

ANNE O. KRUEGER

U.S. trade policies
post-Trump



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a bountiful result
– but what's next?

ANNA KARHU

Fragile
international
relations, trade,
and policy



MAXIM MEDVEDKOV

Some new realities
in international
trade



BALTIC RIM ECONOMIES

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University of Turku
Turku School of Economics
Pan-European Institute
Rehtorinpellonkatu 3
FI-20500 TURKU, Finland
Tel. +358 29 450 5000

www.utu.fi/pei

bre@utu.fi

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ANNE O. KRUEGER

U.S. trade policies post-Trump

Expert article • 3269

The world had its highest rate of economic growth from the end of the Second World War until the middle of the last decade. Almost all economies shared in growth well above the historical average and the number of people in poverty fell drastically.

A hallmark of that growth was the increasing multilateral liberalization of trade. Under the World Trade Organization, trade became truly global and countries no longer discriminated among trading partners. Transport and communications costs fell rapidly, further increasing globalization.

Despite successful US leadership toward global integration and freer international trade until 2017, President Donald Trump reversed those policies, withdrawing from US membership in the Transpacific Partnership, imposing tariffs on imports of steel, aluminum, washing machines and more, and declaring a “trade war” with China.

The US also refused to approve of the appointment of any new judges for the very important Dispute Settlement Mechanism of the World Trade Organization, thus rendering it ineffective in its important function of preventing trade wars. Although some countries (including the European Union) agreed informally among themselves to honor the rules and procedures of the Mechanism, its absence globally meant that the World Trade Organization could no longer enforce its rules.

Many Americans hoped and expected that President Biden would reverse the Trump policies, resume leadership in the World Trade Organization, and spur negotiations under it for further reciprocal trade liberalization in services and agriculture and in new issues such as e-commerce.

There were a few positive signs. The Biden administration has consulted other countries more than Trump did and has at least rescinded the steel and aluminum tariffs on EU countries (albeit with limits as to how much may be imported into the US without tariffs). The 12th Ministerial meeting of the World Trade Organization also enabled successful agreements on contentious issues, especially fisheries. Delegates further agreed to address many of the concerns that had been voiced.

Overall, however, the Biden administration has been much more protectionist and removed much less of the Trump trade policy framework than was hoped. Although discussions are ongoing between the Americans and the Chinese, the prospect for removal of the trade war tariffs seems at best uncertain. The administration strengthened Buy American regulations for government procurement despite an agreement within the World Trade Organization to open government purchases to international bidding.

Moreover, the administration has announced its intention to see more manufacturing jobs in the US and to pursue a policy of “friendshoring”. While the precise meaning of the term is unclear, it certainly implies that the US will not respect the multilateral arrangements under the World Trade Organization and will instead negotiate trading arrangements among its allies.

The first instance of this was the four power agreement among the US, Australia, India, and Japan, which addressed security issues and committed to economic cooperation. The second was the Indo-Pacific Economic Framework for Prosperity with thirteen countries, among

them the US, Indonesia, Japan, the Republic of Korea and Vietnam. That agreement pinpointed four “key pillars”. These are commitments to engage on: a wide range of “trade issues”; “supply chain resiliency”; a “clean economy”; and a “fair economy”. There are no particulars as to what these will entail. There was no mention of tariff reduction (as would have taken place in the Transpacific Partnership).

The Russian invasion of Ukraine has raised questions as to how to protect high tech military secrets, insure adequate supplies of goods crucial for defense, and sustain an open multilateral trading system. The main policy measure taken to date in the US has been the passage of a bill allocating US\$52 billion to fund semiconductor investment in in the US and another US \$24 billion in tax credits for semiconductor producers in the US.

Debate over the bill has been contentious, with opponents arguing that the shortage of semiconductors is ending and that low-end chips can more efficiently be produced elsewhere at lower cost. Certainly one can ask why location in the US is preferable to Canada and other US allies.

The world still has much to gain by further cooperation in maintaining and strengthening an open multilateral trading system. Those countries that maintain open trade and investment policies will likely experience more satisfactory economic performance than those that turn protectionist. That lesson has been learned by many countries that were highly protectionist in the early postwar years. It must be hoped that the US rapidly learns its lesson and resumes its support of an open multilateral trading system. ■

**ANNE O. KRUEGER**Former First Deputy Managing Director
International Monetary FundSenior Research Professor
School of Advanced International Studies,
Johns Hopkins University
USASenior Fellow
Stanford Center for International
Development (SCID)
USA

MIKAEL ANZÉN

The WTO delivers a bountiful result – but what's next?

Expert article • 3270

Early in the Geneva morning of 17th June, the WTO's twelfth Ministerial meeting - MC12 – came to a close. The agreed package, hammered out over four days and two nights of intense negotiations, actually concluded four and a half years of negotiations since the last ministerial gathering held in Buenos Aires in 2017.

