a country with increasing polarization. For outsiders it was obvious, but for the Chilean political and economic elite its depth seems to have come as a surprise. What has shocked many in Chile has been the violence that is happening in the otherwise peaceful demonstrations. In addition, both national and international observers have reported a relatively large number of human rights violations committed by security forces.

The roots of the demonstrations are in the low quality of and difficult access to public services – especially education, health and child protection - in a country whose decision-makers strongly believe in private sector and its role in all parts of society. Also criticized were the privileges of the ruling class, impunity or mild sanctions of white-collar crime and the privatized pension system, which results in very low pensions for many. Incomplete competition in the Chilean market is one cause for the very high living costs compared to the wages of most Chileans.

According to the demonstrators, their demands can never truly be answered without a completely new constitution. The present constitution stems from the military regime in 1980. Some sections have been reformed during democracy but the basic ideology of the public sector's minor role in society is still there. This – say the protesters – makes it impossible to guarantee basic social, economic and cultural rights for the people of Chile. Most political parties have agreed on organizing a plebiscite on the need to enact a completely new constitution. The most conservative politicians oppose it, some of them being afraid of seeing a populist leftist tendency like seen in Venezuela or Cuba gaining ground.

The resilience of the Chilean society against natural catastrophes is quite strong and the country is relatively well prepared, but the present covid-19 pandemia will test it for real. The vulnerabilities of the society can clearly be seen already at the early stages of the crisis. Low level of education, challenges of health sector, lack of efficient and comprehensive internet connections and bureaucratic ways regarding the deceleration of the epidemic are some of the most visible challenges facing Chile these days. Economically the country is perhaps in its worst condition to face the covid-19 crisis after months of social unrest. However, political parties have seemed to find common ground more easily during this crisis than before. Only time will tell if and how this opportunity will be used to modernize the society and make it more equal to all the citizens. ■

EIJA ROTINEN
Ambassador of Finland to the Republic of Chile

JASON TOLLAND

A modest economic proposal: One Canadian's take on trade relations

Expert article • 2703

Much of the post-WWII period has seen the establishment of what we commonly refer to as the "rules-based international order". Both Canada and Finland, and the European Union as a whole, have championed this order, one that (for all of its warts) has been the foundation on which the enormous wealth gains of recent decades have been built. Recently, some have pointed to cracks in that foundation, or argued that it must change. And then came the COVID-19 pandemic.

It is difficult to consider trade policy now without referring to the remarkable circumstances of the current crisis that pandemic has created. Yet it is equally important to consider our policy response in the light of what economists call the long run. Anyone with a modest awareness of economic history will recognize that devastating events like COVID-19 have happened before. And our communities have continued to trade, and continued to gain from that trade.

Canada, as Finland, is an open, trade-exposed economy, and has relied on the General Agreement on Tariffs and Trade and successor World Trade Organization's (WTO) rulebook to support unprecedented economic growth. As our societies and markets have become more complex, so has our need for new rules to support our interconnected world. This has led Canada to create a network of bilateral and regional economic agreements, of which the Canada-EU Trade and Economic Agreement (CETA) is one.

However, these are not zero-sum trade agreements. They form the fabric of mutual trust and benefit that underpins the modern economy, the "global household", and exist as part of a larger framework that includes our commitment to human development, to environmental protection, and to global peace and security. For Canada, trade is a crucial enabler of our citizens' welfare, and it is increasingly clear that this welfare flows from trade agreements that support small businesses, and that preserve labour and social rights, environmental protections, and gender equality.

It took years for the WTO's legal framework, the *Dispute Settlement Understanding*, to produce a significant body of decisions enforcing trade rules and a framework for an agreement like the CETA, but that framework has proven itself to be one of the most successful international legal frameworks ever devised. Its functioning is not independent of an agreement like the CETA, but complementary.

Even before the pandemic, the challenges were there, not least the incapacity of the WTO Appellate Body to operate. Canada has been active through many years of diplomacy to strengthen the WTO dispute settlement system; in fact, many of the CETA's innovations come from the collaboration of Canada and the EU as part of this strengthening exercise. It led to the creation of the Ottawa Group, with Canada, the EU and others working to preserve a rules-based settlement system until the full functions of the WTO Appellate Body can be restored. CETA is an example for a modernized global trading system.

However, COVID-19 has infected that system, and it is imperative that the policy response does not cause more damage to the patient.

To that end, on April 14, Canada's Foreign Minister François-Philippe Champagne and EU High Representative Josep Borrell Fontelles committed to protect the flow of critical medical supplies across borders. This is a recognition of just how important it is to maintain supply chains to facilitate the flow of essential goods during a crisis. It is also a redoubling of our commitment a transparent, rules-based trading system more generally, as a means to expedite the economic recovery that will follow. This is echoed by the commitments of the Finnish government in support of the rules-based international order.

As WTO Director-General Roberto Azevêdo recently noted, it is crucial that we maintain open economies that work together, so that trade outcomes can support the highest-welfare outcomes after the crisis. There is an obvious, near-term impact, but this will pass. So we must make policy choices, like with the CETA and the WTO Agreement before it, which support strong economic outcomes.

If the ongoing pandemic teaches us anything about trade, it is how interconnected our economic world is, and how important and vulnerable these interconnections are. And the one thing that the current crisis will not change is the importance of trust in trading relationships. It will not change the fact that we, all of us, benefit from the rules-based international order, because we help shape it.

There may be supply-chain restructuring, a rebalancing of production, or an effort to reduce vulnerability to shortages of essential goods. Our collective challenge – trade, diplomatic and political – is to ensure that these shifts further reduce the social and economic inequalities that led to the creation of CETA's progressive trade model in the first place. And as Canada's Ambassador to Finland, I am heartened to report that both Canada and Finland are rising to that challenge. ■

JASON TOLLAND
Ambassador
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FACUNDO VILA

Mercosur and the European Union

Expert article • 2704

Background

In 1991, Uruguay, Paraguay, Brazil and Argentina signed the Treaty of Asunción (TA), laying the groundwork for the most ambitious trade agreement ever in the economic history of Latin America (LA).

Interestingly enough, the TA had far more reaching objectives then mere trade creation, although this was one of the main justifications for the tariff reductions and the elimination of trade barriers, in a way unseen before in the context of the preexisting regional agreements.

Up until the signature of the TA the regional politics were basically driven on the basis of reciprocal mistrust and sometimes even potential military conflicts, arising mostly from border disputes.

Actually this very reason, the idea of eliminating once and for all any political or military conflicts in the region was one of the many lessons that Mercosur countries drew from the European Union (EU) history, given that the Treaty of Rome (TR) ultimately led to the longest peace period in the history of the old continent.

In this same line of reasoning, and in order to make a long story short, the founders of Mercosur thought of the TA as a way to reach further integration not only on the economic domain but also in other areas, once again in a fairly similar way the EU has been doing since the signing of the TR.

Treaty of Asuncion

From a specific economic perspective, the TA and all its related specific agreements has been, al least on paper, the most comprehensive trade and economic agreement in the history of LA, covering not just all economic sectors (with some temporary sectorial exceptions, as it is customary in these processes) but also a wide range of disciplines in areas such as unfair competition, safeguards, dispute settlement, services, etc.

In this respect, even those sensitive sectors that some countries excluded temporarily, like the automotive industry in the case of Argentina, were subjected to a negotiated scheme of increased quotas.

The idea was to improve trade creation in scale and diversity, in a way that was fully consistent with international rules and the WTO commitments of Mercosur countries (WTO corresponding lists of concessions).

Mercosur Trade Dynamics

Mercosur is comprised of 4 national markets whose GDP is in excess of 3 U$ trillion, close to 300 million consumers and an aggregated geographical area that represents the second world´s largest after Russia. In the period 2007/2019 total Mercosur Trade in goods[1] with the world was, on average, around 469 US$ billion dollars, with exports accounting for 250 and imports for 216 US$ billion. The peak was in 2011 with 568 US$ billion, with exports of 300 and imports of 268 US$ billion respectively.

In terms of the main regional trade partners of the South American block, the Asian continent accounted for the largest share in recent years, 45% of total external sales in goods and 41% with respect to imports for 2019.

Likewise, analyzing trade by country of destination, Mercosur main partners were, on average for the last 5 years, China, the United States and the Netherlands, with 25%, 12% and 5% respectively, accounting for 42% of total Mercosur exports.

With respect to the origin of Mercosur imports, for 2019 the country list is led by China with 23%, United States with 17% and Germany with 7%, totaling 47% of all aggregate imports for the South American block.

The top export headings of Mercosur for 2019 were: Oil sedes and oil fruits (13%), Fuels and mineral oils (11%), Metal ores (8%), conversely, the main import items were Fuels and mineral oils (15%), Machines and electrical equipment (14%) and Nuclear reactors, Heaters, Machines, Machinery and Mechanical appliances (13%).

With respect to the corresponding percentages values, for the same period Brasil represented 77.3%, Argentina 18.5%, Uruguay 2.4% and Paraguay 1.8% of total external sales.

When it comes to trade in services, the trade balance is exactly the flipside of what has been described so far for goods. In 2018, the last year with accurate statistics for this sector, Mercosur exports were close to 55 billion US$ and imports from the rest of the world exceeding 97 billion US$.

Analyzing the sectoral break down in terms of the 3 main aggregate sectors, namely managerial services, travel and transport, the percentages are 39.1, 25.9 and 15.7% respectively, representing 89.7% of the total exported by Mercosur.

In a like manner, from the Mercosur import side the values, for the same sectors, were 31.2, 27.8 and 18.6%, accounting for 78% of the total imported by Mercosur.

On a dynamic basis, the increase of intra-trade was phenomenal during the first years of the treaty, due basically to the price effect resulting from the lowering of high duties that since the late 50s were a key part of the trade substitution economic philosophy in LA.

However, once the tariff phase off schedule was complete trade growth showed some signs of slowdown, and the trade flows were basically explained in terms of economic activity and exchange rates changes.

Mercosur EU Agreement in short

Once the agreement is fully enforceable the result will be a global market for goods and services covering nearly 800 million consumers, thus ranking as the largest in the world in terms of population and combined GDP.

The treaty will exceed in scale and scope (given that it does include all sectors and trade disciplines) even those already concluded by the EU with Canada, Mexico and Japan, and will consolidate a long standing trade relationship between two regions whose historical and cultural ties goes way back in time.

In terms of the immediate benefits, Mercosur will increase access for beef, sugar, orange juice, instant coffee and fruit among others.

However, in the medium and long run the objective, particularly from the perspective of the south American block, is to improve also intra industrial trade in areas that will allow Mercosur to position itself in technological value chains that are knowledge intensive.

From the perspective of the EU, in addition to improving market access in sectors where European companies had already a presence, there will be a common legal framework to consolidate EU position as a key player in the area of investments.

In this respect, the benefits will be not only in the area of improved market conditions, but also in terms of a better platform to serve both regional and extra regional markets as well.

1 Source: SECEM: Mercosur System of Trade Statistics.

FACUNDO VILA
Argentine Ambassador to Finland, Estonia and Latvia

LOUISE CURRAN & JAPPE ECKHARDT

The backlash against economic globalization: How did we get here and what should be done?

Expert article • 2705

In recent years, developed countries have experienced a broad backlash against economic globalization. Although these concerns are not new, they have become much more salient since the global financial crisis and further resonate with the global spread of COVID-19. In recent years, surveys in the US and the EU have been indicating a growing skepticism on trade and global production structures based on a wide range of factors. This backlash has led to major policy reversals, most notably in the US, with a host of new import tariffs but also in Europe, where the vote for Brexit in the UK was, at least partly, motivated by concerns about globalization and its impacts. The backlash has also been felt in many other parts of the world, such that the global trading system as we know it is in jeopardy. To make matters worse, in the wake of the current COVID-19 crisis, we are witnessing the collapse of global trade which has not been helped by the introduction of export restrictions on medical equipment by certain countries. History has taught us that economic nationalism and protectionism are not the answer to global crises. Yet if the criticisms on globalization are to be mitigated and the growing calls for all-out protectionism rebuffed, both trade policy and the manner in which companies operate within the global economy need to evolve.

So, how did globalization become so controversial? Those who criticize trade highlight the negative outcomes of the globalization of production on both in the Global North and South. In the former, globalization in general, and the creation of global production networks (GPNs) in particular, are said to have destroyed jobs. Especially for a group of un- or under-skilled workers who find it difficult to find alternative work in an increasingly high-tech digital economy. Cynical multinationals enterprises (MNEs) are considered to have abandoned these workers in favor of cheaper alternatives elsewhere. In the Global South, workers are often considered to be exploited and underpaid. Recent industrial accidents, most notably Rana Plaza in Bangladesh, have served to highlight the lack of effective protection for workers in the developing world and support the rhetoric that globalization is bad for *all* workers. At the same time, an unlevel playing field on environmental protection fuels concerns that MNEs are exporting pollution to developing countries, while espousing a green image at home.

These concerns are valid and should be taken very seriously, but in our intensively integrated global economy, where production networks crisscross the globe, increasing tariffs and ad-hoc protectionism will damage all industries in the long run. Policy leaders should therefore refrain from resorting to protectionism and retain the historical legacy of economic openness. Companies, on their part should engage much more than they currently do in the public debate on globalization and trade. In general, faced with negative rhetoric, such as that of the Trump administration, companies have adopted a 'wait and see' approach, where they don't mobilize until there is a direct threat to their own business interests. However, by then it is often too late, as their trading structures have already been labelled 'unfair' and the task of changing public opinion is very challenging. There is extensive evidence from analysis of public debates that mobilizing early in order to frame the debate gives an advantage in the political arena. The very divisive public debate on the Trans-Atlantic Trade and Investment Partnership (TTIP) in Europe, where the latter was portrayed as a means for powerful American corporations to force regulatory liberalization on EU countries, has created fear in the business community that speaking out in favor of trade will have negative reputational effects. Yet not speaking out leaves the field free to those framing trade purely in a negative manner.

Having said this, in the current context, where trade is held responsible for all manner of social ills, this is not a plea for business usual. On the contrary. It is very important for policy makers and businesses to take the criticisms on globalization and GPNs seriously. There are various ways in which policy makers could make trade 'fairer,' by addressing potential negative impacts of trade before they occur. For instance, civil society could be involved more effectively in the monitoring of trade agreements, while governments should provide more effective financial support to their domestic communities which are negatively affected by trade. What is more, countries should include provision in trade agreements in order to mitigate the negative impacts of differential social and environmental standards across the globe on competitiveness. Of course, there is also a need for companies to engage in efforts to address the criticisms of the negative impacts of their global production structures at home and abroad. There is also a role for policy makers in this context, to ensure a level playing field by putting in place policies and regulations which ensure that companies indeed take responsibility for workers along their value chains, even in structures where they do not have a financial interest. Finding a balance between supporting a more sustainable trade agenda and avoiding protectionism will sometimes be difficult for governments to achieve, but the time is ripe for a reform of trade policy. At the same time companies also need to take greater responsibility for the negative externalities of their global production structures. ■

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Lessons learnt from the 1930s: Protectionism is not the way to exit from the COVID-19 crisis

Expert article • 2706

Introduction

The Great Depression began after the US stock market crashed in October 1929. It soon expanded into a global economic crisis that pressured governments to take action to rescue their economies. As the situation got worse, the countries established trade barriers to protect local industries. To protect jobs, the US Congress passed the Smoot-Hawley tariffs in 1930. Other countries retaliated and world trade shrank by 66%. This was a ground for protectionism that accelerated the final countdown to the collapse. Over the following years global consumption and investments dropped dramatically. A third of all US banks failed and the stock market plunged by 90%. It took 25 years for Wall Street to recover. The economy dropped by almost 50%, prices declined by 30%, and unemployment rose to 25% in the US alone.

As a result of COVID-19 we are probably facing the most challenging global economic crisis since the Great Depression of the 1930s. The big question is whether we have learnt our lessons so that we can avoid making the same mistakes that were made 90 years ago. Protectionism was not and will not be the right response. Free- and rules-based trade is the best-known counter-medicine for protectionism and has the advantage of lowering the costs of goods and services for both producers and consumers. As we do not have a well-functioning G20 in place and the US is not leading the defence of a multilateral rules-based trade system, there is an increasing call for the European Union to take the lead.

As a result of COVID-19 we are probably facing the most challenging global economic crisis since the Great Depression of the 1930s. The big question is whether we have learnt our lessons so that we can avoid making the same mistakes that were made 90 years ago. Protectionism was not and will not be the right response.

Future options – more or less protectionism?

Here are four examples of the challenges that trade policy has faced since the financial crisis:

- Protectionism is no longer opposed and free trade is no longer defended.
- The WTO has not been capable of renewing itself throughout its lifetime of 25 years – during this time trade itself has changed dramatically – e.g. with digitalization, China's rise, servitization and protectionism.
- Politicization of trade – the trade policy has become one fast-functioning element of the larger scale geostrategic game called geopolitics.
- Trade conflicts have created an uncertainty factor for the world economy and as a result of this the world trade of goods dropped to slightly negative in 2019. This was the first time this had happened since the financial crisis.

There are only two options for the post COVID-19 crisis period: 1) a more protectionist or 2) less protectionist trade policy framework. We tend to overestimate the short-term and underestimate the long-term scale of change, so the impact of the crisis might not necessarily be extremely dramatic itself. Instead we have already seen a longer-term change trend both in protectionism and in globalization that started after the financial crisis.

Supply chains will certainly change. This is not only a result of trade wars and mistrust created by the COVID-19 crisis but also characteristic of the next phase of globalization. Even if some observers say that globalization will be dead soon, that is not a fact. Globalization will not diminish but change dramatically and bring supply chains closer to the customer and target market. This is a result of digitalization and robotization that balance labour costs between the developing and developed economies, and that also reduce the competitive advantage of economies of scale. It is also a result of increasing customer demand for fast deliveries and tailor-made customer solutions that 3D-printing, for example, will serve. Trade barriers and protectionism also naturally play their role in this.

Despite unsuccessful earlier experiences of protectionism as a crisis rescue plan, it threatens to raise its head again anyway. The US and China have not been capable of finding ways to cooperate even in one of the deepest humanitarian crises since WWII. This does not give us too much to hope when predicting the post-crisis situation with or without President Trump. As major worries before the crisis concerned import tariffs, we have now seen over 70 countries set up export restrictions for personal protective equipment and medi-cal devices. Only eight of these have made the required notifications to the WTO, with the European Union as one of them. We have also seen unpredictable measures in the EU, such as internal market export restrictions, limitations in the movement of goods and tightened investment screening mechanisms even towards other member

Expert article • 2706

states. In these crisis circumstances, we have seen a substantial increase in protectionist measures that we should make sure are temporary. To what extent these measures are lifted or not, will show the way and speed of the protectionist development in the medium term.

There is no doubt that trade has also become one of the fastest functioning instruments of the technology war and geostrategic power battle. It is hard to see this power battle ending, or many other ways to create effective further leverage other than trade. For this reason, it is most probable that the threat of trade conflicts will be the new normal of the 2020s, even if there are periods when this threat may seem to have disappeared. We should balance this threat by finding ways to reform the WTO, including its dispute settlement mechanism, e-commerce, and state aid rules.

How to exit the crisis?

In addition to well-functioning healthcare, protection, testing, and tracing measures to assure people's safe return to work, the EU needs to find several measures for its recovery toolbox when re-opening its economy.

- To assure a well-functioning single market and ambition to improve regulative harmonization, especially in digitalization and services to provide SMEs the best possible platform to scale up their businesses.
- A recovery package that includes a comprehensive funding solution that accelerates European investment, growth, and jobs, and also pays attention to the climate and makes the EU's New Green Deal into a growth strategy. To reach this and to avoid an investment recession we need further European solidarity, but not only by financial measures. This is a win-win business for both citizens and businesses.
- A forward-looking industrial strategy that invests in the future and brings the EU back onboard with the US and China as a technological superpower. This cannot be done by easing the state aid procedure, and all the current crisis aid measures need to be temporary. The new industrial policy needs to be based on European strengths i.e. a well-functioning single market, a good competition environment, open trade policy and future-oriented investments, such as R&D, digitalization, climate neutrality by 2050 and infrastructure.
- Last but not least: The EU must use all that is in its power not to retreat into its shell but to defend open and free trade and the functionality of the multilateral rules-based trade system. The EU must take the lead on WTO reform to better match with the requirements of post-crisis trade reality. The EU should also find ways for more effective use of its trade defence instruments and to manage the third country state aids distorting competition in the single market.

Especially now that the UK has left the EU, the Nordic countries must act on the front-line with the other like-minded partners to push this development forward and tackle the attractions of protectionism. This is not only the principal question but a prerequisite for the success of small and export-oriented economies. It is not only China that has been a winner of globalization, Finland and the other open Nordic economies are also winners. Let's not give up this time to protectionism and repeat the mistakes of the Great Depression of the 1930s. ■

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COVID-19 is complicating global trade debates

Expert article • 2707

Trade policy used to be a niche topic of limited interest to the public. Recently, however, it has received a much wider audience, making it to the front pages of newspapers. By the end of 2019, the hot topics in international trade were manifold and characterised by distinctly different policies pursued by the three biggest economies in the world: the United States, China, and the European Union caught in the crossfire.

China's fast economic development, partly attributed to unfair competition (e.g. state-owned enterprises, price-dumping, violation of intellectual property rights), ultimately resulted in the declaration of a 'trade war' by the Trump administration. Import tariffs, which were thought of as a trade policy tool becoming obsolete, experienced a dramatic comeback that continues to hurt both economies and subsequently their trading partners. Analysis by the Peterson Institute for International Economics shows that China's tariffs[1] on US exports increased from 8% in January 2018 to 21.1% in December 2019. During the same time, US tariffs on Chinese exports soared from 3.1% to 21.0%. The 'Phase-I Deal', signed in January 2020, might have propitiated the disputing parties, but managed trade (e.g. requiring China to increase imports of certain goods by about USD 95 billion compared to a 2017 baseline) is a danger to the multilateral rule-based trade order and may cause huge negative trade diversion effects for other economies. For example, estimates published by the Kiel Institute for the World Economy suggest a loss of about USD 11 billion (or 5%) in EU exports to China as a result of the deal.

Although China seems to be a particular thorn in the side of the US, it is not the only target directly attacked by US trade policy. Threats of imposing tariffs on cars and car parts recur in addition to increasing US tariffs on steel (25%) and aluminium (10%). On 24 January 2020, President Trump extended these tariffs to other product categories worth almost USD 450 million of US imports, affecting inter alia the EU and China.

In fact, the US is not only affronting its major trading partners, but all 164 members of the World Trade Organisation, by blocking the appointment of new members to the Appellate Body. By 10 December 2019, the terms of two judges expired. These agreed to continue their work on three appeals for which oral hearings have been completed – after that, with only one judge left, the WTO Appellate Body will be dysfunctional.

The slow progress in multilateral negotiations ('Doha Development Round') combined with frequent US assaults against the WTO, spur the conclusion of bilateral and plurilateral agreements. The EU is at the forefront in negotiating free trade agreements. The year 2019 proved particularly eventful: On 1 February 2019 the EU-Japan Economic Partnership Agreement entered into force. It is considered the most ambitious trade agreement with any Asian economy, relegating the agreement with South Korea to the 2nd rank. In addition, the agreement with Singapore entered into force in November. In June, the agreement with Vietnam was signed and an agreement in principle was reached with the Common Southern Market (Mercosur) comprising Argentina, Brazil, Paraguay and Uruguay. A dozen other negotiations are ongoing.

While the protectionist turn by the US and the EU's greater focus on bilateralism had significantly shaped global trade debates, the current global uncertainty that is crippling the world economy may shake up globalisation even more profoundly. Today, the virus SARS-CoV-2 causing the disease COVID-19 is dominating all policy agendas.

Within a month, the main concern has shifted from a negative economic impact of COVID-19 in China trickling through global production and supply chains to a worldwide economic downturn. The 'factory of the world' has already been cautiously restarting its engines, while the pandemic is bringing the economies of EU and the US to a hold and confronting their health and social security systems with an enormous stress test.

In light of current developments, major trade policy issues as of end-2019 temporarily receive little attention; however, they will reappear once the biggest uncertainty has been tackled. But when they do, the impact of COVID-19 will have placed an additional layer of complexity on top: National security concerns might shift from imported cars to dependency on imports of pharmaceuticals and personal protective equipment. Strategies to overcome trade dependencies may vary considerably from incentivising domestic production to internationally diversifying production even further. Steps towards liberalisation in services trade might be revoked to reduce the risk of person-to-person transmission of diseases… Without question, the year 2020 will leave its mark on the global economy and international trade policy debates. ■

1 Tariff data weighted by exporting country's exports to the world in 2017, i.e. prior to the tariff escalation

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Economic interdependence after the Corona shock

Expert article • 2708

The coronavirus crisis has spawned a flurry over the life and death of globalisation. Can we save? It will be more important to consider how we can preserve the best of what globalisation offers, while becoming better at managing its risks.

Risks are there. The coronavirus vividly demonstrates this point, particularly in respect to globe-spanning supply chains. For example, states' dependency on pharmaceutical imports and other critical medical supplies such as masks and ventilators are emblematic for the kind of risk human health – and by extension the state – faces when supply is interrupted. Even the EU could not prevent supply disruptions between Member States. "Globalisation", Henry Farrell and Abraham Newman remind us in a recent essay, "[…] creates extraordinary efficiencies but also extraordinary vulnerabilities."

The politics of interdependence

The corona-shock revealed the vulnerable mechanism at play: an interdependent global economy in which individual dependencies are almost never symmetric, exposing states to vulnerabilities from shocks to these dependencies. Here the pandemic is not the only troublemaker. Great power competition is too. Powers can weaponize these dependencies should this be in their political interest. And they do it increasingly so: access to finance, the flow of investment, the export of technology, chemical inputs – or, indeed, the export of live saving drugs during a pandemic. The great powers instrumentalise everything and economic networks are particularly vulnerable.

International rules, which may curb this behaviour, have seen better days. Take the World Trade Organisation (WTO). Its ability to work – that is to de-politicise trade flows and settle trade brawls through law, not power – is in a coma. Its lifeline, a new multilateral compromise on all its functions, looks all too distant. Will the corona crisis embolden the global community to overcome their differences? One can optimistically hope so. It may, however, also accelerate the opposite trend.

The profound corona crisis will not spell the end of globalisation. In the big picture, global economic interdependence is here to stay. But the corona crisis is another catalyser for the question where the balance lies between on the one hand the vast economic benefits of interdependence, and on the other hand states' feeling of incapacity to defend the health of citizens – or other security interest it may have.