MC12 took place under challenging conditions, in the immediacy of a global pandemic that paralyzed the world economy and created major disruptions to global supply chains and against the backdrop of mounting climate challenges. Russia's unprovoked aggression of Ukraine has fueled further fragmentation, both politically and economically, stoking inflationary pressures through adverse effects on energy and food markets. The pressure on trade ministers to deliver a credible result could hardly have been greater.

Defying the odds, trade ministers delivered a major boost to global trade governance and multilateralism by delivering an MC12 package featuring six key elements:

Firstly, ministers brought 21 years of arduous talks to closure by agreeing to **ban harmful fisheries subsidies**. This landmark agreement, the first ever to put environmental objectives at the core of WTO mandates, responds to SDG 14.6 and prohibits subsidies for illegal, unreported and unregulated fishing (IUU) while setting the stage for future disciplines on overfished stocks and for fishing on the high seas. Secondly, ministers agreed to an overall Ministerial Declaration whose centerpiece is the launch of a formal **WTO reform process**, including a fix to the long-paralyzed Dispute Settlement Body by 2024.

Thirdly, ministers reached agreement on long and difficult negotiations on the **WTO's response to the pandemic**. They did so in two guises:

- A legally binding agreement waiving certain provisions governing trade-related intellectual property rights to facilitate the production of COVID-related vaccines, therapeutics and diagnostics in developing countries; and
- A Ministerial Declaration focusing on facilitating trade in medical devices and protective equipment, strengthening the resilience of medical value chains, avoiding recourse to restrictions on medical goods exports and ensuring heightened transparency of policy responses.

Fourthly, trade ministers addressed the **food security** crisis through a Ministerial Declaration underlining the critical importance of the free movement of food and calling for restraint in the use of restrictive trade measures. This sends an important political signal, particularly as it was complemented by a fifth - a Ministerial Decision exempting food purchases by the UN's **World Food Program** from export prohibitions or restrictions.

Sixth, WTO member countries provided a boost to the world's digital transition by extending a **moratorium on customs duties on electronic transactions** until the next ministerial meeting or no later than March 2024. For the business community, this ranked among MC12's most pressing deliverables.

The MC12 package marks an important step forward for an organization that has come under severe criticism in recent years. It is also a much-needed shot in the arm for multilateral governance, showing that the rules-based global trading system can deliver tangible results. The outcome also rewards the WTO Director-General's tireless efforts at finding common ground among an increasingly diverse membership. For WTO Members, MC12 was also about breaking a mental barrier to reaching agreements in Geneva.

What now?

The WTO must now kickstart work on all MC12 mandates. Members must be ready to take the first steps of a comprehensive reform process. In doing so, they must ask why producing negotiated outcomes on any topic has proven so hard in the past; what institutional adjustments are needed to enhance Members' ability to produce multilateral outcomes; whether a more flexible governance architecture can best serve the organization's disparate membership; and whether decisions need to continue to be taken on an explicit consensus basis?

An important missing piece in global trade diplomacy has been the ebbing voice of the business community. As the ultimate "end-users" of WTO rules, the case for including the business community in a structured dialogue on multilateral trade matters is compelling. Doing so would add a needed dose of urgency to negotiating advances.

Looking forward, the WTO must also embrace new frontiers in trade, which will be ever more digital and service-centric in nature. Trade must also be harnessed as a key tool for fighting climate change. There is much that trade, and the WTO, can do to place the world and its citizens on more sustainable production and consumption pathways.

Finally, the ever-challenging issue of addressing distortions to agricultural trade, which MC12 punted to the next ministerial meeting, needs to be tackled. It is imperative that Members show a readiness to undertake necessary commitments by then to reach as good a result as those brokered at MC12. ■



MIKAEL ANZÉN
Sweden's Ambassador to the WTO

JAMES SCOTT & RORDEN WILKINSON

What future the WTO?

Expert article • 3271

There are good reasons to ask what the future may hold for the World Trade Organization (WTO). The organisation has been unable to conclude a far-reaching trade deal since its inception in 1995. Certainly, agreements have been reached; but their impact has been somewhat underwhelming. The function of the WTO's dispute settlement system has been significantly curtailed by the blocking of appointments to the Appellate Body by the United States. And, WTO members have had few opportunities to get together in recent times, having only just met as a ministerial conference for the first time in four-and-a-half years because of delays caused by COVID-19.

Moreover, recent events have not been particularly conducive to allowing a trade organisation to thrive. Consecutive US administrations have tended more towards unilateralism than multilateralism; and the pandemic and the war in Ukraine have significantly disrupted global trade. Recessionary pressures are currently gathering. And COVID-19-highlighted supply chain issues and geopolitical tensions are conspiring to redraw the global production landscape, as governments of all political leanings explore "on-shoring" or "reshoring", or else drawing components from allied countries—so called "friend-shoring".

So, what does the future hold for the WTO? Its latest ministerial conference (MC12 in WTO parlance) gives some insight. In June 2022, members agreed a package of outcomes comprising an agreement on fisheries subsidies, a bundle of measures in response to the pandemic and the food price crisis, and an extension of an existing agreement not to place tariffs on electronic commerce. The outcome was hailed by the Director-General (DG) Ngozi Okonjo-Iweala as "unprecedented", signalling that the WTO members had found a new sense of purpose. It was not, however, without significant limitation.

The deal on fisheries was welcome. Yet, despite over 20 years of negotiating, the agreement tackled only the subsidies paid to vessels engaged in illegal, unregulated or unreported fishing and those supporting the fishing of clearly overfished stocks. Attempts to control broader subsidies that encourage overcapacity and therefore overfishing were excluded from the agreement, severely limiting its contribution to solving the problem.

MC12 also included an agreement aimed at enhancing the ability of poor countries to access the medicines needed to tackle COVID-19—most notably vaccines—with only 19.7% of people in low-income countries currently vaccinated. However, opposition from pharmaceutical companies and the countries in which they are based—particularly the EU, UK and Switzerland—ensured that the agreement was watered down to reaffirming the existing rights that poor countries already have.

More positively, agreement was reached to ensure that WTO members do not prevent the exportation of foodstuffs to the World Food Programme; and key elements of WTO law were reaffirmed to try to ensure that the measures individual countries take to protect their own citizens from rising food prices do not undermine the food security of others.

These outcomes cannot be dismissed, particularly when getting any sort of deal appeared challenging. That the obstacles were overcome is a personal achievement for DG Okonjo-Iweala, whose

personal style and political abilities were key to the successful outcome.

Nonetheless, fundamental problems remain. Most notable among these is the ongoing crisis in the Appellate Body, with the US reluctance to appoint new members ensuring that appeals cannot be heard. This hampers considerably the WTO's ability to manage trade through the rule of law—one of the foundational principles of the organisation.

Moreover, members remain divided about the role and future direction of the organisation. One such division relates to what the members should be negotiating. Some demand that the core elements of the now-abandoned Doha Development Agenda should be resolved before new topics are brought to the table. This includes addressing longstanding commitments to deliver better benefits to developing countries and redressing some of the inequities of the past. Others argue that the trade agenda needs to move on and address contemporary challenges that are currently being ignored.

Lurking behind the scenes are ongoing commercial tensions between the US and China. China continues to claim developing country status in most areas of WTO negotiations, enabling it to take advantage of flexibilities and lesser commitments. The US argues that China has failed to abide by the spirit of the WTO and is using widespread state support to shift trade patterns in its favour. The fundamental misalignment of perceptions of China's position and its obligations within the global economy shapes all current WTO politics.

So, while it may be the case that the outcome of MC12 is something of a relief, the future of the WTO remains uncertain. Economic nationalism is on the rise and the principle of multilateralism it is under pressure. And the WTO has yet to show that it can mount a robust defence. ■



JAMES SCOTT

Senior Lecturer in International Politics
Department of Political Economy,
King's College
London, UK



RORDEN WILKINSON

Professor of International Political Economy
and Deputy Vice-Chancellor, Academic
Macquarie University
Sydney, Australia

ERIC W. BOND

The commitment/flexibility tradeoff in trade agreements

Expert article • 3272

When countries that have market power set tariffs unilaterally in the absence of a trade agreement, they have an incentive to impose tariffs on imported goods because part of the cost of the tariff will be borne by foreign producers. A prisoner's dilemma results when tariffs are set unilaterally, and countries can benefit from reciprocal trade liberalization. A trade agreement ensures access to foreign markets for their exporters and reduces trade policy uncertainty. Firms are more willing to commit resources that are targeted to a particular market in the presence of a commitment to tariff reduction, which results in a more efficient pattern of trade.

The formation of the World Trade Organization in 1995 heralded a new level of commitment in trade agreements. The use voluntary export restraint agreements between countries that were negotiated outside the GATT agreement were discouraged. Furthermore, the Dispute Settlement process was changed from one in which all parties had to agree to accept a ruling before it was enforced to one in which a ruling was enforced unless all parties rejected it.

While these changes were lauded as strengthening the WTO, it is important to keep in mind that a trade agreement involves a trade-off between flexibility and commitment. While governments want commitment to access to foreign markets, they also are concerned about future protectionist pressure from domestic interest groups. Changes in the competitive environment that reduce firm profits result in pressure to protect, and politicians want the ability to respond to political pressure by providing protection to industries suffering from foreign competition. This creates a demand for flexibility in trade agreements, so that the hands of politicians are not completely tied by the trade agreement.