This question is of course by no means new. Already Adam Smith in *Wealth of Nations* considered "defence […] of much more importance than opulence." The *defence* of citizens' health maybe a more obvious reason for states to intervene in global markets. Today, few politicians would disagree that we should minimize the risks of an interdependent economy for essential medical supplies, even if such a policy means increased costs.

Things get more complicated in the field of technologies. Especially for those with a 'general purpose' for civilian and military application. Artificial intelligence, for example, and its input – data – is poised to disrupt economic opportunities, security competition, and societal futures. This strategic value, which eclipses simple mercantilist or protectionist logics, makes states less willing to expose themselves to the potential risks of over-dependence on global networks – or rival governments. It is here that the politics of interdependence translate into operationalisation of security, both economic and national.

A power struggle

Contrary to conventional liberal wisdom, interdependence is a power struggle, not a mutual aid society. It can, of course, also provide mutually beneficial outcomes when we minimize the struggle through rules-based global governance, as we have quite successfully done in past decades (and, with exceptions, have excelled at in European integration). But today's limits to international compromise are glaring.

That does not Europe should renounce its strategy to find international solutions for greater resilience. But the EU must also not be like a fish, which fails to notice the expansion and contraction of the ocean surrounding it. It has yet to embrace the role of sailing on the waves, not merely swimming beneath them.

Sailing requires positioning the ship and the waters it can traverse, before heading off. It means to position the EU in the rivalry between the great powers as an independent actor that forges its own relations with each of the others. To do so, the EU should advance a strategy of triangulation, that is to say engage one power without prompting the other to disengage, and vice versa. Not equidistance between Washington and Beijing, but drawing red lines, which can be enforced if need be, with both. The corona crisis and its aftermath will be another testbed for Europe to act an individual pole in a triangular economic order. ■

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COVID-19 strains global value chains in more ways than we think

Expert article • 2709

As COVID-19 sweeps the globe, its impact extends far beyond the health implications of a pandemic that has already killed more than 70,000 people. To halt the spread of the disease, countries have rightly taken extraordinary measures to flatten the curve, that is, to slow the rate of infection so that it eases the burden on local health care systems. As of early April, governments have asked half of the world's population to stay at home to prevent the spread of the virus. Many countries have also closed their borders to non-essential traffic, leading to a precipitous drop of more than 70 percent in international flights compared to the same week a year earlier.

The business community has been quick to point out the implications of the synchronized lockdowns on global supply chain disruptions. Several COVID-19 hotspots such as China and Italy are key suppliers of parts and materials for global buyers. As production grinded to a halt in these areas, and border closures limited firms' abilities to find suitable alternatives, it has generated supply chain shocks that have reverberated across the globe. Dangerous shortages of China-made medical equipment are the most talked about case in point.

Less attention has been paid to the implications of COVID-19 for the heart of global value chains: intangibles. Intangibles refer to the intellectual activities that go into the development of globally produced goods and services. They include the research and development that lead firms conduct to develop new goods and services. They also comprise investments by lead firms to develop brand equity and to orchestrate value chain partners. According to a recent study by scholars at the University of Groningen, intangibles account for more than 30 percent of total income that is generated in global value chains.

A distinctive feature of intangibles is that they concentrate in global cities such as New York and Paris which have large concentrations of human capital. One reason is that intangibles benefit from agglomeration economies: frequent interactions with people from similar companies generates a knowledge "buzz" that stimulates local entrepreneurship and innovation. A second reason is that global cities have a high air transport connectivity with other global cities, which facilitates access to foreign knowledge pockets. In recent work, Ekaterina Turkina (HEC Montréal) and I have shown that both the local buzz and global connectiveness strengthen a region's innovation performance.

The COVID-19 pandemic hurts the production of intangibles by stifling both local interactions and global travel. The goals of stay-at-home orders and social distancing rules are to limit the interactions between people so that it can help stop the transmission of the coronavirus, but a downside is that it also puts a halt to both the planned and unplanned face-to-face meetings that undergird the vibrancy of local innovation ecosystems. The closing of international borders to non-essential travel limits firms' abilities to exchange tacit knowledge with their foreign partners.

Many intangibles producers have tried to cope with the COVID-19 crisis by replacing in-person meetings with virtual conferencing, but they are imperfect substitutes at best. Virtual interactions work well in situations that involve occasional get-togethers that are limited in time. They do not allow for the in-depth debate and discussions that are generally needed to develop ground-breaking new ideas and solutions.

The effect of COVID-19 on the development of intangibles will ultimately depend on both the duration of the health crisis and the extent to which things return to normal once the pandemic itself is behind us. A relatively short crisis with a swift relaxing of social distancing rules and an opening up of international borders will likely limit the negative impact of COVID-19 on intangibles. A protracted public health disaster that continues to limit social interactions in the medium run, then again, will require firms to adapt their business models which will put significant strain on the development of intangibles. Government actions will have a critical influence on the global economy's recovery path. Past experiences have shown that governments like to turn to protectionism when facing a severe economic downturn, and this time is not different. A Global Trade Alert study shows that, since the beginning of 2020, the governments of more than 50 nations have taken steps to ban or limit the export of medical equipment and medicines. Other countries have contemplated imposing retaliatory measures against these export restrictions. If COVID-19 ends up thickening barriers between countries, global value chains and the intangibles embedded in them are likely to suffer. ■

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COVID-19 will revolutionise global supply chains

Expert article • 2710

Businesses and their customers have been taking globalization for granted. Since the 1990s, we have lived in the world of low tariffs and stable trading rules. The WTO and preferential trade agreements have bounded tariff rates, and the WTO's dispute settlement mechanism became the central pillar of the multilateral trading system. Contrary to popular fears, even the financial crisis has not brought about resurgence of protectionism and trade wars.

This certainty about the future of trade policy gave producers comfort and allowed firms to focus on cost optimization and ruthless cost cutting. Global value chains have begun to span the globe placing different stages of a manufacturing process in different countries, often far away from the consumers of the final products. Incessant search for the lowest cost location became the name of the game. Holding sizeable inventories was perceived as wasteful and wherever possible producers have been striving for just-in-time production.

There were some shocks, such as a tsunami and an earthquake that hit Japan in March 2011, whose impact was felt as far as North America, as Japanese multinationals in the US could not get parts and components from the suppliers in Japan. But these shocks were perceived as one off events, temporary disturbances to an otherwise optimal business model.

But a change may be just around the corner. The combination of the US-China trade war and COVID-19 may have created a perfect storm. Each of the shocks by itself would not be enough to spark rethinking of global value chains, but their combination may just do so. The trade war created uncertainty about future trade policy. Firms can no longer take it for granted that current tariff commitments enshrined in the WTO rules will prevent sudden protectionist surges. The WTO dispute mechanism has stopped functioning. At the same time, COVID-19 has exposed what many may consider an excessive reliance of suppliers located in China.

The virus outbreak, which initially took place in just once Chinese province of Hubei and led to temporary closure of local factories, has caused disruptions in production on many continents. Although Hubei accounts for only 4.5 per cent of Chinese GDP, is a high-tech manufacturing hub, home to local and foreign firms highly integrated in global supply chains in the automotive, electronic and pharmaceutical industries.

Firms in Asia and North America were particularly exposed to this disruption. Around a quarter of intermediate inputs used in high tech exports (defined as pharmaceuticals and chemical products, machinery, motor vehicles and other transport equipment) in the US, Japan, Korea and Mexico come from China. But even a car plant in Serbia had to halt production due to the lack of parts.

The quest to find the most cost effective suppliers has left many firms without plan B. More than a half of firms surveyed by the Shanghai Japanese Commerce and Industry Club reported their supply chains being affected by the outbreak. Less than a quarter had alternative production or procurement plans in case of a prolonged disruption.

Dependence on China is also visible at the country level. Many countries are only now discovering how dependent they are on supplies coming from China. For instance, almost three quarters of blood thinners imported by Italy come from China. The same is true of sixty percent of antibiotic components imported by Japan and forty percent imported by Germany, Italy and France.

The current events will force businesses to rethink their global value chains. These chains were shaped to maximise efficiency and profits. And while just-in-time manufacturing may be the optimal way of producing many complex products, the COVID-19 outbreak has exposed disadvantages associated with a system that requires all of its part to work like clockwork.

As scientists warn us, climate change is likely to bring more disruption in the form of extreme weather events. And the number and diversity of infectious disease outbreaks is expected to increase in the future. In absence of any action, shocks reverberating through the global economic system will become commonplace.

Resilience and agility will become the new buzzwords as firms focus on diversification of their supplier base to insure against disruptions to a particular producer or a particular geographic location. We may see some reshoring, particularly as automation will reduce the importance of labour costs. Countries that offer investors benefits of geographic diversification and high skills, while being relatively open to trade and sheltered from trade disputes with geopolitical dimensions, may be able to attract much new investment. The Baltic countries fit well many of these criteria. Thus in the post COVID-19 world, Poland, Lithuania, Latvia, Estonia and Belarus could be among the top investment destinations. ■

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Trade policy and labor rights challenges for global value chains

Expert article • 2711

A common feature in the 21st century trade policy debate has been the treatment of sustainability issues in trade agreements, including environmental and labor standards and human rights. In recent trade negotiations such as the European Union (EU)-Canada, EU-Vietnam, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), or the revision of the North American Free Trade Agreement (NAFTA), trade and labor rights have become an especially hot topic politically, and for good reasons. While globalization has created millions of new jobs and economic benefits, it must also be acknowledged that there are still major unresolved trade-related human rights issues. In some countries, labor standards, such as the right to collective bargaining or to freedom of association can go unobserved, even abused. And, according to the International Labor Organization (ILO), there are still nearly 25 million people in forced labor and over 150 million in child labor.

The network of various international agreements, treaties and conventions on human rights, labor and environmental standards is quite wide. Commitments to implement them effectively are also reaffirmed in many bilateral or regional free trade agreements. For the EU, the inclusion of trade and sustainable development chapters into its trade agreements is now a standard practice.

Multilaterally, however, discussions have proved difficult. In the World Trade Organization (WTO) discussions on trade and labor rights stalled already in the 1990s.

The recent debate on strengthening labor provisions of free trade agreements has mostly concentrated on the use of sanctions in cases of non-compliance. In broad terms, there are two approaches to the enforcement: a sanctions-based approach mainly in agreements by the United States, and now also in the CPTPP, and a promotional approach used by the EU and most other countries. The EU approach stresses the importance of incentives, cooperation and capacity building instead of the threat of penalties or withdrawal of trade benefits.

There is very little empirical evidence on which approach works best. Dispute resolution has been rarely used in trade and labor disagreements, and the cases have never led to the use of sanctions. It should also be noted that dispute settlement is normally reserved for addressing serious and systemic non-compliance. Some governments simply do not have the capacity or the will to fulfill their obligations under a trade agreement or international law. In these cases, sanctions can have only a limited effect.

Unilaterally granted trade preferences offer an alternative route to promoting human rights and labor standards, since the countries granting the benefits also set the conditions for the eligibility. For example, the EU grants additional tariff preferences under the special incentive arrangement for sustainable development and good governance in the Generalized Scheme of Preferences (GSP) to developing countries that implement international conventions related to human rights and labor standards, environment and good governance. The EU may also withdraw preferences from GSP beneficiary countries in cases of serious and systematic violation of human rights and labor standards.

Traditional trade agreements are also complemented by international soft law instruments. For example, the United Nations Guiding Principles on Business and Human Rights (UNGPs) and the OECD Guidelines for Multinational Enterprises state that companies exercise human rights due diligence across their value chains and adhere to internationally recognized human rights wherever they operate. Companies should analyze their role in the value chains and assess the risks they might be involved directly or through their business relationships. They should also act upon the findings by prevention, mitigation and remediation in cases of possible negative impacts.

Regardless, there are growing concerns if current trade agreements, soft law measures and hundreds of different voluntary sustainability standards initiatives are sufficient. Some civil society organizations, trade unions and even private companies are now calling for new binding regulations. At the UN, there are negotiations on a new legally binding instrument on transnational corporations and human rights. There has been debate also at the ILO about new standards-related measures, including a possible new Convention on decent work in supply chains. There are also number of new or envisaged national regulatory measures emerging based on the concept of due diligence. France adopted a duty of care law in 2017, and the Netherlands adopted a bill on Child Labor in June 2019. Germany and the European Commission are pondering the need for new regulatory measures. In Finland, a judicial analysis of a possible new due diligence regulation on responsible business conduct is underway. ■

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A new approach to trade

Expert article • 2712

The challenge
The 76-year Bretton Woods post-war economic order is running out of gas. Aside from the Trade Facilitation Agreement, there have been no successful multilateral negotiations since the World Trade Organization (WTO) began 25 years ago. The organization is under attack from all sides.

Conservatives believe it infringes on national sovereignty. Liberals complain it serves large companies and fails to address key issues of climate change and labor. Developed countries are finding the political and economic costs of sustaining a rules-based system greater than the benefits and are demanding that emerging economies assume additional obligations. Those countries want to retain the benefits of the system and refuse to take on a greater share of responsibility. The need for consensus makes agreement among 164 members extremely difficult.

There is a growing sense that the WTO's utility is limited. It cannot force its members to meet its lowest commitments. The glacial pace of rulemaking cannot keep up with changes in the global marketplace. Its dispute settlement system has been abused, either to prevent outcomes a single party deems undesirable or to substitute litigation for negotiation as a means of addressing trade grievances. There is also a growing fear that the rules are not equipped to deal with the systemic problems posed by China.

A path forward
While organizational reform should not be abandoned, governments should consider a more comprehensive approach – the creation of a second track within the WTO, composed of countries that support more aggressive trade liberalization and want rules to reflect 21st century conditions. This differs from plurilateral negotiations. Those are either based on geography or on specific issues like the Government Procurement Agreement or the Information Technology Agreement. Participation varies. Some countries are enthusiastic participants in all such negotiations; others are in none; some pick and choose depending on their interests. This approach is inferior to multilateral negotiations but is better than nothing and certainly more likely to succeed in the current climate.

A two-track WTO would build on the plurilateral approach. Negotiations would include only those willing to participate and would likely not be on a Most Favored Nation basis; that is, the benefits would accrue only to the participants and not to all. The difference is that by joining the second track countries would agree to participate in all the negotiations the group decides to undertake. Over time that would mean a group of WTO members moving faster and farther on trade liberalization than the others.

What might such a second track negotiate? There is a lot to choose from. First, they could conclude negotiations now underway but not making sufficient progress – the Environmental Goods Agreement, the Trade in Services Agreement, fisheries subsidies, e-commerce, investment facilitation for development, micro and small and medium sized enterprises, and services domestic regulation. If these are successful, they could use the new agreements as a basis for including other interested member states.

Also appropriate for second track countries would be reform of WTO rules, particularly those relating to subsidies, state-owned enterprises, forced technology transfer, and other practices that hamper an open rules-based trading system. This would get at the Chinese practices that have led to global overcapacity in some sectors. Another looming issue is standardization of rules for border adjustment measures relating to climate change.

Finally, second track members could negotiate amongst themselves on a sectoral basis, such as updates to the Agreement on Trade in Civil Aircraft to deal with subsidies, and agreements on pharmaceuticals, chemicals, medical equipment, and motor vehicles.

This path is not without problems. Countries will have to decide not only whether benefits can be provided on an MFN basis or restricted to the second-track members but also whether new disciplines should be imposed only on second-track members or on all WTO members. And all WTO members will have to decide whether they need to approve the idea of a second track. That debate could end up splitting the organization.

On the other hand, members could pursue a less confrontational path – simply continue to negotiate plurilaterally in the expectation that eventually a critical mass of such agreements with a common base of members would constitute a *de facto* second track. Either way, the goal is not to separate the trading world into two parts but rather to develop a critical mass of countries that want to move farther and faster on trade liberalization. If they succeed, and if their success produces faster growth and more jobs, then there will be a sound argument for reaching out to the non-participants and multilateralizing the agreements. ■

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Changing the TPRM: Is less more?

Expert article • 2713

In July 2017, the World Trade Organization amended the Trade Policy Review Mechanism (TPRM) changing the schedule of review from every two, four, and six years to every three, five, and seven years. The review schedule for each country is allocated based on country size, so that larger countries are reviewed more frequently. The intent of this intentional slowdown in the WTO's workload was to address a growing backlog of countries that had yet to complete their respective reviews. While increasing the duration between reviews will certainly help WTO staff get the work completed, the broader question of the distributional effects of this reform on member countries remains unaddressed. I build on findings from my book that was published last year by Routledge on economic surveillance at the IMF and WTO to answer this question. This reform solves one problem, but it creates others, as it does have potentially harmful effects on developing countries.

Some background is in order. The Trade Policy Review Mechanism was created as a part of the Marrakesh Agreement. It addressed one of the central weakness of the GATT: that of its weak norms of transparency. To achieve this transparency, countries submit reports on the state of their economy on the above schedule. These reports are paired by separate evaluations from the WTO secretariat and both reports are discussed in the Trade Policy Review Body, to which all WTO members belong. The peer review component of this review gives other countries the chance to ask questions and receive answers, and all of the documents from the review (the country report, the Secretariat report, and the Q&A) are posted on the WTO's website.

But there is a cost to success, and the increase of members to the WTO has put pressure on the Trade Policy Review Mechanism to keep pace. While the WTO has averaged 16 trade policy reviews per year, the increase in new members was expected to increase the number of needed reviews per year to close to 30 per year. This has inevitably resulted in a backlog of reviews that had yet to be completed. And it is a credit to the Trade Policy Review Body that it only lengthened the time between reviews instead of renegotiating other procedural changes to impede the effectiveness of the TPRM.

The good news is that this reform will not create an informational deficit for developing countries. The Trade Policy Review Mechanism was created to produce transparency about member country trade policies, and developing countries especially benefit from this transparency. Lacking internal capacity to scrutinize the trade policies of developed countries, the WTO plays a needed role as a valued surrogate. One can certainly dispute the timing of the slowdown in reviews with hindsight. Less scrutiny for developed countries at a time of a deepening global trade war is not ideal. However, it is important to remember that the Secretariat has introduced its own global trade policy monitoring efforts. Transparency shows no signs of going away. The ability of the Secretariat to speak truth to power tells us that the WTO is not reducing its monitoring efforts. More importantly, these reforms will not leave developing country members in the dark.

The bigger problem lies in how developing countries respond to this reduced scrutiny. A strong test of whether the TPRM makes a difference requires that we consider the effects of the review process on a country's willingness to impose anti-dumping or countervailing duties. If the time during the review cycle deters cheating, then this suggests that the longer duration between reviews might prove harmful. In my book, I test this proposition econometrically between pairs of developing countries. I found some evidence that countries are more willing to impose these anti-dumping or countervailing duties on other countries in the years following a trade policy review. And these results hold controlling for other factors that would affect the imposition of these duties. This suggests that the timing of the review might serve as a mild deterrent against opportunistic behavior. By extension, lengthening the time between reviews can give countries greater incentives to impose these duties, mindful that they will not have a trade policy review for three (now five) more years as a result. Thus, actions taken to reduce the workload on the TPRM might inadvertently produce more cheating.

Institutional reforms are never easy, and the Trade Policy Review Mechanism has been a quiet and understudied success for the WTO. The act of asking countries to publicly defend their trade policies and allowing countries to ask questions of each other has been a strong force to keep markets open even in the current era. The task before us now is to appraise other aspects of the TPRM so that we can further improve it going forward. ■

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New era in trade dispute settlement

Expert article • 2714

The dispute settlement system of the World Trade Organization (WTO) is seen as the central pillar of the rules-based trading system. The two-stage and binding system has benefited the WTO members – both big countries and smaller economies like Finland – for a quarter of a century. The second tier, Appellate Body, has had the final word on trade disputes and the compliance with its rulings has provided legal security and predictability to the business environment.

While the United States has brought the most cases of all WTO Members and won an overwhelming number of them, it started to challenge the role and existence of the Appellate Body a couple of years ago. The absence of consensus to fill open vacancies, despite a joint proposal by the large majority of the WTO membership, resulted in the Appellate Body losing a quorum (three adjudicators) in December 2019. In addition to being unable to hear new appeals, the Appellate Body can complete only four out of 15 pending appeals. For instance, the ongoing appellate procedure in a dispute over *certain measures relating to the EU's energy sector*, which was initiated by Russia (DS476), is now suspended.

The WTO Members tried to avoid the impasse by engaging in an informal solution-oriented consultation process facilitated by David Walker, New Zealand's Ambassador to the WTO. The draft General Council decision suggested by Ambassador Walker at the end of last year was a delicate compilation of altogether 12 proposals. The draft decision, however, was declined by the United States, which did not formulate any proposal or counterproposal of its own during the consultation process.

Currently, WTO Director-General Roberto Azevêdo is leading political consultations with the aim of identifying solutions, including structural changes, to restore the Appellate Body. The prospects of finding a near-term solution are, however, not very promising. The United States maintains that no solution is possible until others have explained why the Appellate Body has departed from the agreed rules. It has also objected the funding and resources of the Appellate Body recently. Further, in light of the publication of a USTR report on the Appellate Body's alleged flaws (still with no concrete solutions) and the US trade policy agenda in February 2020, the United States is not showing any inclination to compromise anytime soon.

With the demise of the Appellate Body, the WTO is now facing an unprecedented situation. Given the right to appeal set forth in Article 16.4 of the Dispute Settlement Understanding (DSU), the lack of a functioning second tier might encourage countries to avoid their obligations by appealing a panel decision into the void. As a result, the trade dispute would remain unresolved.

Such a scenario could obviously be avoided if the parties, such as Indonesia and Australia in a dispute over *Australia's anti-dumping measures for copy paper* (DS529), opt to accept the panel report. Some countries, such as Ukraine in a systematically important dispute regarding the use of security exceptions (*measures concerning traffic in transit*, DS512), had decided not to appeal even before in order to avoid rulings falling into the void. The following examples illustrate options that the countries have resorted to during the first quarter of 2020:

In a dispute over *US countervailing measures on certain steel products from India* (DS436), the parties agreed to delay an appeal until the Appellate Body is operational again. Notably, the agreement was reached after an initial announcement by the United States to appeal the compliance panel report just a week after the Appellate Body ceased to function.

In a dispute over *US anti-dumping measures on certain oil country tubular goods from Korea* (DS488), the parties agreed on holding bilateral consultations before a request could be made to establish a compliance panel. The parties also agreed, among other things, not to appeal such a panel report while leaving open the possibility for review procedures under Article 25 of the DSU (arbitration).

In a dispute over *Russian measures on importation of live pigs and pig products* (DS475), the EU requested the compliance panel to suspend its proceedings. The panel's authority will lapse in January 2021 unless the EU indicates that it wishes the panel to recommence its work.

In a dispute over *customs and fiscal measures on cigarettes from the Philippines* (DS371), Thailand opposed the request by the Philippines on authorisation to retaliate since, pursuant to the parties' sequencing agreement, the ongoing appellate proceedings should be completed first. Subsequently, the parties have engaged in bilateral consultations to resolve their procedural disagreements, including a mutual agreement to resort to the Article 25 of the DSU.

While determined to find a lasting improvement to the situation with the Appellate Body as a matter of priority, the European Union together with other active system users such as Canada, Brazil, Mexico and China, are working towards a multi-party interim appeal arbitration arrangement (MPIA). The political commitment was formally agreed at the end of March and the goal is to make the regime operational in the coming months.

The main objective of the MPIA is to preserve the right of the endorsing members to binding, independent and impartial appeal review. The MPIA would reflect the core features of the Appellate Body review in the framework of Article 25 of the DSU. The envisaged regime will be open to any WTO Member. In March 2020, countries such as Russia, South Korea, Japan and India are still considering their position. The United States is absent as well. Besides the ultimate number of the participating Members, there are other interesting questions, such as the utilisation rate of the regime and the impact of the arbitrator awards in the WTO panels' interpretations.

The MPIA is not an automatic mechanism but requires each WTO Member to agree to it individually. Therefore, the European Union is also in the process of adapting the trade enforcement regulation (654/2014) to the changed circumstances. The purpose is to extend the scope of the regulation to situations where the WTO panel sides with the EU, where the panel report has been appealed into the void, and where the third country has not agreed to interim appeal arbitration. Given the urgency for appropriate trade enforcement tools, the European Commission aims at concluding the legislative process by mid-2020.

In sum, it is unlikely that the Appellate Body's ability to function will be restored in the near future, at least not in the form it existed up to December 2019. The United States is expected to continue raising its systemic concerns and to press for reform of the dispute settlement system as part of its efforts to reform the WTO. Although the proposal by Ambassador Walker did not lead to an outright solution, the work was very important and could pave the way for lasting improvements when there is political will. Meanwhile, as described above, several WTO Members have decided to put in place contingency appeal arrangement. Others may prefer settling disputes through consultations, under their free trade agreements or by agreeing not to appeal panel reports.

Thus, although the paralysis of the Appellate Body is a very regrettable incident as such and increases uncertainty about the compliance with the WTO obligations, there are certain means to manoeuvre in the new era. It is too early to predict how efficient they are in ensuring stability in the rules-based trading system, especially since outside pressures show no signs of easing. ■

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Addressing the dispute settlement crisis at the WTO

Expert article • 2715

Following a decision by the United States not to approve new appointments to the WTO Appellate Body (AB), as of mid-December 2019 the appeals function of the WTO stopped working because the number of AB members had dropped to one (at least three AB members are needed to consider an appeal of a panel report). The US took this action because it was dissatisfied with the functioning of the WTO appeals process, arguing that the Appellate Body had exceeded its mandate. As a result of the US action, the findings of WTO dispute settlement panels can no longer be appealed. Interim responses to this situation – such as an EU-Canada-Norway initiative to use an ad hoc appellate process if countries agree to this before a WTO dispute resolution panel is formed to consider a case[1] —are not a solution to the demise of the multilateral appeals process, as they will not lead to an internally coherent jurisprudence for all WTO members, the *raison d'être* of any appellate process.

While most WTO members oppose the US decision to block new appointments to the AB,[2] expert survey data indicate that the United States is not alone in having concerns about the performance of WTO dispute adjudicating bodies. A long-running effort to review and renegotiate improvements to the operation of the WTO dispute settlement system illustrated this as well: it led to numerous proposals to improve the system. This review process did not deal with some of the concerns recently raised by the US and, perhaps more important, insofar as it did do so, it did not result in agreement to address the issues raised. The proximate reason for the failure to agree to changes that would address the concerns raised by some WTO members is that WTO working practice in based on consensus. This precluded any proposed reforms to the WTO dispute settlement process from being adopted and implemented. The consensus working practice is also the reason why the United States was able to block new appointments to the Appellate Body, even though most WTO members opposed this. Although WTO members gave a mandate to Ambassador David Walker of New Zealand in 2018 to explore how to resolve the issues raised by the United States, this process also was not able to lead to a resolution. Arguably it could not do so as it did not address the quintessential US criticism concerning alleged overstepping by the Appellate Body of its mandate.