The challenge of introducing flexibility into a trade agreement is that it imposes costs on trading partners when tariffs are increased, so flexibility mechanisms must be designed in a way to minimize the costs they impose on trading partners. In particular, the concern is that countries will overuse take advantage of that flexibility to take utilize their market power and impose costs on trading partners.

The WTO agreement provides two important flexibility mechanisms for countries. One is the fact that the negotiations involve the setting of tariff bindings, which are maximum tariff rates that countries are allowed to charge. The existence of a binding that is above 0 is that it allows countries the ability to respond to changes in political pressure and economic shocks as long as the tariff remains below the bindings. The difference between the binding and the rate that a country applies is referred to as "tariff overhang" or "water in the tariff."

Setting a tariff binding thus involves a trade-off: a higher binding gives a member country more flexibility, but it also imposes more costs on trading partners. As a result, setting high bindings for a country with significant market power is much more costly than for a smaller country without such market power. The evidence is that for major trading countries (eg. EU, Japan, US prior to the trade war),

tariff bindings are low and tariffs are at the bindings. For smaller countries with less market power, on the other hand, binding are much higher and applied tariffs are frequently well below the bindings. Tariff overhang is thus a method that provides flexibility for smaller countries, but less so for countries with significant market power.

For countries with market power, flexibility is available primarily through the escape clause in Article XIX of the GATT agreement, which allows countries to raise tariffs when a domestic industry suffers serious injury from import surges that result from unforeseen circumstances. Unfortunately, the safeguard mechanism has not served as an effective measure for dealing with protectionist pressure due to the overturning of many safeguard actions by the Dispute Settlement Body and the use of alternative mechanisms (e.g. antidumping actions) that have less rigorous requirements.

The continued operation of the WTO relies on the voluntary participation of members, and the weakening of flexibility mechanisms has made it more difficult to sustain cooperation among major trading countries. The shutdown of the Dispute Settlement Body due to the US veto of appellate judges and unilateral actions by the US on tariffs suggest a return to the pre-WTO era. The choice for the international trading system is whether to reevaluate the WTO flexibilities in order to maintain a more rule based system, or to go back to the pre-WTO era of managed trade. While managed trade agreements among a pair of countries may be mutually beneficial to the participants, they ignore the impact on countries outside the agreements. ■

**ERIC W. BOND**

Joe Roby Professor of Economics
Vanderbilt University
Nashville, TN, USA

Eric.Bond@vanderbilt.edu

PASCAL KERNEIS

The necessary extension of the WTO Moratorium on E-Commerce

Expert article • 3273

At the WTO Ministerial Conference (MC12) that took place in Geneva on 12-17 June 2022, and after 5 days of intense negotiations, many decisions have been taken, including the extension of the WTO Moratorium on E-Commerce. Why was this extension so crucial for global trade?

India, Indonesia and South Africa nearly succeeded in making it harder and costlier to engage in cross border trade by ending the moratorium on imposing duties on internet traffic that has been in place for the last 25 years. If this would have happened, governments around the world could have for the first-time imposed tariffs at the border on all kinds of services that can be digitally delivered, hiking prices and worsening global inflation and making the internet less accessible.

WTO members finally agreed to continue the Work Programme on Electronic Commerce that was initiated in 1998, and to maintain the current practice of not imposing customs duties on electronic transmissions (the Moratorium) until the 13th Ministerial Conference. This decision gave some sense of relieve to the business community. But only temporarily, since it had been extended only until the next ministerial, which is expected to take place in December 2023. And if delayed, the Moratorium will end automatically by 31 March 2024, unless WTO Ministers or General Council act. Nothing therefore guarantees the continuation of the Moratorium in some 18 months, as the lack of consensus on that matter could happen then.

Indonesia, notwithstanding its role as G20 Chair in 2022, and its stated goal of promoting the digital economy, reportedly has already an administrative mechanism in place to impose such tariffs, should the Moratorium be ended. The India (which will chair G20 in 2023) and South Africa argument looks simple: if you can put duties on shoes or apples, why not try to profit off digital inflows, whether they take the form of a podcast or R&D data?

Yet it's not nearly so simple, as shown by the ranks of more than 80 countries that were pushing to maintain the current WTO E-Commerce Moratorium. Those countries are a big and diverse group, encompassing not only members that one might expect to support the status quo, like Japan, United States, and the European Union, but also major developing countries like Brazil, China, Nigeria, the Philippines, and Malaysia, as well as smaller WTO members ranging from Costa Rica to Thailand and Kazakhstan. This broad group of WTO proponents is backed by statements of support from over 100 business associations from Europe to Asia and the Pacific, India, Latin America, Africa, Canada and the US.

Reams of economic research make clear that greater access to the internet makes countries more economically competitive. It helps businesses of all sizes and in all sectors, from services to manufacturing and agriculture, tap into online marketing, financing, and logistics applications, as well as cloud data processing and storage, and aids their becoming exporters. The cost advantages of such tools are all the greater for smaller firms.