WTO adjudicators unavoidably will have discretion when ruling on specific trade conflicts, as they must interpret an incomplete contract (the WTO) by using another incomplete contract (the Vienna Convention on the Law of Treaties, which does not assign specific weights to its various elements). As it not possible to write complete contracts, in our view resolution of the dispute settlement crisis must center on ensuring that WTO members cannot use the dispute settlement system to circumvent their rule-making responsibilities and to improve the quality of WTO adjudicators. We suggest three specific actions.

First, where they are not clear, rules should be clarified by the WTO membership, not by the Appellate Body. One way to encourage this would be for the WTO membership to require remand of cases where the rules are unclear to the WTO bodies that are responsible for the implementation of the agreements that are invoked in a dispute.

Second, a lesson from recent events is that more political oversight and interaction between WTO members and a reconstituted Appellate Body is needed. In doing so, it is useful to distinguish between substantive and procedural rules. A step forward would be to agree that changes to the latter can be decided with majority voting. Given that WTO dispute settlement procedures mostly involve large trading nations and blocs, the membership should be prepared to adopt weighted voting on proposed procedural changes, based, for example, on shares of world trade.

Third, WTO members should pursue greater professionalization of the panel stage of dispute settlement by appointing a roster of 15 to 20 permanent panelists that would serve one term of 8 to 10 years. Similarly, they should appoint Appellate Body members for an equally long non-renewable term. A commission of eminent experts well-versed in GATT/WTO dispute settlement should be entrusted with the task to screen both the panelists and Appellate Body members proposed by the members of the WTO. If the membership would be bold enough to adopt a proposal along the lines indicated here, we might start seeing some light at the end of the tunnel. ■

1 See https://trade.ec.europa.eu/doclib/press/index.cfm?id=2053.
2 This is clearly reflected in the proposal supported by 119 members calling for launching the selection processes for the six vacancies in the Appellate Body.

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The WTO in crisis: What does the future hold?

Expert article • 2716

The WTO is in crisis by any measure. It's two most important functions—negotiating new trade rules and resolving disputes over existing rules—are both in disarray. Attempts to update and rebalance global trade rules failed in the Doha round. The dispute settlement mechanism is in limbo because of the refusal of the US to allow new appointments to the appellate body that rules on challenged panel decisions. Meanwhile global trade disputes escalate, with the strong taking matters in their own hands, often provoking tit-for-tat retaliation by the victims. Against this backdrop there have been widespread calls to reform the WTO.

What are the prospects for WTO reform and for the WTO more broadly? The current global pandemic will undoubtedly direct attention away from the more chronic problems that had infected global governance. However when the world emerges from the pandemic attention will return to those institutions that had been underperforming, including the WTO. Then and for the foreseeable future there are three possible scenarios for the WTO. First, and probably most likely, it may limp along with the existing limitations and no serious reform. The organization still provides the basic rules of trade for most bilateral trading relationships and countries will be reluctant to let go of this fixed reference point, particularly in a slow global economic recovery and continuing trade uncertainties. As for disputes, the incapacitation of the appellate body may leave many trade disputes suspended without the possibility of final resolution. Countries that are willing could make bilateral or group arrangements to resolve disputes or may simply tolerate the status quo.

In a second plausible scenario, the organization may be buffeted by growing strategic rivalry in ways that undermine even the current suboptimal equilibrium. The US administration has been pressing allies to align with it against China and the WTO is bound to feel the strains, at least to some degree. For example, a proposal announced in January by the US, EU and Japan would target China's subsidies and other state-led economic practices. It would establish a plurilateral agreement that would be a de facto reflection of a world dividing into economic blocs, even if it occurs within the shell of the WTO. On the other hand, the recent discourse in Europe of building national champion firms and the pandemic-induced announcements of huge increases in state aid and even government equity stakes in private businesses could lead the bloc to have second thoughts on tightening rules regarding subsidies, state aid and state-owned enterprises.

In a third scenario, perhaps least likely on the current geopolitics but best in terms of future global stability and growth, the WTO could be the locus for a negotiation to update the trading regime for the realities of the 21st century economy and politics. A new negotiation would have to take into account the dramatic shift in economic weights since the organization was founded in 1995. The WTO was born at a time when the cold war had just ended and there was an assumption that western liberal capitalism was the only system standing, one which could set global rules to its own preferences and advantage. Fast forward a quarter of a century to today: China has grown to be the second largest economy in purchasing power parity, the largest exporter to most countries and a hub of many global supply chains. Russia has largely recovered from the collapse of the 1990s. Developing and emerging economies once again have the possibility of choosing economic partners or playing one bloc off against the other. These geopolitical realities would make new negotiations even more difficult than the failed Doha round, but at the same time could offer the possibility of a final deal based on realism, that balances the interests of countries with different economic philosophies and political systems.

The current WTO rules allowed huge growth of China's economy, which had negative distributional consequences in many higher-income countries, as mobile capital exploited its trade and investment rights to the full while the interests of labor, the environment and social solidarity were often neglected by governments. A durable reform of the global trading system will require flexibility that allows countries with different systems to trade without sacrificing the other legitimate interests of their citizens and polities. Considerations of distributional justice (such as local procurement policies and minimum wages), sustainability (such as carbon border taxes) and economic development strategies (such as industrial policy) will have to be on the table.

To the extent that the US and EU see China as a problem to be contained there will be no solution at the WTO. Rather, regional trading blocs will be the focus. This will produce slower growth for the west as China's huge economy and population and that of its bloc partners will be out of reach. It will require the dismantling of global supply chains, producing at least sharp temporary supply shocks. And it will reinforce the tensions, suspicion and rivalry that in the past have led eventually to more dire conflicts.

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Reforming the WTO: Trade rules for the 21st century

Expert article • 2717

The multilateral trading system turned seventy in 2018. The World Trade Organization, at the heart of the architecture, celebrated 25 years of existence this year. The festivities in Geneva on both occasions were somewhat low-key. The system is in grave difficulties, and the WTO is in a crisis. Director-General Azevêdo referred to unmatched challenges. Unmatched, perhaps, but not unforeseen. The main problems have been there for some time, exacerbated by rising protectionism and unilateral trade measures.

The challenges include shortcomings of the negotiating function, an ageing rulebook, inefficiencies in the administration of the agreements, and finally, paralysis of the WTO´s dispute settlement. Some fault the special and differential treatment (SDT) enjoyed by the developing countries as a major concern. Everything points to a system in need of reform.

As a matter of fact, various reforms for the WTO were outlined already in 2004 (the Sutherland report). Further were proposed by the Warwick Commission in 2007 and by the "Eminent Persons" in 2013.

All these reports voiced concern of the erosion of the "multilateral" via the preferential trade arrangements, argued about the challenges of the consensus-based decision-making, pondered an enhanced role for the Director-General or the WTO Secretariat in shaping the agenda, and weighed on the working of the Dispute Settlement. Each recommended increased transparency and wider civil society dialogue to enhance the legitimacy of the rules-based system.

Apart from the WTO processes becoming more open, it is fair to say that there have been very few other reforms carried out. To overcome the present crisis, WTO Members have made proposals on a wide variety of themes ranging from improving the Committee work to SDT to the safeguarding of the dispute system. Some are controversial, such as sanctioning non-compliance of notification obligations. Almost all would make sense.

The most fundamental question, however, relates to the revival of the negotiating function. The WTO was founded as a "permanent negotiating body". It has woefully failed in that respect. Apart from the agreement on trade facilitation (Bali 2013) and export competition in agriculture (Nairobi 2015), the WTO has simply not delivered.

The inability to conclude negotiations was noted as a problem already in the Warwick report. One of the challenges identified was "growing opposition to multilateral trade liberalization in industrialized countries". That has certainly played a role, even if the opposition has surely not been limited to industrialized countries alone.

There are other, more complex reasons behind the negotiating impasse. They reflect disagreements over the substance of negotiations, differing perceptions of the level of ambition, of the balance of rights and obligations, a real or imagined lack of domestic manoeuvring space, and on occasion simply misalignment of political conditions necessary for a deal. In the end, leadership is essentially required from relatively few "Key Players". The EU, while a very influential actor, cannot do it alone.

Obviously, Members as a whole need to re-discover why opening up of trade in a rules-based way makes sense in an integrated and interconnected world, and why unilateralism and protectionism are highly detrimental to the system. The Corona epidemic may provide fresh impetus for that.

As a necessary change in the working methods, Members need to let go of the straitjacket of the Single Undertaking that de-railed the Doha Round. The plurilateral negotiations on e-commerce, domestic regulation in services and investment facilitation are showing the way. Ability to conclude these in a timely fashion, delivering concrete results will be critical. Ability to start new ones – possibly on most-favoured nation basis - will enhance the WTO´s relevance further. This was the approach suggested in the reports more than a decade ago.

As the WTO rules stem mainly from the 1980s, it is likewise crucial that the rules be updated where found lacking. Those concerning industrial subsidies and market-distortive behaviour of state-owned enterprises have been flagged. Any meaningful result will require a negotiated solution among a wider group of Members.

The reform of the WTO can best be accomplished by coming up with an agenda that addresses issues of 21st century trade in the interest of businesses and consumers alike. The Eminent Persons´ report recognized several important topics, such as competition, investment, anti-corruption and climate change. It would also mean re-visiting older topics, such as agriculture, for sure.

As was the case 70 years ago, global trade needs rules. The more multilateral, the better. The Warwick report suggested coming up with a "broad-based agreement" of the WTO´s "objectives and functions", including its "boundaries". That is not a bad proposal for this occasion, either. ■

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The new NAFTA and the end of U.S. leadership in trade

Expert article • 2718

Trade policy has been high on the Trump administration's agenda since taking office in 2017. One of President Trump's first actions was to withdraw the United States from the Trans Pacific Partnership (TPP) agreement (now called the CPTPP), setting the tone for a new approach to trade—less cooperation, more asymmetric bilateralism. The driving force behind this adjustment was simple. If the United States was in the negotiating room with only one partner, it could focus on "rebalancing" the relationship and get a "fairer" deal. This logic underpins all subsequent trade actions taken by this administration, from steel and aluminum tariffs imposed under the Section 232 statute, the World Trade Organization's Appellate Body crisis, to the general approach to China.

But the full contours of this policy revealed themselves in the renegotiation of the North American Free Trade Agreement (NAFTA). As Canada and Mexico first sat down at the negotiating table in the summer on 2017 with their longtime friend and ally, it became perfectly clear that the United States had radically departed from past policy, with no reservations about the consequences such an approach would lead to.

The new NAFTA, referred to in the United States as the United States-Mexico-Canada Agreement (USMCA), was signed in November 2018, but given the change in leadership in the U.S. House of Representatives that same month, House Democrats demanded changes to the agreement before setting a date to vote on the deal. While the negotiations between House Democrats and U.S. Trade Representative Robert Lighthizer did improve some problems with the USMCA, such as ensuring the state-to-state dispute settlement mechanism could function, many other troubling changes were left intact. Two significant issues stand out—the tightening of rules of origin for automobiles, and the sunset clause. Both of these changes reflect the administration's general approach to trade policy, which aims to take measures that appear to boost the U.S. industrial base, and also to ensure that no deal is ever secure, leading to endless negotiations and uncertainty. I address each in turn.

In the original NAFTA, passenger vehicles with 62.5 percent North American content could qualify for duty free entry in the NAFTA partner countries. However, in USMCA, this was strengthened to 75 percent. Why does this matter? Because rules of origin not only determine preferential treatment, but also affect how companies make sourcing decisions for their products. A stricter rules of origin regime leads to less choices for manufacturers on where to source their products, leading to a loss of efficiency gains. In the North American auto sector, which is highly integrated and plugged into supply chains around the world, changes to these rules is consequential. This is also precisely why the auto rules of origin were relaxed in the CPTPP to 45 percent content from the trade bloc (both Canada and Mexico are CPTPP parties).

But this change to overall content rules was not all the Trump administration secured. They also negotiated a requirement that 70 percent of the steel and aluminum used in the production of vehicles are sourced in North America. Even more worrying was the inclusion of a labor value content requirement for the first time in a U.S. trade agreement. This provision requires that 40-45 percent of auto content is made by workers paid at least $16 an hour. The motivation behind such a measure is obvious— to move auto manufacturing out of Mexico, where assembly workers make approximately $7.34 an hour, and parts workers make about $3.41 an hour. Now, auto producers could simply forgo compliance with these rules and pay the 2.5 percent most-favored nation tariff instead, but in the end costs will undoubtedly go up, and the integrated North American auto supply chain will inevitably suffer, particularly in Mexico.

The other "innovation" of the Trump administration was to include a provision that "sunsets" the agreement in 16 years unless all three parties agree to continue it. After 6 years, Canada, Mexico and the United States are supposed to reevaluate the agreement and make changes, if desired. While trade agreements should be updated, NAFTA already provided a mechanism for this —Article 2001 in NAFTA (carried over to USMCA) gives the Free Trade Commission (made up of the three trade ministers) the ability to review the agreement. What the sunset clause does is different, however. It forces expiry if the parties can't reach consensus to maintain the agreement. And since there is only a minimal role for the legislatures in this process (in the form of consultations), it is not hard to see how such a provision could be used to suit the political whims of whoever is in power. The executive branch retains ultimate authority on withdrawal. This clause not only bakes in uncertainty to the agreement (something trade agreements are supposed to avoid), but also underpins a key strategy of the Trump administration, to ensure that no deal is ever secure, and that negotiations are always ongoing.

Talking about the European Union's temporary exclusion from the Section 232 tariffs on steel and aluminum in March 2018, French President Emmanuel Macron said, "In principle, we discuss everything with a country that is a friend and complies with WTO rules… [But] we talk about nothing in principle with a gun pointed at our head….The American strategy is a bad strategy." He is correct. The Trump administration has employed a new tactic that has left allies unsettled and markets rattled. While President Trump may claim this policy approach is a success, the facts belie these assertions. The USMCA, which he has been especially proud of, is not expected to lead to significant gains in real GDP, and as studies conducted by the International Monetary Fund and the C.D. Howe Institute show, the effect is likely to be negative or zero. The acrimonious process of negotiations, which has been replicated by this administration in talks with China and the European Union as well, have left a sour taste in the mouths of our trading partners and friends. The Trump

Expert article • 2718

administration's trade policy has starkly made clear that the United States no longer stands as a leader in the trading system, but instead is the greatest threat to that order. We can only hope the rest of the world takes actions to maintain a free and open international trading system in the face of such an assault.

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Protectionism, managed trade, and transactional deals: Trump's 'America First' trade policy

Expert article • 2719

When Donald Trump took office in January 2017, he laid out his trade policy agenda quite clearly. However, few observers believed that he would fully follow through with his "America First" approach. Many, who saw in Trump's election rhetoric more than just words, argued that Congress would eventually reign in the new president.

Four years later, the 45th president of the United States has proven them wrong. Although he neither terminated the free trade agreement with Canada and Mexico, NAFTA, nor did he revoke U.S. membership of the World Trade Organization (WTO), he saw many of his campaign promises through. His goal was to strengthen the industrial base in the United States and to create millions of new jobs. For Trump, trade seems to be a zero-sum game: exports are good, imports are bad; domestic investment is good, foreign investment is bad – and the substantial U.S. trade deficit is a sign that other countries are acting unfairly. He follows the principle of strict reciprocity, comparing country with country, sector with sector and product with product. Trade is only fair if exports and imports in individual sectors are balanced. Bilateral balances of trade are taken as a benchmark. China tops his agenda, but Trump remains highly critical of the trade policies of the European Union (EU) and Japan as well. To achieve his goals, Trump focuses on bilateral and quid-pro-quo solutions rather than multilateral cooperation. His approach is transactional in character, preferring "deals" over enforceable international trade law; as a result, the number of trade conflicts resulting from his policy has risen steeply.

When Donald Trump took office in January 2017, he laid out his trade policy agenda quite clearly. However, few observers believed that he would fully follow through with his "America First" approach. Many, who saw in Trump's election rhetoric more than just words, argued that Congress would eventually reign in the new president.

While the authority over trade policy is clearly vested in the legislative branch of the government (Article I, Section 8 of the Constitution), Congress has repeatedly delegated power to the president. Through the Trade Promotion Authority (TPA), Congress established a fast-track procedure for the ratification of trade agreements. Congress granted President Obama the current TPA in 2015. It was initially valid until 2018 and applied also to Donald Trump. In mid-2018, the TPA was automatically extended for three years.

The TPA is not the only way in which Congress has extended the powers of the executive branch. Section 232 of the Trade Expansion Act of 1962, for example, allows the president to introduce tariffs or quotas if imports threaten national security. The Trade Act of 1974, section 301, allows the president to use retaliatory measures, including tariffs and quotas, when a country denies the United States rights under a free trade agreement or takes measures that are unjustified, unreasonable, or discriminatory.

President Trump has used this executive leeway to implement his trade policy agenda, thus clearly breaking with the trade policy of his predecessors. What are the main pillars of his trade policy?

Rebalance American Trade Relationships by Promoting National Security: According to the Trump administration, trade policy should focus more on the national interests of the United States and for this reason must be harmonious with the country's national security strategy. Accordingly, the Trump Administration has not only initiated several 232 investigations but implemented 232 tariffs on steel and aluminum.

Re-Negotiation of "Outdated and Imbalanced" Trade Agreements: At the top of the agenda stood NAFTA and the free trade agreement with South Korea (KORUS). Trump castigated NAFTA as "the worst deal ever". After several years of negotiation, the United States, Canada, and Mexico ratified U.S.-Mexico-Canada Agreement (USMCA) in late 2019/early 2020. The agreement is largely similar to NAFTA but differs from it in some key areas; for example, it contains much stricter rules of origin and will thus have major implications for regional value chains. The United States ratified the agreement late 2019; it is scheduled to come into force in summer of 2020.

Aggressive Enforcement of U.S. Trade Law: The Trump administration is no longer willing to tolerate unfair trade practices and is prioritizing the rigorous application of national trade laws, with a clear focus on China. In July 2018, the United States imposed a first round of 301 import duties of 25 percent on imports of Chinese goods worth 34 billion U.S. dollars. After more than a year of tit-for-tat tariff retaliation, the two countries agreed on the so-called Phase-One Deal in early 2020 – an agreement far from a traditional free trade agreement, featuring many aspects of managed trade.

Expert article • 2719

Defending American Interests at the WTO: The Trump administration is highly critical of the WTO, denouncing that the WTO was no longer "able to keep up with modern economic challenges" and as such, should be reformed. Among other things, the Trump Administration criticizes the dispute settlement system for overstepping its mandate. As a response, the Trump administration should be reformed. Among other things, the Trump Administration criticizes the dispute settlement system for overstepping its mandate. As a response, the Trump administration threatens the functioning of the entire organization by blocking the appointment of members to the Appellate Body and by refusing to engage in serious reform discussions.

Opinion polls show that not everybody is satisfied with Trump's trade policies. According to a 2019 Gallup poll on the first round of tariffs imposed between the United States and China in July 2018, more than twice as many Americans believed that the tariffs would hurt the U.S. economy than those who believed they would help it, while nearly the same number believed the tariffs would have no effect. The business community is also highly critical of Trump's tariff policies. Policymakers in both the House and the Senate have thus become increasingly weary of Trump's unpredictable tariff policy. While some legislative proposals aimed at curtailing the president's power under Section 232, Congress has not yet properly reigned in the president. For Republicans, it is difficult to go against the president in the run-up of the upcoming presidential elections. Democrats find it challenging to contradict one of their most important stakeholders, unions, in their skepticism regarding free trade.

As an immediate reaction to the Corona epidemic, the U.S. Trade Representative (USTR) suspended some 301 duties on medical equipment from China in early March 2020. Otherwise, the Trump administration continues to pursue its trade policy pattern. To relocate production of pharmaceuticals and medical devices in the United States, the president is planning an executive order which would apply "Buy American" rules to these two sectors. "Buy American" requirements stipulate that a certain proportion of the value-added must be generated in the USA.

Almost no other country in the world has such a strong influence on the multilateral trading system as the United States. But with his "America First" policy, U.S. President Donald Trump has severely undermining international trade law. This results in substantial costs not only for its trading partners but also for the United States itself. Trump's trade policy neither brought back well-paying jobs to the United States nor did it "improve" the trade balance. Quite the contrary, Trump's trade policy led to a level of uncertainty on international markets not seen for decades. This dampened trade growth – also for the United States – long before the corona crisis hit.

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Future U.S. trade policy towards China

Expert article • 2720

In this paper, I would like to examine critically the *future* beyond-Trump era trade relationship between the United States and China. Any forecast beyond the horizon is difficult, regardless of whether we consider a future Democratic or Republican Administration. However, three elements seem to have emerged. One, there is a bi-partisan consensus both in the executive branch and in Congress that Great Power competition between the United States and China will continue for the next few decades. Of course, as highlighted by the current Coronavirus outbreak, there should still be significant areas of *potential co-operation* (such as global pandemics, climate change, disaster and humanitarian relief, etc.). Two, there should be clearer distinctions between U.S. trade policies towards allies versus potential competitors. Third, there should be a return in future Administrations to policies in this area based more on *competence* and expert inputs instead of Trumpian gut instincts and transactional motives.

At present, average overall U.S. tariffs on imports from China remain above 19%, despite the January 2020 "Phase One" agreement. Most mainstream researchers seem to view the Trump Administration approach to trade with China to be too inconsistent and too unfocused to be effective. While there can be overlaps, in this paper, I would like to highlight *four* distinct types of *future* U.S. trade policies and trade relationships between the United States and China.

First, an increasingly important area for the *future* U.S.-China trade relationship is *digital* trade. This broadly involves e-commerce, big data, social media and messaging apps, search engine, online advertising, content sharing and streaming, etc. Such types of *digital* trade often exhibit networked effects, with the value of the platforms dependent on how many other users may be using them as well. Other standard properties of these *digital* services include: winner-takes-all, success breeding more success and first-mover advantages. Given these typical characteristics, and with the Great Digital Firewall in place in China, *future* U.S. policymakers may view American companies such as Google, Facebook, Twitter, YouTube, Amazon being essentially shut out of China with increasing alarm. One emerging policy response seems to be *market segmentation*, leading to the Chinese *digital*, online market being dominated by Chinese companies, while the U.S. market will be increasingly reserved for American firms. In addition, since *digital* company profits and future algorithmic learning are driven more by the number of users and increased acquisition of big data, the U.S. future *digital* trade policy will likely be to enable and empower American *digital* firms to compete better outside of China: in Europe, Japan, and even in Belt and Road economies (including Southeast Asia and Africa).

Second, future U.S. value-added trade policies may more clearly create a distinction between "essential" and "non-essential" supply chains. "Essential" supply chains may involve technology-intensive components and equipment (e.g. semiconductor, future 6-G telecom equipment, smart robots, drone production, laser-guided machine tools, microprocessors, optical devises, 3-D printers, etc.), but as reminded by the Coronavirus, "essential" parts can also include medical supplies and equipment. "Non-essential" components trade may involve textile and garment, furniture, basic transportation vehicles, etc. For "essential" supply chains, there may be U.S. *future* policies encouraging such components and equipment be produced in the United States, or at least much closer to the U.S. markets, instead of being produced in China. In other words, there will likely be a shortening of the U.S. "essential" supply chains.

Third, focusing on finished technology products that embody design, branding and scale economies such as iPhone and Boeing aircrafts, the future U.S. government will further amplify the need to vigorously enforce intellectual property rights, protection of designs, enhanced product differentiation and raising global market shares. U.S. Special 301 tariffs will likely to be continued to be utilized against China. *Future* U.S. policymakers will also be increasingly aware of the potential complementarities of *Brand America* with all its cultural and institutional soft power and the branding of American products and services.

Fourth, when *future* U.S. administrations consider basic agricultural, metal and manufacturing industries such as garment, textile, shoes, food and fishery products, simple household appliances, basic consumer electronics goods, steel and cement, the conventional comparative advantage-driven gains from trade will likely dominate their thinking. Except for occasional anti-dumping duties, countervailing duties and safeguards, these types of trade may still be driven by conventional free trade arguments.

To sum up, looking beyond the Trump era, for *digital* trade, "essential" supply chains and technology-intensive and design-intensive products and services, *future* U.S. Administrations and U.S. Congress will likely pay much closer attention to the country's increasingly comprehensive, more intense but also more nuanced trade competition with China. ■

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Hope and despair: The RCEP and the US-China trade war

Expert article • 2721

The Regional Comprehensive Economic Partnership (RCEP) reached an agreement last November. The RCEP is a multilateral free trade agreement (FTA) of 15 Asia-Pacific economies, namely South Korea, China, Australia, Japan, New Zealand, and 10 ASEAN countries. The accord was reached without India, which had been participating in the trade negotiation process since the talks were formally launched in 2012. That said, all 15 participating countries agreed to make a concerted effort to resolve remaining issues so that India also can join the RCEP before the final signing of the agreement this year.

The RCEP has surfaced as an important entity to China, which stands at the apex of the global supply chain; to traditional trade-oriented economies such as South Korea and Japan; and the newly emerging ASEAN developing countries. To these nations, the RCEP has given hope that the world's largest FTA may be launched in the Asia-Pacific region. Their high hopes for the RCEP are understandable; as of 2018, the participating economies accounted for 48 percent (3.6 billion) of the world's population, 32 percent ($27.4 trillion) of the world's GDP, and 29 percent ($9.6 trillion) of global trade.

The conclusion of the RCEP in the 2000s most certainly would have been a pivotal moment for free and open international trade regimes and would have been at the center of global attention. As of now, however, the RCEP seems to have failed to inspire confidence that it will open a new horizon of hope to a better international trade system. This is due to the prevailing pessimism and uncertainties in the international liberal trade order, which in turn are grounded in a trade conflict between the world's top two economic powerhouses, the U.S. and China, that overshadowed the world's largest FTA. There is even strong skepticism about whether the RCEP can take effect with India's participation.

The liberal international order resulted in the prosperity of the world economy and competitive interdependence among nations. However, the liberal international order may no longer be the norm, as exemplified by the MAGA (Make America Great Again) policy and Brexit in the two major traditional advocates of the liberal economy, the U.S. and the U.K. Furthermore, the rapid growth of the Chinese economy over the past decade has not only provided it enough national power to compete with the U.S. for global hegemony, but also has proved that, in a sense, state capitalism could still be more competitive than liberal market-based economies.

If the RCEP agreement is the last vestige of the liberal international trade order, the U.S.-China trade conflict is a precursor to a new – clearly *illiberal* – international trade order. The U.S.-China trade war, which has imposed hefty tariffs on each other's imports, since 2018 has increased uncertainties in the global economy and has raised concerns about an economic slowdown. Although the trade war has come to a standstill with the signing of the first-phase bilateral trade agreement on January 15, the U.S. and China have yet to find and remove the root cause of the conflict.

China's state-controlled capitalism, which inevitably grants government subsidies to domestic companies, lacks adequate transparency, intellectual property rights, and antitrust laws, and enforces regulations unfavorable to foreign competitors, is the most complex issue, or a Gordian knot, that divides the two countries. Unless this fundamental issue is resolved, the first phase of the U.S.-China trade agreement will lose effect over time. This means the trade war could recur at any time. In addition, the U.S. has given up its status as the global leader in protecting the liberal international trade order and instead has adopted an extremely self-centered trade policy. The America's radical shift from liberalism to nationalism, or protectionism, has surely brought uncertainties and insecurity to the international trade order and norms other market-based economies should follow.

The despair of going against free and open trade disclosed by the U.S.-China trade war is much greater than the hope brought by the RCEP agreement. China's stubborn state capitalism and the U.S.-originated illiberalism extend beyond simply explaining the current trade war between the two superpowers: the root causes of the U.S.-China trade war point to the possibility that liberalism, which has long supported free and open trade around the world, may not be the central ideology of international trade in the remainder of the 21st century.

An ensuing question is whether we have any convincing ideological or theoretical framework other than economic liberalism in explaining and understanding international trade and co-prosperity. We once declared the historical victory of liberalism in the ideological confrontation at the beginning of the post-Cold War era. Thirty years later, we continue to face another ideological showdown between co-prosperity and self-interest, or between liberal and illiberal international orders. ■

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China in the global economy before the COVID-19 outbreak

Expert article • 2722

China has become the second largest economy in the world after the United States at a historically rapid pace. China currently accounts for about 16-17% of the world economy. Four decades ago, China made up less than three percent of the world economy (UNCTAD). Measured by purchasing power parity, China has been the world's largest economy for a few years (CIA).

China is also the world's largest consumer of energy. It consumes approximately a quarter of all energy consumed globally. In comparison, India, the country with the world's second largest population, consumes only six per cent of the world's energy. The structure of Chinese energy consumption does not meet the requirements of the modern world. Almost 60% the energy needed by China is produced from coal. In the United States, which is the world's second largest energy consumer, coal accounts for less than 15% of the country's total energy consumption. It is worthwhile to note that China consumes more than half of all coal consumed globally and is thus perhaps the most significant driver of global warming (BP).

We in western countries can make purchase decisions that will accelerate China's transition to cleaner energy as exports play an important role in the Chinese economy. Exports account for almost 20% of China's GDP. The corresponding figure for the United States is less than 10% (WTO).

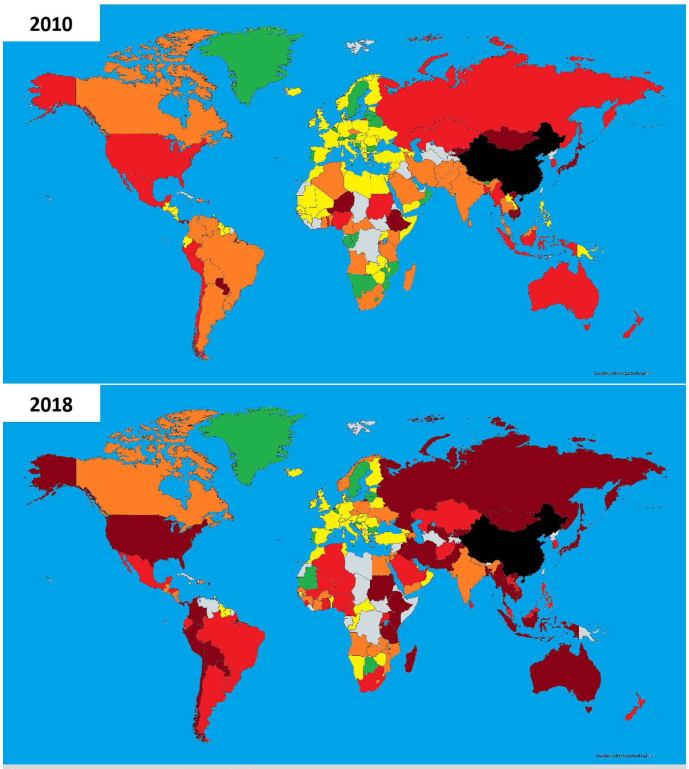
China is not particularly dependent on the coal imports. China imports less than one tenth of the coal it consumes. China's import dependence is much greater with regard to other fossil energy forms than coal. China imports 70% of the oil it consumes and over 40% of the natural gas it consumes. However, when assessing China's overall energy import dependency, it should be noted that oil and natural gas together only account for just over a quarter of China's primary energy consumption (BP).

China is the world's largest exporter. It accounts for around 13% of world exports (WTO). The huge volume of Chinese exports is reflected in China's significant share of imports in other countries. There has been a fair bit of public debate about China's silk road programme and China's economic role in Africa, but less attention has been given to China's influence in Asia and South America. The maps at the end of this article provide a summary on China's significant position as a country of import around the world and the exceptionally rapid growth of China's economic influence over the last decade. In this context, I cannot help but mention that China accounts for more than a fifth of US and Russian imports.

It is widely believed that China is still a developing country that exports cheap goods. However, when we look at China's export structure, it becomes obvious that China is anything but a developing country on the basis of its export structure. Machines and equipment account for more than 40% of Chinese exports. If we look for example at the structure of trade between the USA and China, we could well conclude that China is a more developed export country than the United States (World Bank).

In 2018, China, including Hong Kong, attracted one fifth of the global FDI inflow. Two decades earlier, China's share of the world's investment inflow was half of what it is currently. China's role as an investor in other countries has grown even more rapidly than this. Just 20 years ago, China together with Hong Kong only accounted for 2% of the global FDI outflow. Currently, China already accounts for more than 20% of this (UNCTAD).

The Chinese spend by far the most money on their journeys abroad compared to the citizens of other countries. In 2018, the Chinese spent nearly USD 280 billion on their trips abroad, which was almost double of what American tourists spent abroad. On the other hand, it is worth noting that many foreigners also travel to China. In 2018, foreigners made more than 60 million overnight trips to China. The majority of foreigners travelling to China came from other Asian countries (UNWTO). ■



Grey	=	Data missing
Green	=	China's 0-5% share in the imports
Yellow	=	China's 5-10% share in the imports
Orange	=	China's 10-15% share in the imports
Red	=	China's 15-20% share in the imports
Burgundy	=	China's over 20% share in the imports

Source: World Bank

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Steely silkroad between China and Europe

Expert article • 2723

The Silk Road initiative, first announced in 2013 by the government of China has been a catalysator in increasing cargo train transportations between China and Europe throughout the past years. There are currently 25 – 30 trains daily, each capable of transporting around 50 containers. We are approaching the threshold of 10 000 trains and more than 400 000 containers per year. That is around 12 million tonnes. The growth is very rapid, as only in 2013 there were less than 100 trains in the whole year. There are around 50 destiations in both ends.

The Chinese government has partially subsidized the development. It is expected, that this will be reduced in the near future. There is competetion between the ports in Europe as well as different routing options. Major hubs in Europe are in Poland and Germany. The only operative port in Northen Europe is in Helsinki, Vuosaari harbor. Different areas in China also compete of the market increase in order to boost their industries and businesses.

Nurminen Logistics is a traditional Finnish company with a deep history since 1886. During this long period, a special know-how has been built which now serves our customers in freight forwarding, cargo operations and rail services in Finland, China, Russia and the Baltic Countries.

The company has been a major Steely Silkroad developer as it has succesfully provided a blocktrain service from Hefei, China to Helsinki, Finland and vice versa for 1,5 years. This service has become well known, valued and a popular connection between the Northern Europe and China. It serves as the only regular train service from the Nordic countries.

The train connection belongs to the One Belt One Road thinking. It has become very viable during the Covid-19 crisis as both maritime and air transportations have suffered from different restrictions.

There are several routing opportunities between China and Finland. The main routing has based on collaboration with Chinese, Russian and Kazakstanian partners. Another option is to partially use Mongolian areas. The connection is a part of the One Belt One Road logic, which was introduced by China in 2013.

Nurminen Logistics has been a versatile railroad service provider in the Northern rim already for decades. With an extensive experience from Russia, now this service to is a pioneering option as no similar regular services are in place between Northern Europe and China. It is also quicker than sending cargo by ship and it produces less emissions than air freight. There has been an obvious demand for this kind of service.

The service is available for goods like bathces with high value, short connection deliveries, regular transportations, goods vulnerable to sea transport conditions and as an option for air freight. Transportation in reefer containers with options to send food productions is becoming avalible with recent regulatory developments.

One train has a maximum payload of approximately 1300 tons. Containers are suitable for various types of cargo; for instance machinery and technology, pulp and wood, consumer goods and steel products to name a few examples.

Land port of Hefei serves well its' nearby cities like Shanghai, Suzhou, Ningbo, Zhengzhou. In the European end all Finnish towns, Stockholm, St Petersburg, Tallinn and Riga are in the proximity. From Helsinki, more than 30 European ports are served by ships.

Rail transportation is environmentally friendly. President Jinping and President Niinistö set up an Innovation Committee for mutual collaboration between China and Finland in 2017. The Maritime Logistics sub-committee aims to expand to other areas of logistic. In the recent meeting in December 2019 the following proposal was made:

"Continuing cooperation in the framework of the Working Group and find ways to proactively coordinate and review maritime, logistics and Arctic projects and opportunities for cooperation.

Proposing to widen cooperation to maritime value chain related logistics such as road, rail and ports' logistics."

This proposal is very much welcomed among the logistics industry as there is a good investment development, where Finnish businesses invest in China and vice versa.

We welcome everyone to our Steely Silkroad, which is becoming even more important during the Covid 19 crisis. ■

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Revisiting the impact of China's One Belt One Road initiative on international trade policy

Expert article • 2724

At the end of 2013, President Xi JinPing of the People's Republic of China (PRC) announced that the Chinese government intended to create a new global strategy, the so-called One Belt One Road (OBOR) plan. This plan follows in the footsteps of the ancient Silk Road Economic Belt and the twenty-first century Maritime Silk Road initiative.

China's massive OBOR plan is fueling megaprojects around the world. These projects comprise significant investment in Asia, Africa, South America, as well as Eastern Europe, Indonesia, and even Mexico and the West Indies. Chinese investment is spreading everywhere. In 2000, the US was the main trading partner of more than 80 percent of countries globally. By 2018, that number had declined to 30 percent. China is now the leading trading partner of 128 of the 190 countries in the world (Chapman, 2020).[1 2]

In fact, this promising initiative aims to deepen the cooperation among participating countries on economic and security matters through hyper-efficient infrastructure and new institutional linkages. According to Chinese authorities, the OBOR plan comprises five major goals regarding cooperation among the participating countries: to coordinate international trade development policies, to forge an infrastructure and facilities network across the Asian and European continents, to strengthen investment and trade partnerships, to enhance financial cooperation among participants, and to deepen social and cultural exchange through trade partnerships.

The OBOR strategy is one of the world's largest initiatives. The focus on infrastructure underscores the significance of this initiative for development, allowing its member countries to receive substantial investment from China for infrastructure projects. The purpose of these infrastructure-led projects is to enhance the availability and quality of cross-border logistics facilities. Hence, investment in infrastructure by Chinese investors in OBOR countries can help to mitigate the current challenges and bridge the gap in infrastructure between host countries and China.

China, as the leader of this initiative, has already invested and built an institutional framework for OBOR. The Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (formerly referred to as the BRICS Development Bank) have played significant roles in the implementation of OBOR.[3]

This initiative is certainly having a significant impact on the world's economy across many regions. In addition, many studies have proven that there are numerous opportunities for countries to participate in the OBOR plan.[4] The findings of the current research paper, which have been published in the North American Journal of Economic and Finance (NAJEF), highlight the potential of OBOR in the Association of Southeast Asian Nations (ASEAN) region.[5] The research provides evidence to show that the impact of the OBOR plan is not limited to its member countries or one region, such as ASEAN, but the plan may affect other regions, including non-OBOR member countries. These non-OBOR member countries include Japan, the United Kingdom (UK), the United States of America (USA), and other European nations.

Apart from the above statement, this paper seeks, therefore, to open up a discussion forum that takes a broader view of the OBOR strategy and bilateral trade relationships, restricted not to the ASEAN region but examining other continents as well. I strongly believe that a review of this topic is essential because the global economy has changed significantly in recent years, with many uncertainties emerging since this article was first published in the NAJEF.

In the current decade commencing in 2020, the Gross Domestic Product (GDP) of China is expected to grow at a slower rate of only 4-5 percent. The economic outlook of China is unclear due to US-China trade tensions and the unexpected outbreak of Coronavirus in many major cities in China. On the one hand, the US-China trade war will have a long-term impact beyond its effects on China's GDP. However, at least the ongoing negotiations between the US and China are tending towards the conclusion of a preliminary agreement. At this stage, the so-called phase 1 trade deal is merely a band-aid, with a solution only likely to be reached in the final stages of negotiations. On the other hand, the unexpected outbreak of novel coronavirus (2019-nCoV) in Wuhan city as well as many other major cities in China, combined with the unrest in Hong Kong, will no doubt impact China's GDP growth and its OBOR plan.[6]

With all of these unforeseen circumstances, the continuation of the OBOR plan in the current decade will be extremely challenging for the Chinese government. This turbulence stems from many sources, both internal and external. According to Associate Dean of Tsinghua University, Zhu Ning, "China is still working patiently on the Belt & Road initiative; slowdown is partly because of the confusion around what China is planning to do with the project." Zhu Ning also states that the "Slow down of yuan internationalization and increase in the national level of debt is constraining China's hand in making bigger investments."[7] The declaration of such views from one of China's most prominent universities clearly shows that the continued implementation of the OBOR plan will be a challenging task for China in the years to come. ■

1 See Chapman, D., 2020, "Technical Scoop Update: Coronavirus. Who suspected that was coming? Gold as a safe haven benefited", Retrieved 27th January 2020. Available: http://news.goldseek.com/GoldSeek/1580137269.php

Expert article • 2724

2 This is the reason why the US trade started a trade war with China in January 2018 as both countries are effectively in a battle for global trade and economic dominance.
3 The BRICS include Brazil, Russia, India, China and South Africa. The purpose of this BRICS is to create the New Development Bank (NBD) and the Contingent Reserve Agreement (CRA) to allow these countries to work outside the control of the US-dominated World Bank (WB) and the International Monetary Fund (IMF).
4 Foo et al., (2019), "The impact's of China's one belt one road initiative on international trade in the ASEAN region", The North American Journal of Economics and Finance, Forthcoming, In press.
5 See footnote 1.
6 The costs of coronavirus outbreak to the world economy are unknown at this stage. But past cases such as the Severe Acute respiratory Syndrome (SARS) outbreak in China and Hong Kong cost the global economy an estimated USD40 billion, with the biggest impacts on travel, retail and productivity.
7 Doshi, M., "Davos 2020: Lower Growth, Higher Debt, Weak Investment – Zhu Ning on the China Story", Retrieved 28th January 2020. Available: https://www.bloombergquint.com/davos-world-economic-forum-2020/wef-davos-2020-lower-growth-higher-debt-weak-investmentszhu-ning-on-the-china-story

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Japan's new trade conundrum amid the pandemic

Expert article • 2725

Until the end of 2019, the scorecard for Japanese Prime Minister Shinzo Abe's trade policy was rather impressive. Even as the United States under President Trump quickly shifted to pursuing a more protectionist trade policy and abandoned the ambitious Trans-Pacific Partnership agreement, the other TPP member countries including Japan remained commitment to the deal. The new TPP, or the Comprehensive and Progressive Trans-Pacific Partnership agreement, came into effect by the end of 2018 in no small part to Tokyo's commitment to the agreement. Japan also was able to sign a bilateral trade agreement with Washington in 2019 that did not jeopardize its critical automotive industry, whilst keeping relations with the Trump administration as smooth as possible.

Events in recent months, however, have upended the global economy and the trade agenda worldwide. Even though the infection rate in Japan is relatively low at under 2,000 at the time of this writing in late March, Japan's international trade relations including that with the United States have changed drastically as a result of the pandemic.

From the beginning of the coronavirus outbreak in China earlier this year, the vulnerabilities of supply chains that were too heavily invested in one country or too specialized in procurement became evident. Those weaknesses had already been made apparent by the escalating trade war between the United States and China, with third countries like Japan being hurt by their rivalries because production was so heavily dependent on China. COVID-19 has also made the lack of inventories, which until now had been a hallmark of efficiency, a liability. Carmakers Nissan and Honda were one of the many companies hard hit by the closure of their factories in Hubei province where some of their critical parts were produced and thus led to a slowdown in overall automobile output. Companies had already been impacted by the escalation of U.S.-China trade tensions and rising tariff barriers between the two sides, and the virus only made clear that reconsideration of the supply chain to be more resilient to upheavals including natural disasters and political upheaval was critical moving forward.

As the coronavirus spread far beyond China and became a global pandemic, the impact of COVID-19 on the world economy and trade relations has become even more acute. The most apparent, of course, is the closure of borders and the restrictions in movement of people. Amid fears of contagion, countries have either restricted or sealed themselves off entry of foreigners. In the case of Japan, it decided in late March to impose quarantines for two weeks on U.S. citizens as well as those from the European Union and other areas. The United States, on the other hand, has banned entry of citizens from the Schengen area, which includes Finland, as well as the UK and Ireland. Washington has not, however, placed any restrictions on Japanese nationals entry the United States as of yet. The border closures are seen as drastic but necessary measures to keep the coronavirus from spreading, even among staunch allies, but they are hardly likely to enhance diplomatic relations at a time of a global health crisis. Moreover, amid efforts to secure the necessary medical equipment and medication, export restriction of much-needed supplies is only fanning the flames of distrust and rivalry still further.

The United States is currently struggling to keep the rate of infection from escalating still further. China, in contrast, is reportedly seeing its infection rate flatten and Beijing has been on an active campaign to extend its assistance across the globe to support countries in the midst of fighting COVID-19. In the case of Japan, there is growing fear that the country will face a second wave of infection and the nation is preparing for the possibility of a rapid increase in contagion. China is well aware of Tokyo's concerns, and has offered numerous grass-root gestures of goodwill including providing 160,000 facial masks to the citizens of Kita-Kyushu, which had previously sent 260 masks and 70 sets of protective gear to the people of Dalian in February.

Such friendly gestures can hardly offset the historical rivalry and fundamental distrust between Tokyo and Beijing. Still, Prime Minister Abe is unlikely to join the Trump administration's efforts to use the pandemic to label China as the enemy. Rather than bringing the world's two biggest economies together to fight a common threat, COVID-19 has exacerbated the geopolitical tensions between Washington and Beijing. Few countries have actively come to side with the White House, however, with Japan being no exception.

The pandemic has already altered the global trade landscape. As countries look to recover the economic carnage, trade barriers will no doubt be used as a means to protect domestic growth. Trade relations between Japan and the United States will be no exception. ■

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EU policy for changing global trade winds

Expert article • 2726

The global economy was ripe for a recession even before the corona pandemic struck. Many commentators had been warning that a decade-long trend of rising non-tariff barriers, mainly by China and the US, had ushered in an era of heightened uncertainty; that stock markets were overheated, that advanced economies were heading for a slowdown, and that the trade wars initiated by President Trump had disrupted supply chains. Now, the stock market has finally crashed and a recession has become almost inevitable, undermining the world trade system.

Against this backdrop, the WTO is facing its worst-ever crisis. Whereas the breakdown of the dispute settlement mechanism at the end of 2019 was triggered by the US, progress on the modernisation of the multilateral trading system is held hostage by diverging views of the EU, China and the US. This divergence appears across nearly all WTO reform areas, from the Appellate Body to the disciplines, such as those related to subsidies and state-owned enterprises, as well as notification and transparency obligations.

Although a champion of multilateralism, the EU will not be able to take the lead in restoring relevance to the WTO without the support of other members. The Juncker Commission had pushed its reform agenda with key trade partners in different fora, such as the EU-China working group on WTO reform, the trilateral ministerial working group with Japan and the US, and the G20. While important WTO members such as South Korea, India, Canada and Switzerland aligned with the Union, for instance on the reform of the Appellate Body, the US and other countries have been less convinced by the EU's proposals.

While the von der Leyen Commission will need to align more actively and strategically with like-minded countries when pursuing its WTO reform agenda, a precondition for the preservation and modernisation of the multilateral global trading system will nevertheless be the normalisation of the triangular trade relationship between the EU, the US and China. To this end, the European Commission will need to stand firm and pursue its trade agenda through both bilateral and plurilateral agreements.

As for the EU-US relationship, the conclusion of limited agreements such as those envisaged on conformity assessment and the elimination of tariffs for industrial goods could be used to normalise the transatlantic trade relationship, but there is a clear and deep discrepancy between EU and US negotiating positions for new trade talks, mainly over agricultural products and cars. What's more, the Commission will need to engage actively with the European Parliament, which has indicated that I will not pursue these agreements to the detriment of the EU's value-driven trade policy. Finally, the EU would in all likelihood suspend negotiations if the US were to impose new trade restrictions.

Amidst the escalating geopolitical rivalry between the US and China, Washington expects the EU to be its ally in containing Beijing and preventing it from circumventing the punitive measures adopted by the Trump administration. The next US President, who is elected in November 2020, may well be as insistent about including in the future trade agreements a clause that provides "a mechanism to ensure transparency and take(s) appropriate action if the EU negotiates an FTA with a non-market country", i.e. China. Brussels is against the introduction of such a 'poison pill' clause in any FTA. The EU would rather not have to choose between the US – to which it is strategically tethered and with which it shares constitutional values – and China, with which it also shares huge commercial interests.

After negotiating for eight years, the EU and China concluded their first-ever bilateral trade agreement on the protection of geographical indications in November 2019. To maximise its trade potential, the EU aspires to conclude a comprehensive investment agreement with China by the end of this year. While this ambition may be over-optimistic given the delays incurred by the corona crisis and the pressure by the Trump-led White House on European countries to 'de-couple' from China, it nevertheless reveals a new level of activism between the EU and China after painfully slow progress in bilateral negotiations between 2013 and 2018. Overall, it is imperative for the EU to recognise China as a partner, albeit a fierce competitor at the same time. The EU must engage China not only in bilateral relations to solve trade frictions but also in multilateral fora. After all, efforts to reform the multilateral trading system may become redundant if global major trade powers such as China are not involved.

Meanwhile, in the context of a paralysed WTO Appellate Body, the EU's attempts to tackle the trade barriers imposed by others must go beyond reliance on the extra-territorial effect of a revised Enforcement Regulation and include policies and instruments such as developing a multi-party interim appeal arbitration arrangement. The EU may have to do so in sector-based coalitions. The trilateral agreement with Japan and the US on industrial subsidies is intended to attract other WTO members and thus create enough critical mass to push China into compliance. Plurilateral agreements in other domains could generate the kind of upward convergence needed to prepare for truly multilateral solutions.

One big caveat applies though. In the face of the Covid-19 outbreak, the reflex of most governments has been one of self-preservation by closing borders, stockpiling essentials and forcing citizens and companies to go into lockdown. If national and supranational executives can contain or overcome the corona crisis within the next six to twelve months, then the world will likely return to the path of globalisation, even if some of the assumptions that undergirded it (e.g., short production chains with just-in-time deliveries) might have to be revised. If not, then we will inherit a different world altogether. ■

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EU trade and investment policy

Expert article • 2727

Until the onset of the Covid-19 pandemic the EU was the standard bearer of free trade and multilateralism, seeking to balance economic goals (market access) with the protection of European values. EU treaties enshrine the objective of promoting global, rules based, trade through its common trade policy. Eurobarometer surveys also consistently show that free trade enjoys support throughout Europe, especially in the Baltic Rim countries. However, modern trade policy is very complex, reaching all levels of society, and the EU faces challenges implementing the three pillars of its trade and investment strategy: enhancing economic opportunities for businesses and consumers, promoting open markets, and safeguarding the European social and regulatory model. These challenges will remain when the pandemic is resolved.

Trade and investment policy was long focused primarily on the reduction of traditional trade barriers, such as tariffs, customs inspections, investment regulations, and protecting certain domestic sectors. Modern, deep, and comprehensive agreements also address “behind-the-border” (domestic) issues, such as intellectual property, and environmental, labour, health, and consumer protection regulations. This adds to the complexity of trade agreements, especially when regulatory differences affect large sectors of the economy. There are many ways in which mutual recognition of quality and regulations can be achieved between two markets, and this is one area of significant economic growth potential. For example, in 2017 the EU and the US agreed to recognize each other’s inspections of manufacturing practices for pharmaceutical drugs as equivalent, removing the need for redundant testing. EU agreements now also include chapters addressing the interests of, and expanding opportunities for, small and midsized enterprises, since they are often less able to cope with trade obstacles ranging from tariffs to excessive regulatory hurdles.

Trade negotiations (perceived as technical and remote) have historically not attracted much public attention. However, this changed during negotiations on the Transatlantic Trade and Investment Agreement (TTIP) with the US, and the Comprehensive Economic and Trade Agreement with Canada. European civil society organizations mounted an extraordinary and ubiquitous campaign, moving public opinion against both agreements, but especially TTIP. Though strongest in Germany and Austria, opposition was widespread, stoked by anger at the lack of transparency, and fears that the US would force lower standards on Europe across multiple sectors (especially food and health). Investor-state dispute settlement (ISDS) – included in over 1,100 bilateral investment treaties involving at least one European country since the early 1960s – was portrayed as undemocratic, opaque, and allowing firms to sue governments over public health and social policies firms deemed undesirable. The European Commission’s response was to publicize all its key negotiating proposals, reaffirm existing food safety standards, remove ISDS from all new trade agreements, and guarantee civil society input on all negotiations. The EU’s trade strategy now emphasises the importance of values (e.g. human rights, sustainability, safety, equality, and labour rights) alongside economic goals.

This combination is pivotal to the unique trade agreement that is being negotiated with the UK in 2020. Most EU members, including Germany and Sweden, enjoy trade surpluses in goods with the UK; the UK has a surplus in service exports. If talks fail, the UK might loosen regulations and lower standards in order to gain competitiveness. Therefore, the EU’s goal is to tie the UK as closely as possible to EU regulations and standards.