Not surprisingly, an OECD study estimated that governments that imposed tariffs on electronic transmissions would lose more in consumer welfare and export competitiveness than they would gain in tariff revenues.

Allowing members to raise tariffs on digital services would be a blow to the initial mission of the WTO and would seriously hamper its credibility as an international organisation created to facilitate trade. And this would not just be a local WTO technicality, but it would be a major setback on promoting digital trade. It would have an impact on all aspects of global trade, since nowadays, there is not a single international trade of goods or services transaction without multiple cross-border data flows.

Furthermore, ending the WTO Moratorium would likely spell the end of the 25-year-old WTO E-commerce Work Programme. This is an important forum where WTO members, especially developing countries, can air their views on all various issues related to the growth of the digital economy. The Moratorium and the E-Commerce Work program have been linked since their inception, so if one falls so will the other. Why would India, South Africa and Indonesia want to bring about an end to the Work Programme while advocating to help developing countries?

Sadly, the opponents' motivation for bringing down the Moratorium appears to be purely and simply to impose duties on imports – in other words, protectionism. But their local SMEs and their consumers will be hit hardest by any new digital customs duties. The result can only be damage to their own digital innovation, export competitiveness and access to global digital value chain opportunities.

It must also be remembered that a WTO decision to let members start imposing new digital tariffs would also put at risk the agreement on a global minimum digital services tax reached last year by over 130 countries—including India and Indonesia. Seen as a rare bright spot amidst heightened trade tensions and weakening global institutions, the multilateral tax deal aimed to halt a proliferation of unilateral digital service taxes. But it would be hard to uphold if individual governments, with the WTO's blessing, started imposing duties on internet transmissions.

Global business considers that there is no case for WTO members to take the self-destructive step of not continuing the Moratorium. The business community is now asking to set a ban on custom duties on electronic transmission on permanent basis, as the world trade cannot go on by trembling on the possible end of such a Moratorium at every WTO Ministerial. It was agreed in Geneva that the WTO will conduct in-depth studies on the impact of the WTO Moratorium (possible loss of revenues, increase of local price, digital divide, etc.) particularly on developing economies. The results should pave the way for a permanent solution by MC13.END. ■

PASCAL KERNEIS

Managing Director
European Services Forum (ESF)
Brussels, Belgium

www.esf.be
p.kerneis@esf.be

KENT JONES

Pandemic agreements: The trade connection

Expert article • 3274

The world is in dire need of a pandemic agreement, if not to manage the continuing Covid outbreaks today, then to deal with inevitable new outbreaks in the future. The 191 members of World Health Organization (WHO) are currently negotiating a pandemic agreement, but is it enough? It sets out to establish a legally binding accord on issues such as disease reporting requirements and distribution of vaccines, but many key WHO members are unwilling to submit to such terms on sovereignty grounds. In addition, many of the critical pandemic issues are related to trade in vaccines, medical products, and services, which the WHO cannot negotiate within its mandate. The pandemic negotiations should therefore include relevant trade issues, which could address many of the worst policy failures during the Covid crisis, and also make progress in WHO issues of reporting, financing and other health-related areas of cooperation.

Pandemic prevention and mitigation are the ultimate global public goods, and require global cooperative and coordinated measures that go beyond what countries acting individually can do. Trade agreements can play a role in this process by committing countries to open their markets on a reciprocal basis, gaining from the international exchange and specialization of medical products. Such gains contribute to public health by increasing the availability of hospital masks, ventilators, vaccines and the services of medical professionals to treat and foreshorten the disease. Many of the worst policy failures of the Covid pandemic came from a lack of cooperation on trade policy. Import tariffs and bans on exports of medicines and medical products raised prices and reduced access to treatment for Covid victims. Hoarding of vaccines by rich countries has denied poor countries access to them. Medical professionals were often restricted from crossing borders to help overworked nurses and doctors because of visa restrictions. During a pandemic, the disease spreads in waves from one region to another, and a pandemic trade agreement would make it possible to assure that medical goods and services can move more freely from places where they are available to places where they are needed.

Trade negotiations on medical products would set up pandemic cooperation through a system of reciprocal benefits and obligations, neutralizing the sovereignty issue by establishing rules that benefit all participants as long as everyone follows them. The key is to identify benefit-obligation trade-offs that countries are willing to bargain for. This feature not usually available in WHO regulations and agreements. Enforcement could be direct, as with reciprocal import tariff reductions and bans on export restrictions. Participants comply because a violator would lose the benefit of foreign market access if it denied similar access to its own market.