Balancing values and market access is also at the heart of the EU’s multilateral trade policy. The EU’s justification for pursuing bilateral agreements is that deep and comprehensive agreements are compatible with, and promote, multilateralism because a widening net of agreements elevate bilateral achievements to the multilateral level. Since 2013 the EU has concluded agreements with Canada, Japan, and Vietnam (all implemented), as well as Mexico and Mercosur (agreements yet to be ratified), while continuing negotiations with Australia, New Zealand, Chile, and Indonesia. It is also negotiating an investment agreement with China. The Trump administration’s rejection of multilateralism in favour of unconventional, state-directed, bilateral mini-deals – alongside minor revisions of existing treaties – leaves the EU as its standard bearer, even if that means simultaneously concluding numerous bilateral agreements.

During the financial crisis the EU heralded trade as a tool for growth, and has since added a strong focus on values and social purpose. Let us hope that the Commission (with Member States’ support) can fend off arguments that protectionism is the solution to the dire economic consequences of the 2020 pandemic. ■

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The European Parliament: A tough trade negotiator?

Expert article • 2728

Trade negotiations have been high on the agenda of the European Union (EU) for the past decade, and they will remain a priority in the future. One example is the United Kingdom's (UK) withdrawal from the EU and the upcoming talks on a future EU-UK agreement. Over the past decade, the European Parliament has become an important interlocutor in the EU's trade negotiations and it promises to be a tough negotiator in the upcoming EU-UK talks.

A good example for the European Parliament's expansion of powers are the EU's highly politicized trade agreement negotiations with Canada and the United States on CETA and TTIP. In these negotiations, civil society was particularly concerned about lacking transparency and the limited role of parliaments.

Yet, in fact, the European Parliament's strong involvement in the CETA and TTIP negotiations was unprecedented. One reason for Parliament's heavy engagement was the new legal basis that came with the Lisbon Treaty. According to the EU's latest treaty, the European Parliament must be informed throughout the negotiations and it is entitled to ratify international agreements such as CETA or TTIP. At the same time, members of Parliament interpreted their right to be informed in such an expansive way that they successfully asked for access to all negotiation documents, including the European Commission's negotiation mandate – a request the European Parliament has made for decades.

The informal rights of Parliament in the CETA and TTIP negotiations went far beyond the formal treaty basis. Next to accessing all negotiation documents, members of Parliament asked for a debriefing before and after each bargaining round with Canada and the United States. Moreover, the European Parliament managed to influence the substance of the EU-Canada trade agreement. One example is the revised investor-state dispute settlement mechanism of the CETA. A crucial driver for the revised mechanism was pressure exerted by the European Parliament. On top, parliamentarians moved first and organized bilateral talks with the EU's negotiating partners. With the United States, for instance, the European Parliament initiated own trade talks accompanying the official negotiations and, thus, secured for itself an informal role as a negotiator.

Research shows that the European Parliament's informal powers, once established, remain in place and will be further expanded. This is exactly what happened in the negotiations on the UK's withdrawal from the EU. Early on in the Brexit process, the European Parliament appointed Guy Verhofstadt as its coordinator – a position that resembles the European Commission's chief negotiator. He was part of the Brexit Steering Group set up to monitor the UK's withdrawal from the EU. Guy Verhofstadt was in charge of coordinating between Parliament and other EU actors like the Council or the European Commission, and he pursued direct talks with the negotiating partners from the UK. Hence, Parliament built on and extended the informal powers it had acquired in the preceding CETA and TTIP talks.

The upcoming negotiations on a future EU-UK trade agreement promise a significant involvement of the European Parliament. Already in February 2020, Parliament issued a resolution making it clear what its red lines in the negotiations are. In this document, Parliament threatens to decline ratification on any agreement that will not include strong safeguards and level playing field provisions. The resolution can be understood as Parliament's negotiation mandate. Formally, the European Parliament, other than the Council, has no right to authorize the European Commission's negotiation mandate. Hence, the resolution presents an attempt of yet a further informal institutional prerogative which the European Parliament established. On top, members of Parliament organized a 'UK contact group', headed by David McAllister, which will coordinate with the European Commission's chief negotiator Michel Barnier and liaise with the UK. In other words, the European Parliament has already positioned itself to pursue bargaining rounds with the UK alongside the European Commission's negotiators.

In the trade politics of the EU, the European Parliament was clearly successfully in empowering its formal and informal institutional powers. By now, it is involved at all stages of trade negotiations: by issuing a resolution similar to a negotiation mandate at the very start of trade talks; by being an active negotiator during the talks through a chief coordinator and a parliamentary contact group; and by leveraging its veto right at the conclusion stage of trade agreements. Hence, we can expect an extraordinarily strong European Parliament in the upcoming EU-UK negotiations, which will not shy away from using the full potential of its institutional weight.

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Europe and the governance of the digital economy

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The rapid growth in digital technology in recent years has transformed the world in multiple ways. One of the areas in which this impact is most visible is the rapid growth of the digital economy and digital trade. A growing number of goods that used to be traded physically are now exchanged either electronically or are mediated by digital firms such as Amazon and Alibaba. A growing number of services are also moving to online delivery limiting the need for the physical presence of the service provider in a country. As we move toward technologies related to artificial intelligence (AI), cloud computing, autonomous vehicles, and the internet of things (IoT), the role of data flows in underpinning global exchange of goods and services is likely to expand rapidly.

This growth in digital trade is creating an important, and fundamental, challenge to international trade governance. Over decades, through multiple forums, states have agreed on rules that govern trade in goods and services including rules on tariffs, modes of service delivery, intellectual property, amongst others. Today, the rapid growth in digital trade is challenging these rules. Should digital goods traded through electronic transmission (say books and movies) be subject to tariffs? Can banks provide financial services from one country to another without having physical presence there? And what are the limits of the role of the state in controlling these types of flows?

Debates on these issues have intensified in recent years. Fuelled by demands from Silicon Valley firms, the United States have pursued a campaign to reach global rules that guarantee “free digital trade”. This campaign was manifested in agreements such as the Trans-Pacific Partnership (TPP) that included major provisions related to digital trade, the new USMCA agreement with Mexico and Canada, and a set of proposals for multilateral rules through the World Trade Organisation (WTO). This agenda is problematic for a number of reasons. First, it limits the ability to impose tariffs on digital goods which could be problematic for states who rely on tariffs for revenues or who use tariffs to protect certain economic sectors. Similarly, these rules will potentially remove some of the protections and regulations imposed by states on the services sector which could lead to negative impact on major economic sectors in most countries.

Furthermore, these rules are likely to strengthen the dominance of a small number of large American digital firms, the so-called GAFA (Google, Apple, Facebook, and Amazon), in terms of data collection and analysis and power vis-à-vis small and medium enterprises throughout the world. The problematic business model adopted by many of these digital firms with regards to data protection, privacy, and broader economic and social implications will become difficult to resist. Such rules are likely to make it harder for other countries to pursue the legitimate objectives of protecting the data of their citizens, their small and medium enterprises, or promoting their own digital economies.

However, opposing this digital economy model and the set of rules that underpin it is not enough. In the absence of any regime of global governance, what we are witnessing today is the emergence and expansion of “alternative” models that in many ways are far worse. In countries such as China and Russia, amongst others, states are developing and implementing tools to control the internet and to enlist large digital firms in controlling information and the behaviour of users. In many ways, this model is resulting in a digital model that combines the surveillance capitalist elements of the Silicon Valley model with an authoritarian political model that deny citizens not only their economic and social rights but also their political rights to resist or shape any of the rules governing this economy.

In this race between the market surveillance model and an authoritarian state-market surveillance model, Europe and the rest of the world remain to a degree marginalised. In recent debates, Europe seemed to be consumed by competing forces. Some European actors (governments and businesses) supported the more liberal digital order proposed by the United States. This model, however, was opposed by other European actors including states such as Germany and France. This opposition was driven by two main factors. The first was economic as important voices in those countries feared the economic impact of the dominance of large American tech firms on the economy of Europe. A second factor was opposition by different European political movements and civil society organisations to the impact of such rules on data protection and privacy. The result of those debates was the adoption of a compromise that included stricter protections for personal data and privacy through the General Data Protection Regulation (GDPR) and through linking European participation in free digital trade agreements with certain protections by partner countries. Effectively, although such a link is not acknowledged by European institutions, the GDPR acts as an incentive to other countries to adopt European data protection rules in order to have better access to the European digital market.

While linking data protection to trade agreements could work to encourage countries to adopt GDPR-like rules, what is needed today is a broader political discussion of the vision of the digital economy and how it relates to issues such as individual freedoms, human right, and social and political rights. Despite all the challenges facing Europe internally and externally, Europe should play an important role in envisioning a more inclusive digital world. Rather than merely resisting the two problematic models we see today, Europe has a chance to drive a global discussion on what an inclusive digital world can look like. ■

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How trade policy can grow the European green tech sector

Expert article • 2730

The planet is facing a multitude of environmental threats from expanding greenhouse gas emissions to biodiversity loss and resource depletion. Policy makers and the public are rightfully concerned about the impact of our activities on the planet. In this piece, we examine how trade policy can be a vehicle to deliver environmental goals.

Trade develops markets, increases competition, lowers prices and encourages growth. It is a force for good, having lifted over 1.1 billion people from poverty since 1990. While there is a perception that trade is inherently at odds with sustainability goals, recent OECD data shows that the volume of global trade has grown more rapidly than the carbon emissions embodied in it, pointing to a decoupling of economic growth and CO2 emissions.

But with pressing environmental and climate challenges, more to use the power of trade policy to support the low carbon transition and delivery of Sustainable Development Goals: in short, we need to rethink trade to align it with the challenges of the 21st century.

Environmental provisions frequently feature in Free Trade Agreements (FTAs). 630 FTAs signed between 1947 and 2016 include environmental provisions: exceptions to trade for the conservation of natural resources, the protection of plants or animals, or provisions to tackle illegal trade-related practices, including fishing, mining and logging. But these have generally been vague statements of ambition and not legally binding. There have been calls in the past for legally enforceable environmental standards but these have rightly been rejected. They are a heavy-handed mechanism that risk alienating partners and increasing trade tensions. A more collaborative approach is needed.

- Green tariffs: World Bank research found that the top 18 developing countries ranked by greenhouse gas emissions would be able to import 63% more energy-efficient lighting, 23% more wind power equipment, and 14% more solar power equipment if the trade barriers these very countries maintain on these goods were abolished. Whilst there have been pockets of good progress, for example in 2012 the Asia-Pacific Economic Cooperation economies agreed to cut tariffs to 5% or less on 54 environmental goods covering around $300bn of annual trade in the region, more can be done globally. The EGA has seen 18 WTO members - accounting for most global trade in environmental goods - examine tariff elimination for over 300 environmental products. Zero tariffs would provide government and business with the ability to acquire more and better-quality environmental technologies at lower costs, and would diffuse innovation and technology around the world. These discussions must become more inclusive of other WTO members and then accelerated.
- Develop fora for discussions alongside FTAs. Consultation, transparency and cooperation remain the best means to encourage third countries to increase their environmental standards. Joint governmental and non-governmental committees could be established to work with international partners to deliver more concrete and measurable environmental commitments. This could ensure international standards can be promoted and enforced, while FTA partners remain free to define policies adjusted to the labour and environmental standards they deem most appropriate for their domestic market. In this way, buy-in to enhanced domestic standards may be more easily assured from third country producers, as additional obligations will not be imposed upon them externally, but rather built with in-market national experts who are closer to the concerns and priorities of local producers.
- Support small companies in international supply chains: Help smaller companies in developing countries get access to finance. Technology, and in particular blockchain, has a role to play here as greater data accessibility for lenders and producers enables greater business certainty. This is already occurring as Sainsbury's and Unilever worked together to develop a distributed ledger system that offers Malawian tea growers cheaper finance if they use certifiably sustainable production methods. Technology could therefore be the helping hand that smaller companies and those from developing regions require in order to operate more sustainably and to take advantage of the burgeoning green market. Governments could launch platforms, both within and without FTAs, with guidance, technology support and access to finance to push for common standards or certificates for green products, mutual recognition of said standards and procedures, and a broader commitment to work together to facilitate trade in green goods.
- Climate check existing trade deals and green international institutions. We need to see systematic WTO-UNFCCC dialogue via the WTO's Trade and Environment Committee and the consideration of national trade policy's consequences for existing climate change commitments in national Trade Policy Review.

These suggestions could help to ensure that the breakthrough technologies and standards that are being developed in the developed countries can be more rapidly applied around the world. It is possible to reorientate and harness the power of free trade to help address our global sustainability goals. ■

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The EU-UK future relationship from an innovative-medicines perspective

Expert article • 2731

Introduction

On the 23rd of June 2016, the UK citizens voted with 51.9% in favour of Brexit, to set the UK on the path to leave the EU: "Brexit is Brexit". The main question that has been asked since then is '*Brexit is Brexit, but what does Brexit mean?*'. On the 31st of January 2020, the UK left the EU formally with a transition period to 31st of December 2020. The EU and UK are currently negotiating to shape their future relationship.

Industry characteristics: heavily regulated, high risk, high-cost and long-term R&D

The innovative medicines industry is heavily regulated at EU and EU member state level. There are clear rules and regulations that guide the R&D process from discovery through to clinical trials, followed by regulatory approval procedures, as well as pricing and reimbursement decisions. Once a drug is on the market, further research into its effectiveness and safety requirements continue to apply. On top of that, the industry is global in nature with R&D, manufacturing and distribution facilities scattered across many countries. The development process for new medicines has three core characteristics that drive policy needs for the industry: 1. R&D is very risky (only 1 in 10.000 tested molecules will eventually become a medicine); 2. Taking a medicine from discovery to placing it on the market is very costly (these costs, including failures, is Euro 1.9 billion); 3. R&D takes a long time (10-15 years from patented molecule to medicine on the market).

In addition, the value chain integration between the EU and UK is very deep: according to the OECD Trade in Value Added (TiVA) database, the share of UK value added in EU final demand is 33% and the share of EU value added in UK final demand is 54%. This means that for each Euro spent in the UK (EU) the value added for the EU (UK) is 54 (33) cents. This is one of the deepest levels of integration in the world.

Challenges for the industry

From an economic perspective, while respecting the referendum result, it is important to be pragmatic and to not turn Brexit into an act of harm for both the EU and UK. For the innovative medicines industry, the most crucial element is that supply chains do not get needlessly interrupted and patients continue to have access to their treatments. That is why we need to put ideology aside and support a future relationship between the EU and UK that is as close as possible. This is an ask that has become amplified by the Covid-19 pandemic the world is facing today.

Brexit poses several enormous challenges for the industry, given the nature of pharmaceutical R&D and the deep level of EU-UK integration. Despite the UK having left the EU on the 31st of January 2020, many uncertainties remain: about the nature of future regulatory cooperation, access to EU databases for the UK, what the IP regimes will become, what tariff agreement will be struck, etc.

A future EU-UK free trade agreement

'*… and what does Brexit mean*' is slowly becoming clearer. We know that the EU and UK – given the political red lines – are moving towards a bilateral Free Trade Agreement (FTA). For the innovative medicines industry, given this political context, the following elements are crucial elements for a future deep FTA:

- *A Mutual Recognition Agreement (MRA)* covering batch and import testing by manufacturers as well as GMP inspections, based on global Good Manufacturing Practice standards. This would avoid duplicative inspections, delays of medicines for patients, and save resources for both industry and the European medicines regulatory network. This is the most immediate ask of the entire pharmaceutical industry; it is relatively simple to agree since it is based on global standards to which the EU and UK already adhere. Most importantly it should have a major impact on mitigating the disruption to supply chains caused by the move to an FTA.
- Maintaining the *greatest possible cooperation on regulatory standards* to ensure early and efficient patient access to innovative treatments. For example, aligned EU and UK safety requirements or similar therapeutic area guidelines for the development of new medicines.
- *Continued alignment on data protection legislation* between the EU and UK, and a comprehensive sectoral adequacy assessment to support data transfers. UK access to relevant EU databases and processes, including those supporting regulatory procedures, pharmacovigilance and security against falsified medicines.
- *Smooth import clearance processes* to avoid disruption of delivery of sensitive goods and *simplified and rational rules of origin*, based on common, defined chemical and pharmaceutical processing activities.
- *Strong Intellectual Property Rights (IPRs) and effective mechanisms for IPR enforcement.*
- Inclusion of a *pharmaceutical-specific annex* to provide a platform for cooperation on wider policy issues for pharmaceuticals.

Consequences of a No-Deal or 'shallow' EU-UK FTA

Some EU Member State governments think that if the deep value chain ties with the UK are partially of wholly severed by concluding a shallow tariff-focused (not regulatory-focused) FTA or even a No-Deal, pharmaceutical actors will move their value chains from the UK to the EU. This is not likely to happen. There are several potential consequences of a 'tariff-only' deal:

- The main impact is for patients who may come to face delays in the supply of medicines– especially when combined with other international developments like Covid-19, the Airbus-Boeing rebalancing tariffs, and Indian and Chinese quality issues.

- The European medicines regulatory network in the EU and Medicines and Healthcare products Regulatory Agency (MHRA) in the UK will face very significant increases in the burden of (double) inspections.
- Industry will face higher costs due to double inspections of Euro 1 million per inspection.
- Competitiveness of the combined European pharmaceutical industry, for these reasons, may be negatively affected – both in the EU and UK because a severing of the deep value chain ties will lead to higher costs, but also negative impacts for the overall innovation climate in Europe.

The current Covid-19 pandemic illustrates the relevance of and need for a well-functioning global pharmaceutical industry and innovation framework. A strong future EU-UK relationship can be an important contributor to both and is in the interest of both the EU and UK. ■

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Post Brexit: What direction for UK trade policy?

Expert article • 2732

So it's happened but why and what does Brexit hold for UK trade policy in the near and not so near future? These questions are not just pertinent for the UK but also for the EU and the Baltic economies. For the UK it means no longer having to accept a trade policy that is a compromise. It can now set its own strategic trade priorities and pursue them independently. For the EU not only is there a loss of a major economic partner from its midst but also the creation of an economic rival on its doorstep. The EU Baltic economies may well experience some negative impacts as most have the UK as one of their top 12 export destinations and their fishing fleets have access to UK waters.

The UK's departure from the EU was the result of a concerted campaign to re-establish British economic, political and legal sovereignty. It aimed at restoring the supremacy of the nation state by reducing the power and influence of the EU over the UK. The nationalist voice in economic affairs has been growing across the world; a backlash against globalisation and multilateralism.

Leaving the EU restores national sovereignty in economic affairs by re-establishing an independent trade policy, halting the free movement of labour, stopping direct payments to the EU and eliminating the jurisdiction of the European Court of Justice. This is often summarised by the phrase "taking back control".

How will this refashion UK international trade policy? As far as multilateral trade policy is concerned the UK has retaken its seat at the WTO as an independent nation. At the WTO the UK wants to be seen as the champion of free trade and vows to work towards opening up world trade further. Certainly there would be benefits to both the World Economy and the UK if trade could be opened further. The Baltics would gain too.

In practical terms it requires the UK to cooperate with the EU and the US and other like-minded nations. It also require the UK to identify its international strategic interests and for these to be reflected in its tariff and quota structures. Current proposals suggest that 72% of tariff lines will see a reduction and the UK's average tariff rate will fall from the current EU average of 7% to 0.7%. The automotive sector and ceramics gain extra protection.

The UK would also have to establish alliances with the EU, the US, Canada and Japan to tackle some of the common issues they face with China over intellectual property, subsidies to state owned enterprises etc. Simultaneously it would have to engage with China and others to bolster the multilateral trading system and the WTO currently under threat from US unilateralism.

Other issues requiring attention and focus include inputs into further developing the GATS trade in services agreement essential for an economy highly dependent on services (80% of GDP).

Bilateral issues are perhaps a little trickier as they involve negotiating a trade agreement with the EU and renegotiating the agreements with those countries with which the UK has agreements as a result of EU membership. Negotiating a free trade deal with the US may also present problems.

The UK proposes that its future relationship with the EU should mirror the EU-Canada or CETA with some extras dealing with agriculture, fisheries and services (financial services in particular). From the UK perspective only this type of agreement can meet the UK's sovereignty requirements. If this is not accepted then the UK will revert to trading with the EU on WTO terms. This is sometimes referred to as "Australian terms" in UK government circles.

The EU on its part will grant the UK free access to its markets and the single market if the UK is willing to adopt and abide by rules and regulations (labour, environmental, subsidies) determined by Brussels and overseen by the European Court of Justice. That runs counter to the UK's stance on issues of sovereignty. While these are more stringent conditions than those that apply to Canada the EU justifies its approach on the basis of geographical proximity. The EU could not tolerate a large competitor on its boarders which could access its markets freely and gain competitive advantages by adopting lower standards. The UK rejects this interpretation of its aims. While it offers to maintain high standards, sovereignty issues prevent it accepting EU standards or the authority of the ECJ in upholding them. This is seen to be particularly the case in financial services regulation and access to the UK's fishing grounds.

Whatever the outcome future trading will be costlier for both UK and EU companies as both partners put in place additional and costly processes to check on the traded goods' compliance with regulations and rules of origin. The UK has estimated it will need 50,000 new customs administrators to oversee trade relations. It is estimated that UK GDP will be impacted negatively by approximately 5%- 6%.

Further complications arise in the case of Northern Ireland which will be part of the UK customs area but tied into the EU's Customs Union and single market. In political terms this arrangement upholds the Good Friday agreement but raises trading issues. For example goods originating from the EU and flowing to the UK would pay UK tariffs and vice versa. Rules of origin would also apply. Only goods destined for and consumed in Northern Ireland would be exempt. Joint EU-UK customs supervision has been agreed to oversee the application of the rules although the actual arrangements have yet to be completed.

Renegotiating trade deals with those countries with which the UK currently has deals via EU membership are also likely to produce some tensions and conflicts. Japan is not happy. It had lobbied hard for the UK to pursue a soft Brexit to protect its substantial investments. Its companies are concerned about current developments. Korea too has concerns over rules of origin and the continued use of EU components in manufactured products destined for the UK market. It, furthermore, wants to see any agreement reviewed every two years.

A trade deal with the US is also proposed. Originally viewed as a way of putting pressure on the EU negotiators this now seems unlikely.

The current proposal is principally confined to trade and would only generate a £15.3billion boost to trade in the long term or 0.16% over the next 15 years. With an agreement on agricultural products reduced in importance over worries about US farm standards and financial services confined to a separate agreement, it is easy to see why a UK-US agreement won't yield many benefits.

Brexit stemmed from a desire to re-establish sovereignty. It was confirmed in a referendum; the electorate voting 52% to 48% in favour. Brexit may well have been spurred on by the wave of economic nationalism; a reaction to the adverse impact of Globalisation on many UK communities but also to a questioning of the benefits of EU membership per se. The impact might well have negative economic consequences and it will require a resetting of the UK's international trade policy; multilateral and bilateral. The UK is currently committed to supporting the multilateral system. In its bilateral relationships the UK is embarking on renegotiating and negotiating trade arrangement with former partners and potential new partners. When trade blocs are formed we know that trade is created between the new partners and diverted away from non-members. What we can say is that Brexit will lead to a relative decline in trade with the EU states including the Baltics. It will also lead to some trade diversion away from the EU as the dynamics of the new UK trade policy takes hold. ■

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Sovereignty and economics

Expert article • 2733

Brexit has now reached its denouement and not even a global pandemic is going to prevent the reality of the UK's departure from the EU. This is partly driven by legal inevitability, and partly by context: populations across Europe, and world at large, are redefining their relationship with governments, based on their governments' performance in the virus emergency.

At least until the virus restrictions took hold, the UK had grown faster than the eurozone over the last two-year period, defying apocalyptic predictions on the immediate consequences of Brexit, dubbed 'Project Fear' in British media. Regardless of the economics however, it was about people trying to define their place in the modern world and migration for example was simply a symptom of that change. The rapid spread of the pandemic has both illustrated the vulnerability to the consequences of globalization, but also the utility in the sovereign state's ability to come up with relevant, localized solutions and mobilize their populations to the defense of their nations in the face of an invisible but deadly threat. In other words, sovereignty has never been more relevant.

Sovereignty is an abstract concept. True it has a legal structure and often can be born out of physical boundaries defined by an island, river desert or mountain range. But really it is about the effect that is has on the people who live within its jurisdiction. As we are seeing, successful societies are willing to pitch in and help their community in times of threat because they believe in themselves whilst embracing the wider world. The emotional attachment that this engenders, the love of the sovereign nation, is how we define patriotism.

So, although patriotism is an emotional term and sovereignty is a legal term, they are in fact indistinguishable in why people come together and believe in a unifying authority. The search for prosperity is deeply personal, but we can't agree on what form of government or sovereignty is best placed to deliver it. The EU tries to reflect this with the concept of 'Pooled Sovereignty' but the challenge is that something that is pooled is not owned, and something that is not owned is not cared for. This has been demonstrated in the EU's response to the pandemic where the institutions have acted to provide stimulus to the Euro zone, but failed to deliver the kind of direct and obvious benefit to individuals and families that in turn would inspire greater loyalty.

Whatever the British feel about Europe or any other aspect of globalization, the political idea of 'Global Britain' – a rallying cry for Brexit voters – united people in the belief that it that it can deliver well-bring for British families. Brexit was an almost unique opportunity to make a protest vote that simultaneously had a well-argued (although admittedly disputed) economic case to back it up.

Whilst physical and economic protection create the framework for sovereignty, underlying patriotism lies much closer to home. Home is not simply about place, it is also about people, communities. In Finland this is often expressed through poetry such as the Kalevala.

Since the General Election and Boris Johnson's emphatic victory the narrative has given a renewed sense of unity and purpose and belief that the UK should continue to develop an attractive environment for ambitious investors and maintain its pre-eminent position as a free-trading and business-friendly nation.

There are many reasons why the United Kingdom should prosper but it is the internationally competitive unique characteristics that underpin the country's global potential. These have been developed over hundreds of years by skill, luck, trial and error:

English as a language is 1,400 years old, and now boasts as many as 500 million speakers with varying degrees of proficiency and there are 50 countries where at least one third of the population speak English, including of course Finland.

Common Law spread across the world via Britain's historic mercantile and colonial relationships. It is not only in USA, Hong Kong, Australia, and India that versions can be found, but also it forms the basis of international Maritime and Public law and has created the benchmark standard for corporate governance.

The positive international view of British education is founded on the perceived qualities of private secondary schools (confusingly known as 'Public Schools') and the prestige of its universities. The culture of independent learning, academic rigour, character development, and the potential for lifetime networks, make Britain the education provider of choice. the UK hosts 4 of the top 10 global universities (including the world no. 1).

The United Kingdom has many friends around the world and none as aligned as Finland with whom we share so much of our global outlook and aspirations. We can share our vision working together to build a prosperous post-pandemic future. ■

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Brexit: What now?

Expert article • 2734

Britain has had a more than 50 years of love / hate relationship with Europe. Back in early 1960s when the economy was bad, Britain's entry to Europe's common market was denied twice, blocked by a veto from Charles de Gaulle, who did not trust the British. Finally, Britain was allowed in when Charles de Gaulle was no longer the French President, in 1973. This was widely celebrated in Britain although some people and political parties demanded that people must have a say. The idea was put to a referendum in 1975, that was convincingly won by the remain side. Since then almost every British leader was elected on an anti-Europe agenda.

During the election campaign for a second period, Cameron cornered by increasing opposition from his own party and UK Independent Party (UKIP), announced that if he wins the elections, he will hold a referendum to remain or leave the EU. Cameron thus, had to hold a referendum in 2016. Some of us could hardly believe that people voted to leave the EU by a margin of 3.8%, thus Brexit. Since referendum, it took almost three years and two elections to get the parliament's approval to exit from the European Union. The new government was able to get the approval of its parliament to get out of EU from January 31st 2020. Now, Britain has one year of transition period to negotiate the details of the exit deal.

Now that the exit is decided, this transition period of negotiations could have been conducted amicably with offers and counteroffers. However, while the EU has demonstrated a preference for a rational approach, the UK has taken a emotional approach, laden with slogans such as taking back control. Rationally speaking, at this point there are precedents that are available to both sides. These are based on trade and other agreements with other countries that are not EU members but still enjoy good relationship with Europe. The three most obvious options are: **Norway Model:** Access to the single market by paying a membership fee and allowing free movement of people. **Canada Model:** Free trade in many products and services, though with no free movement of people. **No Deal = WTO rules.** All present arrangements will cease to exist, and several agreements will have to be negotiated following WTO rules for trade.

Ideally, UK wants Single market access and special agreements to be negotiated for financial services and security issues, Northern Ireland border and no free movement of people. EU want to prevent UK from undercutting EU with trade agreements with its partners, agreement on state aid to companies, labour standards and environmental rules. It also wants some governance system for future conflict through European Court of Justice. Moreover, UK demands that it must take control of its fishing waters that EU wants to have access with some quotas. Considering the opposing positions on these concerns and issues such as, services, public procurement, data rules, transport and aviation, it seems that parties are heading towards a no-deal Brexit.

Now that Boris Johanson has a majority in the parliament, he can be flexible on issues such as, fisheries with some yearly quotas and compromise on EU rules. If this type of flexibility is shown by the British, the EU might also be flexible on issues such as, subsidies to companies, workplace rules and services. Negotiations, after all, mean 'give' and 'take' and compromise. However, both parties seem to have different priorities and preferences, while EU is more concerned about the economics and trade implications, UK seems mainly to be concerned about sovereignty and independence and hope to get preferential deals with the US and Commonwealth countries.

Europe is the biggest trade partner for Britain in value and volume, much higher than USA and Commonwealth countries put together. Moreover, these countries have their own priorities about what they want to achieve through trading with Britain. United States has already started putting pressure. They do not approve that Britain has allowed Huawei, the Chinese company, to participate in its 5G network development. America also wants Britain to open its food and pharmaceutical markets for American firms, while UK citizens do not like to have chlorine washed chicken, hormone filled beef, genetically modified food products and highly inflated branded medicines.

It is thus, in Britain's interest to avoid a hard Brexit as EU is the natural trade partner for UK. More recent events such as, Corona Virus Pandemic has shown that the two sides are dependent on each other and should have closer relationships from trade to tackling unexpected catastrophes and security. Negotiations with EU on Brexit deal have however been suspended for now due to the Pandemic. At this point, it is not clear for how long, as that is dependent on the fact that how long this Pandemic will last. This plays well for the British government as it prospers on delaying and keeping the issue alive. ■

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UK trade policy after Brexit

Expert article • 2735

At the most recent General Election the Conservative Party had pledged that it will take the UK out of the EU and establish an 'independent' and outward looking trade policy that will prioritise the needs of 'British firms and the British economy'. The centrepiece of this policy is an ambitious goal of striking new free trade agreements (FTA) over the next three years with countries that account for 80% of UK trade. The Conservative Party won that election with a decisive majority and it is this manifesto pledge that will guide UK trade policy in the years ahead. Achieving such a large number of FTAs within three years is challenging at the best of times and more so now when the tide is turning away from globalisation and multilateral frameworks. It is against this backdrop and one of competing geopolitical interests between the US and China that the UK will look to navigate an independent trade policy.

After much delay and uncertainty, the UK finally left the EU on 31st January. The UK is now in a transition period until the end of this year during which it remains a member of the EU single market, customs union and also party to all EU international agreements. The immediate focus for UK trade policy is the EU. After all, the EU is its largest trading partner, accounting for total trade (exports plus imports) of around £1,300 billion in 2018 or 60% of GDP. Put differently, just under half of UK's total trade is with the EU and companies on both sides are locked in complex and integrated supply chains that could unravel if negotiations fail and trade frictions are introduced as a consequence.

The negotiations will build on the Political Declaration that was agreed in October last year where both sides agreed 'to work towards a comprehensive and balanced Free Trade Agreement' that respects, for the UK, its internal market and the development of its new independent trade policy and from the point of the EU, its customs union and single market. The FTA will look to establish tariff free trade for goods. The goal for services trade, which is particularly important for the UK, is a lot more measured. It is to deliver a level of trade liberalisation well beyond WTO commitments and other FTA's struck by the EU such as the recently concluded trade deal with Canada and Japan. As it happens, the WTO commitments on trade in services and the recent EU FTA trade deals fall well short of the freedoms enjoyed in the EU single market which implies that the UK has prioritised the trade in goods over services even though the UK has a competitive advantage in services.

An FTA is likely to be agreed, but the road to agreement will be bumpy. The first round of discussions between the UK and the EU concluded on 5th March and the second round, which was the take place between 18th-20th March, was postponed because of the Covid-19 pandemic. The pandemic is almost certain to lead to an extension of the transition period. Government departments, the health service, businesses and many others across the EU and the UK are wholly focussed on efforts to contain the human and economic cost of the virus. The EU chief Brexit negotiator, Michel Barnier, has tested positive for the Covid-19 virus and David Frost, his UK counterpart, was in self-isolation because of symptoms. The British Prime Minister has also tested positive. What is more, European economies are likely to suffer a deep recession in response to the lockdowns and other restrictions and many UK and EU businesses will be substantially weakened by this crisis. Imposing additional Brexit related costs so soon after (or even during) the pandemic could prove to be debilitating for some businesses.

The government has also launched trade negotiations with non-EU countries. So far, the UK has managed to roll over trade deals covering 50 countries/territories with which the EU had FTAs in place. Although this covers the vast majority of EU FTAs, UK's total trade exposure to these regions is just 8%, which implies that a meaningful shift in trade policy will require the UK to strike FTAs with other large economies. The priority target list includes US, Canada, Australia, NZ and Japan and the government is also keen to forge stronger trade links with Commonwealth countries such as India by leveraging on its 'deep historical and cultural connections.'

An FTA with Japan is of utmost importance for both countries given the scale of Japanese investment in the UK, but a trade deal with the US will serve to exemplify success of the Brexit project at least at the political level. Achieving a comprehensive and balanced trade deal with the US will be challenging for at least two reasons. To start with, size matters for trade deals and the US economy is around 6 times the size of the UK economy. Next, US trade policy has different priorities. Its overarching concern is China and in all likelihood trade negotiations with the UK will be influenced by its broader objective which is to restrict imports from and technology transfer to China, something that the UK will look to resist given its economic interest which is to attract investment and broaden its export markets.

For a medium sized economy such as the UK, maintaining an open and balanced global trade policy is the *sin qua non* for a competitive economy because trade tends to foster technology adoption, business creation and productivity. The UK will need to navigate these troubled times with skill and speed to strike deep and balanced FTA's with the EU and others to mitigate the loss from exiting the EU. ■

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The British Conservative Party and the EU: Friends or foes?

Expert article • 2736

Since the introduction of universal suffrage, the Conservative Party has been the dominant political party in Great Britain. It is fair to say that the party leadership has played a key role in determining the relationship of Britain with the rest of Europe. Nowadays many political commentators take it for granted that the Conservative Party opposes European integration. The party leadership wants to lower the trade barriers between European countries, but it vehemently opposes the deep level coordination of social and economic policies between European nations. These views also enjoy wide scale support among the Conservative MPs. This was not always the case. In the sixties and seventies for example, the Conservative Party viewed European integration much more favorably than the Labour Party. In its 1968 election manifesto, the party, among other things, promised to "work energetically for entry into the European Common Market at the first favourable opportunity". Conservatives 1979 election manifesto, written when the party leader was Margaret Thatcher, complained that "…it is wrong to argue, as Labour do, that Europe has failed us".

The fact that Conservatives position on European integration and cooperation has changed over the time should not lead us to conclude that there is no continuity at all in the party's views on Europe. Neither should we argue that the party has always viewed Europe through one single lens. After the Second World War, European free trade was the issue, which strongly divided the party. Some Conservatives argued that free trade between European nations would decrease the British national sovereignty while other members of the party claimed that Britain could not afford to forego European cooperation. While the most Conservative MPs supported European integration in the sixties and seventies, a substantial number of party's MPs also opposed European integration.

There is no question, that those Conservatives who support British membership in the EU, currently have no voice in the trade talks between Britain and EU. Many Pro-European Conservatives have either retired from politics or lost their seats. Some have defected to Labour or Liberal Democrats. Pro-European MPs like David Curry and Stephen Dorrell left the Parliament. Kenneth Clarke, a Chancellor of Exchequer in the Major government, was for long time the leader of pro-EU Conservatives, but he left the Parliament last year. Geoffrey Howe, A Secretary of State under Margaret Thatcher died in 2015. Ian Taylor, the former Chairman of Conservative Group for Europe left the Parliament in 2010. There are also few Conservative voters, who strongly support British membership in the EU.

The Conservative 2019 election manifesto promised "a new relationship based on free trade and friendly cooperation, not on the EU's treaties or EU law". "We will keep the UK out of the single market, out of any form of custom union", the manifesto also promised. Currently there are few powerful Conservatives left who openly challenge these promises, but it is difficult to say what will be the future of EU-Britain relationship, if the Conservatives will remain in power for the near future. Boris Johnson is not an ideologue. He has changed his policy positions many times during his political career. Many of those who know Johnson have argued that he is much more pro-European as his rhetoric might suggest. In others words, he embraced Euroscepticism largely for pragmatic reasons.

Johnson has the authority and political capital to bring EU and Britain closer together. Eurosceptic conservatives do not question his Eurosceptic credentials. If there are pragmatic reasons for more cooperation with the EU, Johnson might opt for change. Some Conservatives would not like this new turn, but they would not openly challenge Johnson unless he for some reason loses his political standing. Franklin Roosevelt famously said to activists who pushed him to adopt more radical reforms: "You've convinced me. Now go out and make me do it." For those Conservatives who opposed Brexit the problem is that few Conservative MPs or Conservative voters currently want closer cooperation with the EU. If the economic or social conditions in Britain deteriorate because of Brexit and Labour choose a charismatic leader and adopt a popular platform, Conservative leadership might reconsider party's line on EU.

If we adopt longer time perspective, is there a chance that pro-European voices could regain the ground they lost since the nineties? Eurosceptics did not gain power overnight and they were greatly aided by external factors like the Eurocrisis and the rise of UK Independence Party. It is possible that in the long run an "Europhile" Conservatives like the former Deputy Prime Minister Michael Heseltine, who not only supported EU membership, but actually supported deeper integration and for example the adoption of Euro, could rise to the party leadership. If the history of a Conservative Party teaches us anything, it is that the party is ably to reinvent itself when the outside world changes. ■

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China and EU's competition in the Russian market: Much stronger for trade than for investment

Expert article • 2737

Russia doesn't just look West, it looks East – and increasingly so. China has risen very rapidly in economic terms over the past two decades since its accession to the World Trade Organization. In particular, it has become the largest exporter in the world from a very low base, surpassing Europe. In that context, it is unsurprising that Chinese goods have flooded Russia, eating into the EU's and the US's export shares to Russia. Beyond China's increasing economic weight, the changing global environment, including the sanctions and counter-sanctions between the West and Russia, the US-China trade war and the US-led Indo-Pacific Strategy, have helped re-orient Russia's economic relationships towards the East, with China being the largest player.

This raises the question of the extent to which China might be able to displace the EU in Russia, in terms of trade, investment and lending. In this article, we assessed the deepening of Russia's economic ties with China and what this might mean for the EU based on our paper for Russian Journal of Economics (Garcia-Herrero and Xu, 2019).

In terms of trade, the data sheds light on some key issues EU policymakers should pay attention to. Since 2002, the EU's share of Russia's imports has dropped from 53% to about 40%, while China's share has risen from less than 3% to 21%. Also, while the EU still dominates, what China exports is changing – and that should also give cause for concern. The share of domestic content in the goods China sells to the world has been increasing, and Chinese exports are increasingly substituting EU exports on the Russian market, especially in capital-intensive sectors. Notable overlaps are vehicles, industrial machinery, electronics and metal components.

What's more, although China's export growth over the past two decades is concentrated on the processing trade, or the business activity of importing parts and components from abroad for processing or assembly, with the finished goods re-exported to the rest of the world, it has been moving up the ladder by incorporating a larger share of domestic production in the final goods its exports. This is also true for China's exports to Russia. On the contrary, the domestic value added of EU exports to Russia, although still higher than that of China, has remained stagnant. This also confirms that an increase in China-Russia economic cooperation could have a negative impact on European exports, as suggested by the simulation exercise carried out by Garcia-Herrero and Xu (2016).

In investment, however, China's encroachment on the EU's position in Russia is less evident. While Chinese investment worldwide has surged, China's exposure in Russia is limited and remains much less than the EU's. In fact, Chinese investment in Russia even dropped into negative territory, to -$13 million, in 2018 while the EU28's total investment into Russia reached $15 billion in 2018, accounting for 11.6 percent of Russia's GDP.

In addition, the industry focus of Chinese investment has also been very different to the EU's. In 2018, the biggest target of Chinese direct investment in Russia was the real-estate sector. On the other hand, EU companies have much broader interests in manufacturing and several service sectors, including wholesale and retail. Nevertheless, the 2019 acquisition by Chinese oil companies of stakes in one of Russia's most strategic companies, the natural gas producer Novotek, seems to indicate that Russia is becoming a major strategic partner for China.

Apart from trade and investment, financial competition between China and EU in Russia is already on the rise. Following the annexation of Crimea by Russia, the financial role the EU played in Russia was taken over by China because of the enforcement of sanctions by Western countries. In contrast of the declining EU lending into Russia, China has continued to support projects developed in Russia with steady increase in project finance. Nevertheless, the EU still has much greater financial exposure than China in Russia. EU portfolio investment in Russia is clearly larger than Chinese portfolio investment. As for bank lending, while there are no official statistics on the role of Chinese banks as cross-border lenders, the signs are that Chinese project finance, while increasing, still does not equal even one-third of the EU's lending flows into Russia.

In conclusion, while Europe remains Russia's largest trading partner, lender and investor, China is catching up quickly, especially on trade and project finance. It is in the trade data that competition between the EU and China on the Russian market shows up most clearly, with the EU losing market share and China ramping up the value-added of its exports to Russia. While it is hard to draw any causality from our descriptive analysis, previous empirical work we conducted on this topic using sectoral data does show that China has taken market share from European exports in key sectors where the EU has long kept a comparative advantage. ■

Expert article • 2737

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Russia-EU trade development under the sanctions

Expert article • 2738

The Russian Federation and the European Union maintain vigorous trade and economic relations whose legal foundation is the Partnership and Cooperation Agreement signed over 20 years ago in June 1994. For many years, the EU has remained Russia's largest trade partner. However, it is to be noted the EU's share in Russia's volume of foreign trade turnover is decreasing, for example, it amounted to 51.4% in 2001 against 41.7% in 2019. Russia is the EU's 4th largest trade partner after the US, China and Switzerland. At the same time, the share of the Russian Federation in the EU's volume of foreign trade turnover increased to 4% in 2019 against 1.5% in 2001.

The bilateral trade in goods between the EU and Russia reached the peak level ($383.9bn) in 2008. In subsequent years, bilateral trade flows have undergone serious fluctuations. A dramatic drop in Russia's volume of trade turnover with the EU was registered in 2009 and 2015 when the mutual trade turnover fell by 37.9% and 41% on the previous year, respectively.

According to the data of the International Trade Centre, in 2019 the Russian Federation's foreign trade turnover with the EU amounted to $277.9bn, a 5.6% decrease on the relevant index of 2018. At the same time, Russian exports fell by 7.7% to $183.2bn, while Russian imports, by 0.7% to $88.6bn. A decrease in Russia's volume of foreign trade turnover was observed with all EU countries, except for Austria, Ireland, Spain, Latvia, the Netherlands, Slovakia, Slovenia and Croatia. The trade turnover with the UK saw growth of 25.6%.

Russia is a key supplier of energy commodities to the EU and meets by one third the EU's demand in crude oil, natural gas and coal. In the pattern of Russian exports to the EU, mineral commodities accounted for 60.2% in 2019. In value terms, mineral product supplies from Russia to the EU amounted to $114bn in 2019, a 9.6% decrease on 2018. It happened mainly on the back of a drop in prices of oil, petrochemicals and natural gas.

As of year-end 2019, the average price of Russian Urals oil fell by 9.17% as compared with 2018 and amounted to $63.59 a barrel. In volume terms, Russia supplied 2.1% less of oil to the EU then in 2018 – 138.7m tons. As a result, Russian oil supplies to the EU decreased in value terms by 10.7% to $62.1bn. The maximum level of Russian oil supplies to the EU was registered in 2005 (187m tons). In 2014, the volume of Russian oil sold to the EU amounted to 137.1m tons.

In December, the price of natural gas at Europe's largest terminal – the Title Transfer Facility (TTF) in the Netherlands – fell by 10.3% to $4.62 per MBTU. The Gazprom was confronted with a dramatic drop in natural gas prices on the European market. According to the data reporting for nine months of 2019, in Q3 2019 the average sale price of thousand cubic meters of fuel to the EU was equal to $169.8. As compared with Q2 ($205.1), Russian gas prices depreciated by 17.2%, but as compared with Q3 2018 they collapsed by 32%. Consequently, in Q3 2019 Russian natural gas prices in Europe fell to the level seen in 2004 when the average price of thousand cubic meters of fuel amounted to $137.7. According to the data of the PAO Gazprom, in the first nine months of 2019 the company's net revenues from gas sales to Europe and far abroad countries decreased by 12.0% as compared with the same period of the previous year.

Apart from mineral products, the EU buys from Russia metals whose share in 2019 in the overall volume of Russian exports was equal to 7.1%, precious stones, precious metals and articled made thereof (5.2%), chemicals (4.3%) and other goods (18.4%).

A decrease in the value of Russian exports to the EU affected the entire expanded nomenclature of goods, except for two commodity groups: "Textile, Textile Articles and Footwear" (growth of 0.2%) and "Precious Stones, Precious Metals and Articles Made Thereof" (growth of over 100%).

In 2019, Russian exports of precious stones, precious metals and articles made thereof amounted to a new historical high of $15.26bn. The previous all time high seen in 2012 was surpassed by nearly $1bn. The main export commodity of this group was gold whose exports increased 8.1-fold as compared with the relevant index seen in 2018. Almost the entire volume of gold was exported to the UK. In volume terms, Russian exports of gold to the UK saw an 11-fold increase from 10.4 tons to 113.5 tons. A record-high index of exports of gold to the UK can be explained by Brexit-related concerns, as well as global upturn trends of demand on gold and the UK's traditional role as the center of trade in gold and gold safekeeping. Apart from gold, Russia sold twice as much platinum ($936m) and 2.5 times as much silver ($100m).

Machines, equipment and transport vehicles are still the main group of commodities imported to the Russian Federation from the EU: in 2019 it accounted for 44.3% of the overall volume of Russian imports from the EU. However, due to the EU's and a number of other countries' sanctions banning supplies to Russia of military and dual-purpose goods, any cooperation of their companies with Russian military-industrial complex enterprises and supplies of equipment required for development of oil and gas fields on the Arctic shelf and in shale strata (drilling rigs, horizontal drilling equipment, high-pressure pulsers and other), imports of this commodity group decreased: in 2019 they fell by 34.4% as compared with 2014.

On the back of introduction by Russia of countersanctions on imports to its territory of some food products from the EU, Russian imports of food fell by 37.7% in 2019 as compared with 2014. According to the estimates of the RF Federal Customs Service, western partners lose about $8.3bn a year because of these restrictions. The worst hit are particularly the suppliers of meat, dairy products, as well as fish and seafood. It is noteworthy that the imposed sanctions gave an impetus to Russia to use its own resources and switch over to import substitution.

Russia's countersanctions facilitated the reduction of imports of European goods to the territory of the Russian Federation. But in 2019 some EU countries increased largely imports of goods to

Russia with the largest year-on-year growth registered with Cyprus (82.0%). Substantial growth in supplies to Russia was observed with Ireland (22%), Denmark (16.9%), Bulgaria (9.8%), Austria (9%), the Netherlands (7.7%), Slovenia (6.4%), Lithuania (6.1%) and Hungary (5%).

Thus, a drop in global prices of oil and gas, as well as destabilization of relations have brought about a decrease in Russia's foreign trade turnover with the EU. The crisis over Ukraine highlighted the urgency of a new model of Russia-the EU relations to be jointly developed so that the interests of all parties concerned could be accounted for. In this context, much will depend on the parties' preparedness to a concrete and substantive dialog on harmonization of processes of the European and Eurasian integration.

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Trade policy and Russia

Expert article • 2739

For many centuries Russia was one of the most important trading nations in Europe. In 907 Russia signed its first trade agreement with the Byzantine empire, which , in modern trade policy language, provided for preferential or duty free access for goods, free access for wholesale and retail services providers, established freedom of sales prices and prohibited introduction of any import barriers for Russian buyers so as to import any product without restrictions. In 1703 Saint Petersburg received its first commercial vessel from the Netherlands, and in early 1800s Russia started thinking about concluding navigation treaties in order to provide for reciprocal free access to national waters and ports. Thereafter foreign trade between Russia and sea-based European states, having access to the sea, grew steadily contributing to peace and prosperity in the whole region.

One thousand one hundred twelve (1112) years after its first European trade agreement Russia's access to the markets of its major trading partner, the EU, (whose share in trade turnover is still above 50 percent) is much less favorable. Watchdogs from Brussels carefully look for dumping from major Russian exporters in order to impose prohibitive duties; heavily protected agricultural markets are *de facto* closed for Russian food supplies; the United States (founded in 1776) tries to impose sanctions against those who for decades bought Russian energy and to force them to buy more expensive (although in US view more secure) energy from another continent. Pipelines were constructed instead of vessels to secure delivery of energy – however, those freedoms for vessels activity, which were agreed upon 200 years ago, have not been granted to pipelines. Not to mention trade sanctions limiting or even prohibiting cooperation with Russian companies in financial and other markets. On top of that, the WTO, a set of multilateral trade agreements, is unable to force its members to implement these agreements and stop creating trade barriers – not least because of the U.S. effectively blocking the Organization's dispute settlement system. Attempts to create a free economic area (zone) from Lisbon to Vladivostok have been put on hold.

Despite these adverse developments, Russia has not yet lost its belief in open and fair multilateral trading system. Predictions of some observers that Russia would erect an 'iron curtain' at its borders and shall continue surviving alone have failed. One simple test to evaluate the openness of a country's (trading system) (markets) is to verify origin of products in grocery stores and supermarkets, as well as the origin of cars in the streets. One would see a variety of origins, including wines from California and cars from Taiwan. Both foodstuffs and cars in most cases are coming from multinational production chains, including those which finalize their production in Russia, like Volkswagen or Coca-Cola. Russia has adjusted its trade policy to serve the purpose of developing such production chains. And the majority of partners are still coming from the West.

Moreover, after 7 years of its membership in the WTO, Russia is more and more reluctant to keep it idle. Being one of the most active users of WTO rules, including through the dispute settlement system, it has now completed an uneasy transition to a 'real' membership, being equipped with an effective mission in Geneva, professional team in Moscow, several trade policy think tanks and even its own MA program on trade policy run by the Higher School of Economics. This program with over 50 students (in their first year 2019/2020)/ (in the current school year 2019\2020) was within 10 most attractive economic master programs in the University. Young professionals feel very good about their prospects and areas of future potential. It is usually a good indicator if younger people evaluate positively their career prospects and the future of their country.

Within the WTO, Russia's position has much in common with the views of the EU and other European countries. Russia supported reforms of this multilateral body and developed a number of initiatives in that respect, including cuts to the agricultural domestic support and transparency in services. It also co-sponsored discussions on new initiatives, such as rules for investments, e-commerce and fisheries subsidies.

Investments into the gradual stabilization and development of the WTO are necessary; however, those are insufficient for the stable development and structural transformation of a national economy. That is why Russia is continuously looking at preferential trade agreements which could act as a platform for sustainable development. Currently the share of preferential trade in Russian trade turnover is about 17 percent, however, parties to the respective trade agreements are not the ones who, together with Russia, could cook a synergetic soup in the kitchen of the 4th (and next) technological revolution. Such cooking should be based on law and not on notions like the U.S. – China trade agreement of January 2020.

The concept of a free economic area from Lisbon to Vladivostok has been discussed on many occasions, starting from 2003, and last time – between President Putin and German business community in December 2019. Like many others, despite all political explosions of recent 10 years, President remains a strong supporter of that project.

For a true Russian, Europe and the destiny of the entire great Aryan tribe are as dear as Russia itself, as the destiny of their native land, because our destiny is the universality, and not acquired by the sword, but by the power of our brotherhood and fraternal desire to reunite people. F.Dostoevsky, 1862

This view is shared now by many Russians. However, a marriage will not take place if one of the two resists. In the next 15 to 20 years new generation will take the lead in Europe. They do not listen to The Beatles, but are used to navigating with their smartphones worldwide - and border-free. More trade may still make all parts of Europe more stable and prosperous. It would be a great investment in Europe's and the world's future. ■

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Sanctions and the Russian economy

Expert article • 2740

Following Russia's illegal annexation of Crimea and Sevastopol, as well as military operations in eastern Ukraine, sanctions against Russian individuals and organizations were initiated by European Union member states, the United States, Canada, Australia and other countries.

The 2014 sanctions against Russian entities came mainly in two waves. In the wake of Crimea's annexation in spring 2014, travel restrictions and asset freezes were imposed on Russian individuals and organizations. This first set of sanctions was quite limited. They did not apply to a single large state-owned company in Russia or the Russian government itself. The second set of sanctions came with the downing of Malaysian Airlines flight MH-17 in July 2014. They included a ban on the sale of military equipment and dual-use goods with military potential. Additionally, the G7 countries announced that they would block financing to Russian entities through the European Bank for Reconstruction and Development (EBRD).