Compliance could also be enforced by cross-retaliation, as for example, when a refusal to abide by an agreed vaccine distribution program could be met by a suspension of the violator's market access in other areas critical to its own efforts to combat the

disease. The world has become highly interdependent in terms of vaccine, therapeutics, and medical equipment supply chains, so that increasing the coverage of disease-fighting products, components and services increases the incentive of every country to abide by it. Shared sovereignty in such agreements is superior to the unilateral sovereignty of protecting one's own markets, which would hamper a country's access to medical products and allow the pandemic to rage outside its borders, only to return later in the form of new variants.

Pandemic trade agreements could also include cooperation in non-trade areas, including WHO regulations and financing. For example, an "early warning" agreement might guarantee future access to vaccines and mitigation measures in exchange for compliance with WHO reporting requirements of new diseases within its borders. Some agreements would necessarily be limited to smaller numbers of countries, as in vaccine development and production cooperation. Vaccine distribution and other preventive measures would need to account for needed transfers from rich to poor countries. Under current World Trade Organization (WTO) provisions, more differentiated agreements on health regulations, funding and trade measures could be negotiated under special plurilateral agreements.

Achieving an effective global pandemic agreement will not be easy in a divided world. Yet in any case the negotiations will need to establish enforcement mechanisms and include the major pandemic trade issues on the agenda. WTO-like negotiations will provide a workable framework for bargaining, enforcement and dispute settlement that will also address the ever-present sovereignty issue.



KENT JONES

Professor of Economics
Babson College
USA

kjones@babson.edu

DENNIS UNKOVIC

The fractured global supply chain

Expert article • 3275

The global supply chain is fracturing, and these disruptions promise to permanently alter the global economy going forward.

Let me begin by dispelling one widely held misconception; the collapse of the global supply chain is not the result of the COVID-19 pandemic, COVID-19 accelerated a breakdown that has been underway for years. Beginning in the mid-1980s, under pressure from investors and financial experts to post higher profits, American and European companies began shifting manufacturing jobs to countries in Asia with much lower labor rates. The inevitable decline in manufacturing weakened their domestic markets, and eventually these companies came to realize that cheap labor was not enough reason to upend operations and move jobs overseas. This was particularly true for American and European companies who moved their operations to China where labor is no longer cheap.

There are four MaxTrends™ which I believe are fundamentally changing manufacturing in the global economy.

MaxTrend™ one: Cyber warfare

The last several years have seen cyber attacks increasing on American and European companies. One memorable attack occurred when the Colonial Pipeline was hacked and pipelines were paralyzed along the eastern coast of the United States for more than a week. Cyber criminals know that supply chains, because of their complexity, make tempting and easy targets. Far too late, companies are learning that their supply chains are extremely vulnerable, particularly when spread around the world. American and European companies need to undertake a comprehensive risk analysis of their existing supply chains and, where possible, move them out of Asia and closer to home.

MaxTrend™ two: 3D printing

The revolution of 3D printing (a/k/a “additive manufacturing”) is changing the dynamics of manufacturing. No longer does a component have to be produced in large numbers by low-paid factory workers on the other side of the world. 3D printing gives companies a better option to produce not just prototypes but also parts and components in large quantities. More efficient and economical production processes encourage local manufacturing, which will negatively impact Chinese companies as they face real competition for the first time in decades.

MaxTrend™ three: Robots

The impact of robots is increasingly being felt in our everyday lives. More and more, robots powered by artificial intelligence (AI) are working alongside humans in factories and warehouses, increasing speed, efficiency, and workplace safety. Amazon and other major online retailers have changed the landscape of how consumers are purchasing goods and demanding overnight delivery; localized sourcing of these consumer goods brings immediate availability and lessens the dependence upon the global supply chain. While robots will never fully replace human workers, they are erasing the need for overseas labor.

MaxTrend™ four: The growing role of governments

COVID-19 alerted governments to how vulnerable they are to foreign-based supply chains. At no time was this more obvious than when countries were trying to source personal protective equipment (PPE) and vaccines. Led by the U.S., countries are adopting policies to encourage, and in some cases mandate, that strategic products be manufactured within their borders. For example, semiconductor chips which are essential to all modern automobiles and many other devices are increasingly in short supply. Less than 18% of the chips used in the U.S. are domestically sourced. The Biden administration is increasingly aggressive, through tax incentives and mandates, that strategic products such as these chips be manufactured within the borders of the United States.

What is coming

Driven by the four MaxTrends™, there will be a decrease in importing Chinese-manufactured goods. Over the next five years China's two decades of dominance over global manufacturing will decline. Since China currently makes products and components valued at US\$2.4 trillion annually, this will have an impact on the global economy. American and European manufacturers will be forced to realign or reshore in order to be competitive. Since Chinese labor is no longer inexpensive (which was the main attraction to China), companies will be incentivized to either move their supply chains to countries such as Malaysia, Indonesia, the Philippines, and India, or back to domestic suppliers. Additionally, critically valuable goods vulnerable to cyber-attacks or easily produced through 3D printing are most likely to reshore back to the United States and Europe.