However, the most important sanctions tool by far been prohibiting long-term financing for select large state-owned companies. Companies in the banking sector included Sberbank, VTB, Gazprombank, Rosselkhozbank (Russian Agricultural Bank) and VEB (Russia's state-owned development finance institution, which, strictly speaking, is not a bank). For Sberbank and VTB, which together controlled approximately 60% of the Russian banking market, this was clearly a significant step towards isolating a part of the Russian economy from global financial markets.

Furthermore, similar financial sanctions were introduced against large Russian companies in the energy sector, namely oil giant Rosneft, oil pipeline company Transneft, oil exploration and refiner Gazpromneft, as well as a collection of companies operating in the defense sector.

Russia responded with its own counter-sanctions a few days after the introduction of these much more stringent sanctions. The Russian government banned imports of a range of foodstuffs (mainly meats, dairy products, fruits and vegetables) from countries that had introduced sanctions against Russia. Some food products such as alcoholic beverages and agricultural goods meant for production of baby food were exempt from the ban.

As more than five years have now passed since the introduction of the sanctions, we can try to assess their economic efficacy with data. Surveying the literature on the topic, it is clear that Western sanctions have had a negative effect on the Russian economy over the past five years. At the same time, fluctuations in the price of oil continue to exert a larger (arguably much larger) effect on Russia's economic activity.

Sanctions thus have worked as intended. They were never designed to wreck the Russian economy or a particular sector of the Russian economy, but nevertheless have extracted a clear economic price for Russia's undesirable actions.

Based on the evidence, one can surmise that so far sanctions have worked (e.g. by restricting the access of Russian companies to finance) to reduce investment in Russia. It is clear that the foreign funding of Russian banks in particular has been affected by financial sanctions.

According to a recent study by the International Monetary Fund, sanctions cost Russia 0.2 percentage points of GDP growth in every year between 2014 and 2018. At the same time, fluctuations in the price of oil have had much larger, perhaps four or five times larger effect on Russia's GDP growth. Nevertheless, if a country's growth is relatively close to zero, as Russia's growth is, even 0.2 percentage points per year is a clear economic cost for illegal actions.

One can at least argue that this cost, and possibility of further sanctions, have acted as a deterrent on further Russian aggression in eastern Ukraine, although situation there remains far from satisfactory. The most recent collapse in the price of oil will in all likelihood intensify also the negative effect of sanctions. ■

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How the US-China trade war effects Russia

Expert article • 2741

The current state of commercial relations between China and the USA is a matter of obvious and substantial concern for the members of the international community[1]. This is relevant regarding both disagreements that escalated into rounds of retaliatory tariffs and an outcome-based phase one trade deal. In case of the Russian Federation – in addition to possible repercussions for Russian-Chinese and Russian-U.S. trade flows – it is an impact of the conflict under review on the global governance in general, multilateral regulation of commerce and national trade policy in particular that looks like the most challenging strategic repercussion[2].

Indeed, the way Washington behaves tends to discredits and undermine directly one of the key existing pillars of the global governance, namely the World Trade Organization (WTO). Ironically, by the 1990s, having realized that it could not promote the virtues of a free market while itself practicing something so different, the USA sought and promoted the creation of this institution as a shift towards a system based on rules rather than power. In contrast to the American attitude, Russia unilaterally, in various bilateral negotiations, and within the framework of BRICS has constantly highlighted its firm commitment to the principles of multilateralism as being embodied in the WTO. Of course, Russian Federation is fully aware of the necessity to reform the organization. The task is difficult and time-consuming. Nevertheless, national trade officials as well as majority of experts sensible argue that this is feasible, the WTO is adjustable.

Being assure in the centrality of the WTO as a core of international trading system, Russia at the same time actively participates in various regional institutions and projects. They are perceived not as alternatives, but rather as the complements to multilateral approach in the regulation of commerce. In particular, one could mention the Asian Infrastructure Investment Bank and the BRICS New Development Bank. The attractiveness of these recently established institutions has already significantly increased in developing economies. Meanwhile, both the Obama and Trump administrations (in contrast to their major trade partners and other G7 members!), have largely limited the U.S. from participation. Similarly, Washington has kept its distance from the China-led Belt and Road Initiative (BRI) despite its openness toward U.S. involvement. The scale of the BRI, which involves significant cumulative investments estimated at around four to eight trillion USD, beats even the Marshall Plan from 70 years ago, the cumulative aid of which may have totaled 12 billion USD at the time, or around 180 billion in current USD.

In its turn, Russia is keen to play an active role in BRI. During the Second Belt and Road Forum on April 27, 2019, Russian President Vladimir Putin formally announced the plan to connect Arctic shipping through the Northern Sea Route to China's Maritime Silk Road. The Polar Silk Road could extend the limits of the BRI even further and beyond its East-West framework. China's interest rests mainly on the fact that the Polar Silk Road will not only will shave off 10 days (5,000 nautical miles) on shipping routes from China to Europe, but also enhance cooperation between China and the Eurasian Economic Union (EEU), which includes Russia, Belarus, Kazakhstan, Kyrgyzstan and Armenia. Since May 2015 the EEU has worked with China to finalize its economic integration with the BRI, which will create a new economic bloc founded on the long-term development of infrastructure.

At last but not least, one should also take under consideration yet another issue. It is more of political and geopolitical, that of purely economic kind. The point is that from Russian perspective, the way the United States treats an economic pillar of the global governance could easily expand to other pillars. Russian Federation special concern in particular relates to the United Nations and its main organs, including the Security Council (UNSC). The latter, alas, is totally ignored when the U.S. decides to impose various unilateral sanctions, including trade restrictions against its adversaries (China, Russia, Iran) or violates some UNSC resolutions on the Arab-Israel conflict or non-proliferation. ■

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2 For more comprehensive discussion see the article of the authors that will be shortly published in "KIET Monthly Industrial Economics Journal"

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Russia's economic turn to the global south

Expert article • 2742

After the beginning of "sanction wars" with Western countries against Russia in 2014 some political figures stated that the aim of the Russian Federation is turning to the East. However, radical changes have not yet materialized due to well-known inertia in foreign trade and FDI geography. Our analysis shows that real reorientation has already begun. The changing role of the global South is the main reason for shifts in Russian trade and FDI.

Trade in goods

In 2013, the EU's share in Russian foreign trade turnover was 49.4% (*Federal customs service data*). Then it steadily decreased to 41.7% in 2019. Nevertheless, it is still impressive. Moreover, the US share in Russian trade increased from 3.3% to 3.9% during 6 years. However, we think that comparison of top Western and Southern partners is more indicative. We have methodological problems with Ukraine (pro-West country with modest GDP per capita), Switzerland and Israel (Western states which avoid "sanction wars" against Russia) as well as Serbia but we exclude them from comparison (their shares in Russian trade in 2019 were 1.7%, 1% 0.3% and 0.4% correspondingly).

Compositions of top-3 and top 6 for 2013 and 2019 were almost constant: *Netherlands*, *Germany* and *Italy* + *Japan*, *Poland* and *USA* (but the USA instead of Italy in 2019) vs. *China*, *Belarus* and *Turkey* + *Kazakhstan*, *Rep. of Korea* and *India*. In 2013, the share in Russian trade in goods was 24.3% for the Western *top-3* and 18.4% for the Southern top-3. In 2019, proportion turned to an opposite – 19.2% for the West and 25.5% for the South. If we look at *top-6*, there were 34.8% vs. 25.7% in 2013 but 28.6% vs. 33.8% in 2019.

The same trends can be observed for top-10 and top-20. The Western list contains additional EU countries. *Taiwan*, *Uzbekistan*, *Vietnam* as well as *Brazil* in 2013 and *Egypt* in 2019 can be seen in the Southern top-10 of Russian trade partners. *Azerbaijan*, *Thailand*, *Indonesia*, *Malaysia* and *Singapore* are permanent participants of top-20, while *Algeria*, *Mexico*, *Armenia* and *Bangladesh* substituted Hong Kong, UAE, Venezuela and Kyrgyzstan. For *top-10*, there were 43.9% (West) vs. 28.1% (South) in 2013 but 36.8% vs. 37% in 2019. Only for top-20 the West barely holds its leadership – 53.9% vs. 30% in 2013 and 45.3% vs. 41.4% in 2019. The fact is that the EU lost dominance as a source of technologies for Russia. The COVID-19 crisis also demonstrates weakness of crucial service sectors of the EU, namely healthcare.

Trade in services

According to *Bank of Russia data*, changes for trade in services remain not so radical but the West has stepped back. In 2013 the share of the Western *top-3* (Germany, UK and USA) was 17.7% while in 1–3 quarters 2019 it slashed to 15.1% (moreover, the USA was replaced by Cyprus). The share of the Southern top-3 (Turkey, China and Belarus) increased from 11.4% to 12.4%. The share of the Western top-10 (additional 7 EU members) slightly changed from 37.1% to 37.2%. On the contrary, the share of the Southern top-10 increased from 19.5 to 21.2%. The list consisted of top 3 + Kazakhstan, UAE, Thailand, Rep. of Korea, Panama, Hong Kong and Vietnam in 2019 (latter two states replaced Uzbekistan and British Virgin Islands).

Russian inward FDI

Bank of Russia data has a serious defect because it is ignorant of round-tripping and trans-shipping FDI. For instance, Cyprus dominates in terms of Russian inward FDI stock ($143.3 billion or 31.4%, as of 1.10.2019). The Netherlands, Bermuda, UK, Bahamas, Jersey, Luxembourg and British Virgin Islands are among other leaders (in total $172.3 billion or 37.7%). However, data on some countries can clarify trends towards Russia's turn to the global South. During 2014 – 3 quarter 2019 German FDI stock in Russia decreased from $18.9 to $18.8 billion, US FDI – from $18 to $3.5 billion, Swedish FDI – from $16.2 to $4.8 billion and Austrian FDI – from $11.8 to $6.4 billion. Meanwhile, French FDI stock increased from $14.1 to $21.8 billion, Finnish FDI – from $4.2 to $6.9 billion and Italian FDI – from $1.2 to $4.9 billion. Total share of these 7 countries decreased from 17.9% to 14.7%. On the contrary, although Chinese FDI stock decreased from $4.5 to $3.4 billion, FDI stock from Singapore increased from $0.2 to 4.4 billion, South Korean FDI – from $1.9 to $3.4 billion, Kazakhstani FDI – from $1.0 to $3.2 billion, FDI from Hong Kong – from $0.1 to $3.0 billion, etc.

Russian outward FDI

The beginning of a kind of turn to the global South could be seen in activities of leading Russian MNEs. According to the *author's estimates*, top 3 in terms of foreign assets in 2019 consists of such "actors" as *Lukoil* ($23-24 billion), *Gazprom* ($17.5-18.5 billion) and *Rosneft* ($12.5-13.5 billion). During 2015-2019, almost all their significant FDI deals were located in the global South. For instance, Rosneft spent only $1.5 billion in Germany increasing its involvement in oil refining whilst invested almost $4 billion into Indian refinery, $2.1 billion in Iraqi Kurdistan and $1.1 billion in Egyptian oil project. Lukoil decreases its presence in the EU and Ukraine but intensifies activities in the South (e.g. it invested more than $3 billion in construction of Uzbekistani gas refinery in 2016-2018 and $800 million in Rep. of Congo in 2019). Largest Russian MNEs outside oil & gas sector are *Rusal* ($6.4-6.5 billion) and *Atomenergoprom* ($6.1-6.2 billion) which also operate significant projects in the global South.

Conclusion

Cooling of relations between Russia and the West during the next decade or so can result in real Russia's economic turn to the global South (instead of traditional cliché of the "East") due to the same inertia in newer geography of foreign economic ties. ■

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When the COVID-19 threat subsides, the EU should employ a "Neue Ostpolitik" towards Russia

Expert article • 2743

The long-term implications of the COVID-19 pandemic for Europe are hard to speculate about at this current juncture. But, at the very least, the pandemic will cause significant economic pain[1] for all countries across the European continent. In the EU, the third and fourth largest economies, Italy and Spain, have been hit the hardest so far by the pandemic and Germany and France, the two largest economies, have been forced into employing measures which severely limit economic activity.

Russia, also, stands to suffer significantly from the COVID-19 pandemic[2]. Although its official death rate has remained much lower relative to Italy or Spain, it has an economy that is heavily reliant on trade (52% of its GDP is derived from trade) with European countries overwhelmingly representing their most important trading partners (the EU-28 accounted for 42% of Russia's total two-way trade flow in 2018[3]). Add in that oil prices have again tumbled and the economic forecast for Russia, like most places, is less than rosy.

The COVID-19 pandemic likely represents an epochal moment for international relations. And out of this chaos, perhaps it also represents an opportune time to for the EU to seriously re-think its Russia strategy.

Since the onset of the Ukraine crisis in 2013, the EU-Russia relationship has been extremely fragile. The annexation of Crimea by Russia led to significant EU sanctions (which Russia responded to in a tit-for-tat fashion) that remain in place. Since then, Russia has been accused of stirring up anti-EU sentiment in Europe and undermining democracy where it can, even apparently helping Brexit succeed[4].

The breakdown of relations has been problematic for Europe in general and brought Cold War-style anxiety and paranoia back to the forefront. Eastern Europe, in particular, represents a region where no agreed security architecture exists[5]. Given that two large powers – the EU and Russia – exude tremendous influence in this area, relations are destined to remain tense and fractured until any agreement can be found.

Essentially, as it stands, the EU and Russia have conflicting visions for Eastern Europe and while Russia has certainly been the most belligerent actor to date in embroiling the region in anxiety and paranoia, the EU's increasing zero-sumness[6] prior to the crisis should not be overlooked as well.

While the breakdown of EU-Russia relations is often presented as a fait accompli due to the emergence of an irredentist strongman leader in Russia in the shape of Vladimir Putin, such a view overlooks the significant positive-sum potential at the heart of the relationship. Prior to the onset of the Ukraine crisis in 2013, the EU and Russia had set a new high in trade in goods between the two[7], with 123 billion euros of goods going from the EU to Russia and 213 billion euros of goods going the other way. On top of this, in 2011 and 2012 NATO and Russia collaborated on joint exercises, most notably the "Vigilant Skies"[8] exercises.

However, Ukraine, and especially the crisis that unfolded there, drove a wedge between the EU (and NATO) and Russia. But, like the broader EU-Russia relationship, massive positive-sum potential existed in Ukraine as well. The potential for a trilateral trade agreement[9] between the EU, Russia, and Ukraine had long been touted, especially as Ukraine had roughly similar levels of trade with both sides.

But, conflicting visions for Eastern European security got in the way of the potential for cooperation. Russia, arguably feeling threatened by the EU's advantages over it in engaging with Ukraine, took desperate and belligerent actions.

The EU was right to react to Russia's unlawful annexation of Crimea and subsequent destabilisation of the Donbas region in east Ukraine. Sanctions were one of the few tools that the EU, as a civilian power, had in their arsenal that could hurt Russia. However, six years on from the employment of sanctions in 2014, it is time to admit that beyond asserting a kind of moral superiority, they have been quite useless.

The French president Emmanuel Macron made waves in late 2019 when, in a dialogue with The Economist[10], he observed a "brain death" in NATO while calling for a "rapprochement" with Russia. Macron's stance caused significant consternation amongst Europeans and Americans – with many suggesting he was naively playing into the hands of Putin[11]. However, at the same time, in the country the EU has putatively been standing up for, Ukraine, their new President, Volodymyr Zelensky has also sought to find ways to start healing the Ukraine-Russia relationship.

Finding a solution to the ongoing problem of Eastern European security will be difficult given that the power structure of the region remains as conducive to contestation as ever. But, the seemingly growing acceptance in Paris and Kiev – among other areas of Europe – that the previous six years has achieved very little, and that a new strategy is necessary, makes the time right for the EU to start rethinking its strategy towards Russia.

Despite the damage done to the EU-Russia relationship in the years since the onset of the Ukraine crisis, the positive-sum foundations of the relationship remain. Two-way trade between the two remains strong. After reaching a nadir of 191 billion euros in 2016, trade has recovered significantly since, reaching 253 billion euros in 2018[12]. Of course, COVID-19 is going to hit these numbers hard, but the EU should still look to trade to rekindle their relationship with Russia.

Expert article • 2743

The idea of an EU Neue Ostpolitik – German for "new eastern policy policy" – towards Russia will seem like a mixture of appeasement and cowardice to many. But this policy would not be tantamount to the EU cosying up to Russia. Rather, it would be using trade as a carrot, not as a stick. The use of sticks has seen very little positive change in Russia, and while carrots might also have little effect, at least there is the potential for producing some win-win economic outcomes. This alone would play a positive role in pacifying the underlying security concerns in the relationship and, maybe, could be a blueprint to finding a compromise to the question of Eastern European security. ■

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Russia and Finland: Searching for new drivers of growth

Expert article • 2744

Over the past decades bilateral trade between Russia and Finland has seen a pronounced cyclic dynamic characterized by sizeable fluctuations. It has mainly been shaped by the direct correlation with energy exports, given the considerable share of this commodity group in Russian exports to Finland (60-65%), and the dependence on one-off large-scale projects. For example, the construction of Nord stream 2 greatly contributed to the overall turnover for 2018.

However, such projects are one of a kind and finite in nature. Taking into account the volatility of energy prices, there seem to be not many opportunities for a sustainable increase in foreign trade turnover between our countries based on existing capacities. In 2019 bilateral turnover decreased by more than 8%, and we can probably expect the negative trend to persist.

We live in a brand new political and economic environment and face new challenges that shortly become normalized in both external and internal systems: social polarization, rise of protectionism, trade wars between leading economies, climate change. Global economy is on the verge of another crisis triggered by the outbreak of COVID-19 and the collapse of the oil market. Stock market dropped to 2008 levels and might sink even further. According to the Bank of Finland and ETLA, this year the Finnish economy may shrink by up to 4-6% of GDP.

In this light we recognise the importance of identifying new drivers of growth, accelerators for wider cooperation between our countries in non-energy sectors that could bring a sustainable dimension to Russian-Finnish economic relations.

Our governments have already started to develop and harmonize Programme for Strategic Cooperation in Trade and Economy, which defines cooperation areas in investment, technology and innovation, and reflects joint commitment to creating sustainable circular economies. The programme could serve as a bailout plan to stabilize bilateral trade and compensate for decreased turnover registered in the previous years.

We see vast potential in developing secure and sustainable industrial value chains. In this respect we would like to highlight the following international alliances, clusters and consortiums of Russian and Finnish enterprises aimed at sustainable development in key industries that are being launched in accordance with various goal-setting documents, such as Russian national projects, the New European Industrial Strategy, etc.

- Russian Norilsk Nickel, Finnish Fortum and German BASF have signed a letter of intent to develop a battery recycling cluster in Harjavalta that is going to serve the electric vehicle market;
- Russian companies Element, RTK-Network Technologies (JV of Russian Rostelecom and Finnish Nokia) and Concern Sozvezdie have established a radio-electronic consortium Telecommunication technologies.

Moreover, we see potential in launching joint projects in accordance with the European strategic value chain "Connected, Clean and Autonomous Vehicles" designed to develop and produce clean vehicle components (batteries, engines, etc.) as well as to promote transition to clean vehicles.

Such "integral approach" allows to consolidate resources, use best manufacturing practices, minimize the impact of existing trade restrictions, conduct joint R&D activities, gain access to cutting-edge technologies and, ultimately, reach synergy without having to introduce radical changes within the companies involved.

Emerging negative trends in the Finnish economy will most likely hit SMEs the hardest, spurring them to search for new ways of maintaining their profit margins. One option could be market expansion through Russian electronic platforms. Thus, Finnish companies could start expanding their exports to the markets of Russia and CIS-countries.

Economic security requirements have recently become more relevant and pushed European companies to consider moving production from the third countries back to the EU or nearby regions. This trend has already been reflected in the New Industrial Strategy for Europe. Russia has always been a reliable partner for European countries and it has the longest border with Finland. Coupled with established logistics of supply chains, it could be considered as a prerequisite for new value chains, including localisation of Finnish companies' production in SEZs and TOSEDs established in cross-border regions. In this case, Finnish companies could enjoy a preferential tax regime as well as technological, organizational and managerial support.

This list of prospective cooperation areas is not exhaustive but could prompt a discussion on the transformation of existing bilateral economic cooperation formats in a changing environment. Projects described above are beneficial for all parties involved as they help overcome the consequences of negative processes and lay the foundation for sustainable development of our economies that could complement each other and strengthen each other's competitiveness. ■

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Russia's rough spring

Expert article • 2745

When the new decade started three months ago, no-one could have predicted the status world including Russia would be in just 90 days. Corona pandemic has swept basically thru the entire globe and we have only seen the beginning. The impact has been devastating: Fatalities, destroyed economies, increased unemployment and financial uncertainty that the world has not seen since the WWII ended.

Countries have put all their efforts to contain the virus, but as this is being written, final outcome remains unknown particularly in the U.S, in most of the EU-countries as well as in Russia.

Russia´s year started in January 2020 with the unexpected change of the government. Long-time prime minister Dimitry Medvedev was replaced by Mikhail Mishustin, a technocrat and previous the Director of FAS, or Federal Tax Service. There is some speculation if his arrival to the political scene of Russia was totally unplanned, but in fact his name has been in the list of future leaders of the President already in the beginning of 2010´s. Simultaneously approximately half of the government changed with average age decreasing by 2 years and shift changing from Saint Petersburg back to Moscow-based persons. In the current government there are only 2 Saint Petersburg originating ministers. It was widely analyzed that the change of the government was current President`s first step for actions coming 2024 elections.

Beside the Corona virus Russia`s economy has been attacked from another front, the oil price war between Saudi-Arabia that has led to the fastest drop in oil price in nearly two decades. Urals barrel price has been hovering on the lowest level at 13 USD per barrel since 1999. Positive thing is that the country`s money reserves are full, and it has means to fight the low price for quite some time, but the damage to the budget is evident and estimated at over 3 BUSD per month if the price remains at such low levels. Therefore, it was no surprise the President Putin has also been calling on lifting some of the sanctions from his G20 counterparts, although no positive friction has been received on the topic yet.

Drop in the oil price has led to the devaluation of the ruble in March and the forecast for the end of the year is currently at 84 vs EUR. The rate of the RUR is one of the key factors for the business both in Russia but also for example tourism coming to Finland and other countries which has now more or less completely stopped.

Fast development of the Corona virus has also caused delays and changes in the process of renewing the constitution of the country. Russia´s Constitutional court has approved the changes to the constitution that would allow current President to continue in power until 2036. Furthermore, he initial date for the advisory referendum was 22.04, but at this stage it is postponed to a later date, evidently in May or possibly in June.

What will all this mean to business then? The economy has significantly slowed down and GDP for 2020 will be visible negative. The visibility is blur how much as the epidemic is just at its first stages in Russia and further actions by the government can only be estimated. People have been placed in curfew in several of the large cities. Going out is allowed for example in Moscow only with a special reasons and special QR-codes to monitor movements are taken into use. Shopping centers, shops, restaurants and nightclubs are closed for the time being. Food stores and pharmacies remain open. At the moment the full focus of the government is to contain the virus. There is information of different support packages. Prime Minister Mishustin has announced a 1,4 trillion RUR (15 BEUR) amount with which it plans to support the damages of Corona virus. This amount will probably be extended in the near future.

There will be also changes to the budget and its spending and furthermore the some over 20- or so-called National Projects that President Putin launched prior, will be delayed and their timetables most likely are changed. Production figures were still relatively positive for the beginning of the year, but the oil price war and the virus are now driving the country into a recession. Lots of people will unfortunately lose their jobs.

Typical for doing business in Russia has been the fast and swift changes during past twenty years, but which have also been recovered from in due time. This happened for example in 1998 and 2008. The companies who have the patience and financial means to navigate thru these periods are the survivors in the market. Russia has 140+ million inhabitants. However, this crisis is different in nature and substance and the final outcome will be harder to predict. Russia´s will eventually recover and things will again stabilize, but it will create a major dent in economy as well as the spending habits will change. Consumer confidence and private spending may decrease for some time. This is a factor which has been one of the main cornerstones of the country´s economy.

The timeline also remains unclear how long recovery will take, but there will be also a tomorrow. Macroeconomic visibility is very limited at the moment. Main effort and focus now is to fight spreading of the virus. ■

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Russian economy feeling the pain

Expert article • 2746

The global economy is currently facing the hardest shock since the global financial crisis of 2008. Russia's linkages to the suffering global economy as well as unprecedented quarantine measures taken inside the country mean paint a recessionary picture for 2020. Extreme market turbulence experienced in March is comparable to the shocks of 2008 and 2014.

One of the primary channels through which the current shock is transmitted to the Russian economy is exports. Due to external demand weakness Russia risks to post a negative exports growth rate for the second year in a row, which has never happened in Russia's contemporary history. Europe that is hit hard by the pandemic is Russia's major trading partners accounting for around 46% of the country's exports. The exports could decline by up to 5% in 2020 which would be comparable to the impact of the global financial crisis.

Investment demand is the next vulnerable spot suffering from the RUB weakness and from extremely high global uncertainty. Investment in Russia is highly import-intensive and thus highly sensitive to FX moves. The sharp RUB depreciation in 2008 and 2014 was followed by a drop in investment of more than 10% in real terms. The length of the corona-related global uncertainty is the key factor for the investment outlook in Russia. Investments moderate decline in 2020 is now a baseline scenario.

The authorities expected to make 2021 a year of significant investment growth acceleration (from roughly 2% to 5% annually) amid the launch of a more active phase of national projects. Quite a number of infrastructure projects would have had the final approval in 2020 followed by the work on project documentation. In the current environment the focus of the authorities will likely shift to crisis management leading to delays in project execution and eventually in a new investment cycle.

Private consumption looked slightly less vulnerable at first. However, as severe quarantine measures were implemented in late March consumer demand collapsed with the services sector being hit particularly hard. Consumer demand was hit very hard in the crises of 2008 and 2014. In both periods, consumers were feeling the pain of inflation acceleration (up to 15% in both cases) caused by RUB weakening. Thanks to inflation targeting and considerable import substitution, which has been under way since 2014, the responsiveness of prices to FX shocks has considerably declined. Thus, the inflation risk for consumers now seems lower than in 2008 and in 2014. A different risk is now on the cards, though. As businesses are looking for ways to remain afloat in the current crisis, temporary salary reductions and even layoffs are expected in particularly vulnerable sectors.

Overall, the baseline scenario for 2020 implies a GDP decline of around 3% with the biggest losses to be concentrated in Q2 when the output could drop by up to 10%. The final outcome will largely depend on the epidemic curve in Russia as well as on the scale of public support measures meant to mitigate the crisis impact.