This will not occur overnight or without proper tax incentives. Hopefully western political leaders will take note and act quickly. This is a unique period, and if Europe and the United States are smart, they can recapture the manufacturing capabilities lost over the last three decades and regain their economic power. ■



DENNIS UNKOVIC

Partner

Meyer, Unkovic & Scott, LLP

USA

HELI SIIKALUOMA

International standards in superpower relations

Expert article • 3276

International standards have become a distinct part of foreign, security and trade policies of states. At the core lies the race between the United States and China for technological domination of the world. However, it is not just a struggle between the two superpowers: there is a wider conflict between democratic and authoritarian states and their values.

International standards, and regional or national standards developed per them, are substantial in ensuring that products and services are compatible and safe for their users. There are tens of thousands of international standards in the world. You bump into them in your everyday life: if you still use printers, you can be sure that A4 size paper fits in the printer as there is a standard for paper sizes, or you may have 5G standard broadband.

The main organisations for international standardisation are the International Organization for Standardization ISO, the International Electrotechnical Commission IEC, and the International Telecommunication Union ITU. Typically, companies have a significant role in creating international standards within the organisations. However, in the ITU states are active, and an active debate on values has taken place there.

There is a growing concern that the world markets will become divided due to superpower competition. The division of global markets may apply to, at least, technology products and services. This decoupling would create a situation where companies may be required to tailor their products to suit different standards. In the worst case of such a divide, for example, the technology of Chinese origin could not at all enter the Western market and vice versa. We have already seen decoupling regarding some sensitive technologies.

International standards and participation in international standard-setting are important competitive factors for companies and states. The party whose technology is used in international standards often gains significant economic, competitive, and technological advantages over its competitors.

Recently, international standards have become a more visible part of foreign and security policy as technology, technological infrastructure, and their vulnerability have become an increasingly important part of global societies and their success.

International standardisation is a strategic tool used by China to increase its global influence. It offers an alternative to the previous great powers of standardisation, namely the United States and the big European countries. China seeks to strengthen its role, especially in setting standards for innovative technologies. It actively promotes the implementation of its standards in its partner countries through its Belt and Road investment project.

In the United States, standardisation is a crucial tool for defending democratic values. It seems to have increased its contribution to the development of international standards, although it does not use, for example, ISO standards extensively as a basis for its standards.

As a traditional international standardisation superpower, Europe has experienced its relative importance diminishing and is now strengthening its position. The EU has inter alia published its first standardisation strategy, and active strategic participation in international standard-setting is also part of the EU's trade strategy, which determines the direction of the Union's trade policy for the coming years.

The EU and the United States share the same core values, and their cooperation in rule-making and international standardisation would promote democratic values globally. However, they often appear as competitors, and their standardisation systems differ from each other. The Trade and Technology Council (TTC) is a clean start and gives hope that the EU and the United States could create compatible regulations and ease their mutual trade. Recently, they agreed on a cooperation mechanism to promote common interests in international standardisation. They have common strategic interests inter alia in artificial intelligence and the Internet of Things.

It is worth noting that the EU's new Global Gateway will provide funding to partner countries worldwide that respect the values of the EU, namely the rule of law, human rights, and international rules. The Global Gateway invests in infrastructure projects in the green transition, digitalisation, and education globally. Also, the United States and G7 countries have recently increased their contribution to infrastructure investment projects especially in developing countries.

Globalisation, as we know it, is changing its form. In addition, the superpower competition shows no signs of decreasing. On the contrary. For instance, one may observe the reaction of China to Speaker of the U.S. House of Representatives Nancy Pelosi's visit to Taiwan. It is also unclear what kind of relationship China and Russia have in the future and how their co-operation would affect superpower competition in general and more specifically international standard-setting.

There is a risk world may become divided between the west and the authoritarian world - and both will play with different rules and standards. It would harm the companies that manufacture products for the global market and those that purchase components there. Moreover, the costs, prices and general uncertainty would drastically increase. Overall, decoupling should be avoided. To achieve this goal, cooperation in international standardisation plays an important role. ■

HELI SIIKALUOMA

Trade Policy Expert
Confederation of Finnish Industries EK
Finland

Heli Siikaluoma is one of the authors in a study "China and the United States – A challenge to companies: Impacts of the superpower competition to Finnish companies" <https://julkaisut.valtioneuvosto.fi/handle/10024/163339>

GILBERT GAGNÉ

The North American Free Trade Agreement 1.0 and 2.0

Expert article • 3277

Following its recent renegotiation, the North American Free Trade Agreement (NAFTA) has been known as the United States-Mexico-Canada Agreement (USMCA). Concluded in the early 1990s, the NAFTA originated from Mexico's proposal for a comprehensive preferential trade agreement (PTA) with its big northern neighbour. The United States and Canada already had a PTA, negotiated in the second half of the 1980s. Although a bilateral PTA was at first contemplated, Canada wanted to be included, mainly to ensure its privileged access to its biggest market. Only with US support was Canada able to overcome Mexico's reluctance to a trilateral negotiation.