Russian public finance is resilient but still current oil price levels are painful. Russia has entered the current crisis with very sizeable buffers that now allow to cushion the impact of the current shock on the economy. With USD/RUB currently at 77, the breakeven oil price to balance the Russian budget is around USD 42/barrel.

The RUB-denominated oil price is now below the level seen at the peak of the crisis of 2015. Non-oil revenues will also slightly decline with slower economic growth and due to tax breaks for the most vulnerable sectors in the current crisis.

With the current oil price level, the Russian federal budget is expected to see a deficit of around 3% of GDP in 2020, Currently the liquid part of the National Wealth Fund is equal to 9.2% of GDP. The country is thus capable of enduring the current oil market conditions for more than three years. Thanks to these buffers, the current risk of a sovereign rating downgrade is low despite a massive plunge in the oil price.

The RUB is among the EM currencies that are hit hardest in the current sell-off. The worst risk sentiment since the global financial crisis is exacerbated for the RUB by the plunge in the oil price to a record low since 2003. According to a rough estimate, with an oil price in the range of USD 20-30/barrel, the RUB could fluctuate in the 75-84 range against the USD depending on risk sentiment in the market. In an environment with an oil price of USD 30-40/barrel, the RUB is likely to stay between 69 and 77 versus the USD. On a 1-year horizon a gradual recovery of the currency is on the cards. As the pandemic spread slows down and the market mood improves, the currency is expected to move in search of a new equilibrium level of round 65-70 for USD/RUB and around 75-80 for EUR/RUB. ■

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The free trade agreements of the Eurasian Economic Union

Expert article • 2747

The Eurasian Economic Union (EAEU), established in 2015, includes five member states – Armenia, Belarus, Kazakhstan, Kyrgyzstan, and Russia. Its most important element, the customs union, dates back to 2011. The starting point for discussing the EAEU's institutional efforts to expand the network of free trade areas is the following. With its nominal GDP at $2 trillion ($4.5 trillion at purchasing power parity), and population of 183 million people, the Eurasian Economic Union is, however sizable, *not a self-sufficient market*, at least as concerns most higher-value added goods. Any attempt to build a 'Eurasian fortress' would be economically suicidal in the long term. The EAEU's member states' economies would be forever doomed to play catch up technologically. A distinct disadvantage of such a future is the inability to achieve economies of scale on most high-tech goods. The opportunities to export non-primary goods would be missed. Consumers, effectively cut off from competitive imports, would lose. Domestic producers, protected from competition, would grow overly lax.

A certain level of market protection might be acceptable in order to create a comfortable 'springboard' for national producers. However, in the long term, there is no alternative to integration into world markets and global value chains. A standard strategy to pursue this path while paying attention to the particularities of trade and investment ties is to negotiate free trade agreements (FTAs). In addition to reducing or eliminating trade duties, they govern numerous mutual agreements on investment conditions, capital flows, technical regulation, dispute resolution procedures, rules for determining the country of origin of goods, and other important issues pertaining to market access. The most realistic way for the EAEU to promote its foreign economic interests is to form *a network of comprehensive bilateral free-trade agreements between the Eurasian union and its partners*. The network of free-trade agreements aims to expand and simplify the access of producers and exporters of goods and services from the EAEU to other countries' markets, help the Union members integrate into regional and global production chains, and attract investments.

The first FTA – the one with Vietnam – has been signed in 2015. Since then, *multiple FTAs have been signed, negotiated, or discussed*. Apart from Vietnam, EAEU signed the free trade agreements with Singapore, Iran (a limited scale FTA due to the existing sanctions regime), and Serbia (the latter replaced already existing bilateral agreements with the EAEU key economies). Negotiations with India, Egypt, and Israel find themselves at various stages. Besides, there were talks / research groups / memoranda of understanding with South Korea, Cambodia, Mongolia, Peru, Chile, and MERCOSUR.

The progress has been slower than expected. Most importantly, *all signed FTAs are with minor trading partners*. The same holds for the prospective agreements where the negotiations/formal consultations are ongoing. The EAEU has shelved a potentially important deal with South Korea due to the concerns on the competitiveness of the Russian automotive sector and electronics. In developing its relations with the China, the EAEU has so far opted for a non-preferential agreement with regulatory elements for transportation, industrial cooperation, and investments. Liberalization of trade with China, i.e. making changes to actual import duties, is not on the table.

An 'elephant in the room' is certainly the EU. In the short and medium-term, under the current political conditions, the EAEU countries are gaining experience and competence by drafting and concluding free trade agreements with small trading partners. In the long term, the Eurasian integration bloc cannot do without a large comprehensive agreement with its *main trade and investment partner*, the European Union. Likewise, the EU should not ignore the 183-million strong market to the east. When political framework would allow, negotiations should begin on a complex EU-EAEU trade and economic deal. I suggest that, due to the scope of related issues and an asymmetry of underlying interests, the anticipated agreement – or rather a set of multilateral and bilateral agreements – should be framed as a '*mega deal*'. Mutual concessions and compromises will be necessarily interconnected. The importance of various domains will be different for both parties. Deferring in one area, the partner will expect a trade-off with respect to another problem. ■

More on the EAEU's FTAs and their logic: Vinokurov E. (2018) Introduction to the Eurasian Economic Union. London, New York: Palgrave Macmillan. More on the potential EU-EAEU 'Megadeal' and its potential features and domains: Vinokurov, E. (2014) A Mega Deal Amid a Relationship Crisis: Why a European-Eurasian Integration Agreement Should Be Discussed Now. Russia in Global Affairs, 5.

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The development of democracy after socialism

Expert article • 2748

Thirty years ago, Europe´s socialist countries were on the brink of a new era. In the 1940´s, the Soviet Union had been the rough mentor to new socialist countries in their transformation. In the 1990´s, the European Union became the guide in transition towards a market economy and democracy. The EU designed strict guidelines and offered remarkable financial aid to countries, which manifested their will to join the EU. Moreover, the CIS countries received assistance from the EU.

The question about forming party map in new democracies was topical in the beginning, before the first democratic elections. Could these countries follow old European democracies by establishing similar parties as came into being in the beginning of the 1900´s or by imitating their contemporary parties? How big will be the role of national peculiarities in different states? Or could new democracies innovate new party compositions on the basis of prevailing social and economic conditions?

The answer to all questions is a qualified ”yes”. While the party structures reflect national differences, three common features are especially remarkable. The green movement/party, a newcomer in Western democracies, did not get a footing in new democracies. Environmental issues were not highly ranked on their agenda. Until now, only individual environmental problems have attracted attention while a comprehensive view on the environment and climate policy is often defective. Second specific feature, and disappointment, was the lack of a holistic innovation on policy-making related to a modern society. New democracies could not radically reform frozen political composition and thinking of old democracies. Thirdly, besides moving voters, new democracies have produced ”moving parties” which either maintain original name or under a new title have radically remodelled their character in different elections.

In Poland and Hungary, christian-conservative nationalistic parties have been in power for years. Similar populist parties have come up in most EU member countries in past few years, but in Hungary and Poland only, these parties alone have been in power for many years. Politics pursued in these two counties have violated fundamental EU principles. EU decision-makers have been powerless to solve this problem. Poland and Hungary were pioneers in transition from socialism to democracy, therefore their separation from liberal democracy and its values has awaken embarrassment in the EU. The majority of the people in these two countries support EU membership, and thus political leaders pursue two-faced policy, they blame ”Brussels bureaucrats” but support generous EU membership.

In Russia, democracy has taken a step backward as well. In the State Duma, one party, United Russia, is now the only real decision-maker, while other parties are fellow travellers or a harmless nuisance. One party in power is enough in the light of fact that Russia´s political target is to promote the interest of the Russian state, not the interests and welfare of different population groups. In the name of the state benefit, Russia has taken possession of neighbouring areas in Georgia and Ukraine.

Why Russia despises democracy? In the periods of transition after both the First World War and the Second World War, many European countries adopted democracy. In the beginning of the 1990´s, socialist countries had an opportunity of transformation to democracy. Russia did not utilized any of these possibilities to espouse democracy.

Are the Russians reluctant to absorb foreign ideologies? Karl Marx was not a Russian, but despite this fact, his doctrine was accepted as the state ideology of the Soviet-Russia, which the Soviet Union further seasoned with Leninism, Stalinism and other domestic additions. All global inventions and innovations, as well technical as mental ones, have spread at least to some extent in Russia.

Russia´s prerequisites to take in democracy look in principle better than those of two quite young democracies, namely India and Japan. When compared to Russia, national cultures of these two Asian countries differ much more from the culture, which has been basis for democracy in Europe. When internal conditions become favourable for change, maybe with the help of a suitable mentor, democracy possibly may win in Russia as well.

It is said that democracy and its values become more widely accepted and supported when general level of education among people rises. Of course, higher education level is desirable development, but it is not enough alone. As an example, one may mention persons who have come from other parts of the world to Europe to study in our universities. After their acquaintance with democracy and graduation, some of them have become cruel dictators in their home countries. Among leaders and supporters of Nazi-Germany and the Soviet Union, there were highly educated people. In fight against anti-democratic populist movements, we should call more attention to the education of values. ■

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30 years after: Expectations and outcomes

Expert article • 2749

In early 2020, we mark the 30th anniversary of elections in Estonia, Latvia and Lithuania that eventually resulted in their declarations of independence. Looking back, it is useful to recall a sequence of related events from that dramatic period. The Polish roundtable talks conducted during February-April 1989 that resulted in free elections on 4th June 1989 were perhaps one of the early triggers of the regime collapse and subsequent transition. In Hungary, similar talks had started in June 1989. The Pan-European Picknick at the Austro-Hungarian border on 19th August 1989 was used by hundreds of East Germans to flee to West Germany. In the Baltic States – at that time still parts of the Soviet Union - about half a million people had demonstrated against the communist rule by an impressive "Human Chain" on 23rd August 1989. The exodus of East Germans from the German Embassy in Prague in September 1989 represented perhaps the final nail in the coffin of the four decades' long communist grip on Central and Eastern Europe. In this context, the events on 17th November in Prague that triggered the Velvet Revolution came not just a bit too late, but were perhaps even orchestrated in order to facilitate a smooth transition of power within the system. The fall of the Berlin Wall on 5th November 1989, quickly followed by ousting the long-term Bulgarian dictator T. Zhivkov on 10th November and the violent toppling of Romanian leader N. Causescu on 21st December closed the revolutionary year 1989. For the sake of completeness, one has to note that the communist regime in Yugoslavia ended in 1990 and the Soviet Union was formally dissolved in December 1991. The ultimate independence of the Baltic States had materialized only after the August 1991 aborted coup in Moscow.

Reflecting on the beginning of transition, I ventured to consult a compendium of papers which I edited in 1990. The resulting book, published in early 1991 with the Westview Press in the United States under the title ***Dismantling the Command Economy in Eastern Europe***, included chapters on *'Transition from Command to Market Economies'* that discussed the pros and cons of the 'shock therapy versus gradualism', on East-West economic relations, East-West energy prospects, on unemployment and social security, as well as seven country case studies, including ones on East Germany, Czechoslovakia, Yugoslavia and the Soviet Union. Needless to say, these entities no longer exist as states: there are now 24 new independent states in their place while East Germany merged with West Germany after the fall of the Berlin Wall. The nationalist outbreak in the region was probably one of the least expected transition outcomes, as was in particular, the subsequent extremely violent nature of the Yugoslav disintegration. Nor had I expected, however, the speed and the depth of the process of European integration, especially the fact that parts of the former Soviet Union would join the European Community in 2004, not to mention NATO membership in 1999 – although a *'return to Europe'* was high on the agenda in all countries in Central, Eastern Europe and the Baltics.

The explicit recognition of these countries' diversity implied not only the need for diverse transition strategies, but also the possibility of diverse outcomes, the latter implying that there was no guarantee for either a speedy and smooth transition or for its success. I was convinced that *'a return to communist dictatorship of the old sort is rather unlikely in the countries of Eastern Europe - contrary to the disintegrating Soviet Union, where future developments in individual republics may go virtually in any direction'*. Indeed, the spectrum of transition varieties which emerged in the region ranges from the more 'successful' transitions in the Czech Republic, Slovakia, Estonia and Poland to the more or less 'failures' such as Bosnia and Herzegovina, Kosovo, Belarus, Turkmenistan, Ukraine and Uzbekistan. The latter group unfortunately confirms the expected variety of eventual transition outcomes.

The next bundle of expectations addressed in the book related to the challenges of how *'to cope effectively with the difficult legacy of the past and with adverse consequences of transition'*. There have been numerous dangers associated with *'the newly emergent nationalism, combined with a vacuum of functioning institutions'*. Indeed, the establishment of *'institutions and market mechanisms that are often granted in the West, but which either do not exist or were discredited in the East'* and the high social costs associated with the transition *'endangering the maintenance of a necessary social consensus in the new and fragile democracies'* turned out to be crucial. 30 years ago, I certainly did not imagine that politicians like Babis, Kaczyński, Orbán, Zeman, Lukashenko and Putin would be among the leaders winning democratic popular votes, that a unified Germany would be led by the daughter of an Evangelic pastor from the German Democratic Republic and a former KGB agent who operated in the same country in the 1980s would rule Russia, both being the strongest in their respective countries (still) most popular politicians.

Last but not least, perhaps ominously, the above quoted book also contained an early warning that *'the social net in Eastern Europe might easily collapse and the West would be forced to erect new walls'*. Unfortunately, these fears seem now to be partly materialising – be it in the chaotic European response to migration flows, Brexit or Ukraine's and Western conflicts with Russia. The latter conflict in particular – de facto a return to a sort of Cold War after the short period of 'climate improvements' – came as totally unexpected, perhaps even more so than the power of destructive forces of nationalism, populism and xenophobia in the region. That the conflicts in Abkhazia, South Ossetia, Nagorno-Karabakh and Transdniestria would last until this day, and that new conflicts such as the one in eastern Ukraine could flare up with such intensity, I certainly did not expect either. In any case, the period 1989-1991 did not mean the 'end of history' wrongly predicted by Francis Fukuyama at that time. All that being said should not diminish the impressive economic, social, political and cultural achievements accomplished in the region, just to put them in a more balanced perspective. ■

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Sustainable development and Free Trade Agreements

Expert article • 2750

Sustainable development is defined as development that meets the needs of the present without compromising the ability of future generations to meet their needs. The definition is based on the United Nations (UN) World Commission of Environment and Development statement from 1987 that aimed to achieve economic and social development and environmental protection in a balanced manner and with the goal of socially inclusive and environmentally sustainable economic growth. These aims have been formulated into the *2030 Agenda for Sustainable Development* adopted in 2015 that includes 17 Sustainable Development Goals (SDGs) addressing, for example, poverty, health, urbanization, and responsible consumption and production. The UN notes that trade liberalization can have both positive and negative effect on sustainable development: growing trade induces economic growth but not necessarily without cost to the ecosystem. Developing countries should be integrated into the multilateral trading system while at the same time ensuring that this contributes to sustainable development. So far, the SDGs provide the most coherent sustainable development framework to develop business models with positive societal contributions.

The European Union (EU) has been one of the parties striving to advance the sustainable development agenda in its international trade policy. Trade policy and sustainable development is a timely topic because of the accelerated pace at which free trade agreements (FTA) are negotiated, signed and enforced, and because they are becoming more comprehensive. Recently, trade agreements have been concluded particularly in East and Southeast Asia, and the EU has been active in this front, as well. It has signed FTAs with South Korea (in force since 2011), Japan and Singapore (2019), concluded negotiations with Vietnam, and has ongoing talks with others, such as Indonesia. Yet the EU has not launched negotiations with one of its biggest trade partners, China, due to trade disputes and problems of transparency in China's trade policy as perceived by the EU side. Whereas talks for an investment agreement were begun in 2013, negotiations for a free trade agreement are not in the foreseeable future. China currently emphasizes its Belt and Road Initiative (BRI), originally the 'One Belt, One Road' for infrastructure development along the Eurasian continent and sea routes to Europe, the Middle East, and South Asia. In this framework, China aims to negotiate FTAs with most – if not all – of the nearly 70 countries participating in the initiative, many of which are post-Soviet emerging economies in Central Asia.

As to the EU, the negotiated agreements in Asia are wide and deep "new generation" FTAs that also adhere to sustainable development. How, in practice, are sustainable development issues – labour and environment protection – included in trade agreements? The EU's bilateral FTAs are legal documents with detailed provisions on the liberalization of trade. For example, the EU-South Korea FTA is a document of 1426 pages consisting of 15 Chapters and 25 Annexes, signed by the representatives of all EU member states and South Korea. Looking at the South Korea, Japan, Singapore and Vietnam agreements, it can be observed that the texts are relatively similar. The structure of the 'Chapter on trade and sustainable development' is almost identical in the four FTAs. Each include references to international conventions, such as those of the International Labour Organization. All agreements note, for example, the right of each party to establish its own levels of environmental and labour protection; a commitment to respect the fundamental rights at work; and facilitating trade in environmental goods and services (renewable energy, energy efficient and eco-labelled goods). Slight differences are found in exact wordings, reflecting the formulations that each negotiating party has been ready to accept at the time of the negotiations.

What is notable is that the four FTAs show a chronological evolution towards more detailed provisions on sustainable development. The first FTA, with South Korea, is the briefest whereas the one with Vietnam is the most explicit in environmental and labour issues. Yet, none of them present sanctions on the possible ignorance of the provisions by the parties. This makes the FTAs relatively powerless in executing any endorsements in case of misconduct. The European Commission has noted that sustainable development issues are still unfamiliar in many of the EU's trade partners and thus challenging to implement. Institutional structures and monitoring practices are, however, being put into place. Therefore, FTAs may eventually serve as an institutional push to introduce formal rules and regulations on sustainable development at the national level in partner countries, which would support responsible businesses in the long run. ■

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Contours of Africa's new trade policy architecture

Expert article • 2751

Global trade policy issues, since 2005, have been hinged on getting strong support through the World Trade Organisation (WTO) Doha Development Agenda. However, the initiative is now practically dead. This has led to a combination of a liberal trade policy at a multilateral level with some special and differential treatment provisions for developing and least developed countries. Some of the developed countries have moved towards high levels of protection and inward-looking trade policies. Adoption of bilateral approaches to resolve trade concerns and disputes as opposed to adopting multilateral approached seems to be the new norm for big economies. This is a major policy headache for Africa.

In addition to the above toxic policies, recent developments indicate a worsening trade environment for African countries. A stalemate on the appointment of Appellate Body Members persists. This has led to fraying of the enforcement function of the WTO's dispute settlement body. The net effect of this outturn is the weakening of hard-earned gains made since establishment of the multilateral trading system.

Intractable challenges remain regarding advancement of the Doha Round agenda, partly attributable to the question of differentiation of developing countries. The most significant of the developments at the multilateral trading system is the invocation of WTO Agreement Article XX, which applies to security exception to suspend commitments made.

In the African continent, the Regional Economic Communities (RECs) continue being the axis of economic integration as well as the *acquis* for continental economic integration under the auspices of the Africa Continental Free Trade Area (AfCFTA). Most RECs continue to improve their trade regimes and to pursue deeper integration as provided for in their founding treaties. All the RECs have a vision of an economic integration that goes beyond Free Trade Agreement (FTA) level. The SADC, ECOWAS, EAC and COMESA, for instance, have enacted sectoral policy instruments that are complimentary to trade policy, although not accounted for under the FTA framework.

That notwithstanding, despite creation of various trade liberalisation instruments at the REC level and market access offers under generalised system of preferences (GSP) schemes; as well as waiver regimes such as Africa's Growth and Opportunity Act (AGOA) and Everything But Arms (EBA), intra-Africa trade remains dismal.

Multiple trade policy regimes create new policy measures. However, African countries largely falter when it comes to implementation of agreed measures largely due to capacity challenges. Nevertheless, the conviction of African countries on economic integration as a panacea to economic challenges continues unabated. This has led to the creation of the most ambitious continental integration scheme; the AfCFTA.

The AfCFTA was signed in Kigali, Rwanda, on 21 March 2018. As at July 2019, 54 of the African Union's 55-member states had signed the AfCFTA. By May 2019, 29 countries had deposited their instruments of AfCFTA ratification with the African Union Commission (AUC). The AfCFTA is expected to introduce robust policy instruments of which most African countries are largely ill equipped to effectively engage in. This will present a challenge that will slow down any immediate gains.

There are still outstanding REC level agreements that are not domesticated by member states. This implies significant lack of policy and regulatory coherence at national level to foster smooth implementation of the regional agreements upon ratification. This is evidenced by the proliferation of non-tariff barriers (NTBs) in most of the RECs.

Gender representation in the trade sector in Africa is still a challenge. Across all the RECs and the AUC trade related engagements, the trade sector is male dominated and most RECs do not have affirmative action policies to encourage participation of women in trade matters. There is need to ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life as per goal 5 of the Sustainable Development Goals (SDGs). Increased women participation will lead to better trade outcome under the AfCFTA.

Collectively, the above developments mark a capricious nature of the trading landscape that could not have been predicted several years ago by African countries. They further mark unprecedented negative evolution of international trade since creation of General Agreements on Tariffs and Trade (GATT) in the 1940s and WTO in mid 1990s. This negative outcome at global level, may lead to momentum towards a successful AfCFTA implementation. ■

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Turning point in trade policy: Need for multidisciplinary co-operation

Expert article • 2752

Global trade has been facing vast changes through the past two decades: the opening up of new economies in Eastern Europe, Asia, and South-America and the expansion of free trade and open market policies together with technological advances have enabled the development of wide business ecosystems and supply chains. In addition, the new emerging economies have grown rapidly to shake the traditional global economic powers and question the liberal trade policy principles as well as global structures built to support and enforce global trade.

The developments of the US and China relations have reverberated across the globe influencing multiple key actors through the wide ecosystems and supply chains, while the protectionist measures used have greatly influenced the trade and income of both of these nations. In Europe, Brexit has shaken the united lines of the EU and brought up new insecurities for businesses regarding the development of EU – UK relations as the trade agreement between the two parties is currently negotiated. In addition, the role of WTO as a means to enforce and govern global trade has been questioned and the need for restructuring is clear.

These changes were already pushing global trade and its policy approaches to find a new direction. Now, the unfolding Corona pandemic has disrupted global economy as well as multiple business and social structures (read an interesting series of blog posts[1] by Milla Wirén from Turku School of Economics' Disruption Lab). The economic influences of this pandemic are unknown. However, they are expected to be severe as the policy action taken to tackle the virus are strong including social isolation, closing national and regional borders, and closing down business activities except for necessities, including grocery stores and pharmacies. All of these actions have direct economic influences. If these restrictions continue long enough, they will slow down or even paralyze global trade and investments, and have far-reaching consequences. This turmoil has played into the hands of the increased protectionist actions. The globalized world with open economies and free trade makes our systems fragile in the face of crises like this. Thus, the question remains to which direction will the disruption caused by the Corona pandemic push the emerging change? Will we follow the protectionist path, find a new common ground to restructure global governance, or will something different emerge?

In addition to the sudden disruption due to the Corona pandemic, other global pressures outside the economic sphere have been pushing the need for changes for trade policy. Among the main influences are climate change and technological development, including AI. Climate change, most significantly the acute need to stop the overconsumption of our limited natural resources and cease polluting our planet, has questioned the possibility of continuous growth. Continuous growth has historically driven economic growth as well as the growth of welfare in developed countries. However, it seems that now we need to find other ways to "live happily ever after" than being able to produce, trade, and consume increasing amounts of goods. In contrast, technological development has created opportunities to change the game. For example, if cheap labor is no longer needed in factories as production is done by robots location of the production will be driven by different criteria as for now, or if large quantities of goods can be produced locally on demand through 3D printing. This would also diminish the need for long transportation chains and worldwide business ecosystems at least in the form we currently understand them. Tackling these changes requires global co-operation and openness, as like viruses, neither pollutions nor changes in the atmosphere recognize national borders.

However, although the world seems to be borderless for viruses and pollution, it is not so for numerous other core elements of current societies. For example people, hygiene supplies, money and to some extent, information still knows borders. For the past few decades, global trade has been founded on an agreement-based governance system constituted of multiple levels ranging from global to regional and bilateral. This has enabled an exceptionally long period of peace on the global scale. Thus, the decisions we make to tackle the rising issues challenging our current governance systems have wide impact on development, greatly exceeding economic influences.

These challenges cannot be solved by a single nation, company, field of science, or technology. The challenges themselves are complex, connecting multiple nations and crossing multiple disciplines and industrial fields. Thus, looking for the answers requires multidisciplinary approaches. Therefore, future trade policy experts need to be able to identify trade as a part of the society, and pay attention to the influences trade developments might have on other aspects of our social order.

Similarly, future business managers will need the ability to understand wide-ranging changes in the business environment. This will heighten the importance of managers' capabilities to estimate the consequences of these changes in their businesses, as well as to identify and create business opportunities. Both business students and business practitioners need to understand the meaning and consequences of changing trade policy.

At the Pan-European Institute, we launched a project titled *Trade policy experts and know-how to Finland* (Kauppapolitiikan osaajia ja osaamista Suomeen, KAPPAS) in November 2019. The KAPPAS -project is a three year initiative (November 2019 – October 2022) funded by a grant from The Union of Industries and Employers Foundation (Teollisuuden ja Työnantajain Keskusliiton -säätiö, TT). The aim of the project is to increase the trade policy related expertise of economics students and business actors. This will be done in active cooperation with expert organizations such as the Finnish Foreign Ministry and the Confederation of Finnish Industries.

During the first year of the project we will develop a new course for our master's degree students at Turku School of Economics focusing on bridging trade policy and international business. In addition, we are working on establishing a multidisciplinary study module on trade policy that would combine courses from multiple disciplines and faculties related to trade policy theme. To build the expertise of the business sector, we will organize networking events that gather business actors, associations, researchers and trade policy experts together to discuss current topics. The first event[2] will be held in November 2020 in Helsinki (postponed from June due to Corona pandemic). During the project, there will be three of these events, and additional round table discussions. In addition, during the project we will build further research projects on trade policy and edit a trade policy themed book, as well as this special BRE issue on Trade Policy.

It seems, that we are facing increasingly rapid changes that influence trade, economy and societies on global scale. Therefore, we need trade policy experts and business leaders that understand global trade as a part of the society, and have wide array of tools and networks to tackle the challenges they face.

1 https://disrupt.utu.fi/blog_/710/
2 https://www.utu.fi/fi/seminaari-1762020-maailmankaupan-murros-ja-usan-kauppapolitiikan-arvaamattomuus-kuinka-ennakoida

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