In place from January 1994 to July 2020, the NAFTA was ground breaking in many respects and viewed as a model. It then created the largest free trade area, represented the first instance of a PTA grouping both developed and developing countries, and was the most comprehensive PTA ever concluded. Aside from trade liberalization obligations, it encompassed new topics and provisions in trade agreements, such as services, investment, telecommunications, intellectual property, labour and the environment, in the latter two cases, albeit in side agreements.

Nearly all tariffs and most non-tariff barriers on merchandise trade had gradually been eliminated. In absolute numbers, trade among NAFTA parties has more than tripled since 1994. Total yearly trilateral trade in goods and services exceeds US\$ 1.3 trillion, which is more than US trade with the European Union (including the UK) or with the whole of Asia. The United States is by far Canada's and Mexico's main trading partner, whereas the latter two have fought with China in recent years to be the US main trading partner. Canada and Mexico are also among each other's main trading partners. Yet, if trade and investment ties have increased substantially, they have tended to do so separately along the US-Mexico and US-Canada axes, with trilateral automotive supply chains as a notable exception.

NAFTA is generally credited for expanding trade and economic linkages among its parties, creating more efficient production processes, increasing the availability of lower priced and choice of consumer goods. At the same time, NAFTA has been blamed for disappointing employment trends, declining average US wages, and not having done enough to improve labour standards (in Mexico) and environmental conditions (within the NAFTA zone).

From its inception, NAFTA was at the centre of polemics in the United States. Although most were directed at Mexico, Canada was not exempted. NAFTA misleadingly came to be associated with all the adverse effects of economic globalization. Amending the NAFTA long proved impossible, owing mainly to diverging priorities among its three parties as to what needed to be addressed. In the end, it took US President Donald Trump's threat to either renegotiate or break the NAFTA to force its renegotiation. The US Trump administration also had negotiating objectives to "rebalance the benefits" of the agreement and/or curtail long-standing American liberalization commitments. US officials even spoke of unravelling North American and global supply

chains, with a view to diverting trade and investment from Canada and Mexico to the United States.

The renegotiation officially started on 16 August 2017 and concluded on 30 September 2018. President Trump's characterization of NAFTA as a "disaster" and the "worst agreement ever negotiated" may well explain that it changed name for the USMCA. Canada and Mexico stressed NAFTA's trilateral character, so as to form a united front toward US threats and pressures. Yet, on 27 August 2018, the United States and Mexico announced that they had reached an overall agreement, putting significant pressure on Canada to join or be left out. The episode revealed that despite a quarter of a century of NAFTA's existence, there was little cooperation between Ottawa and Mexico City, often tempted to deal bilaterally with Washington. In the United States, further negotiations were required, first between the executive and Congress, and later with Mexico and Canada, leading to a Protocol of Amendment, signed on 10 December 2019. Following its approval by the legislatures of its three states parties, the USMCA entered into force on 1 July 2020.

The USMCA retains most of NAFTA's market opening provisions and other measures, while bringing significant changes in the following areas: automotive rules of origin, so as to incentivize production in North America and especially the United States; agricultural products, including further US access to Canada's supply-managed dairy sector; investment, mainly with investor-state dispute settlement abolished between the United States and Canada; government procurement, which now only applies between the United States and Mexico; and intellectual property rights, extending to the digital dimension and Internet service providers. Rules on labour, the environment, and dispute settlement are strengthened. In the case of labour, a specific enforcement mechanism for labour rights violations at the firm or facility level is provided between the United States and Mexico as well as between Canada and Mexico. The USMCA also addresses new trade issues, such as trade facilitation, digital trade, state-owned enterprises, small- and medium-sized enterprises, anticorruption, regulatory practices, and currency manipulation. The agreement comprises a 16-year "sunset" clause, although parties may agree to extend it through periodic review procedures.

The USMCA represents an update of, and some tinkering with, the North American integration model, based on cross-border trade, investment and production, aimed at increasing regional economic competitiveness. Protectionist and populist features have been incorporated, alongside a rebalancing of corporate and public interests. As a tailor-made PTA, reflecting the particular North American context at the time of its conclusion, the USMCA is unlikely to become the 2020s gold standard for PTAs, as the NAFTA was in the 1990s. After a little more than two years of implementation, the rules of origin for the automotive sector and Canada's dairy obligations have notably been subject to disputes, while the United States-Mexico Facility-Specific Rapid Response Labour Mechanism has been far from inactive. ■

Expert article • 3277

**GILBERT GAGNÉ**

Professor and Chair
Department of Politics and International
Studies, Bishop's University
Sherbrooke, Quebec, Canada

Director
Research Group on Continental Integration,
University of Quebec in Montreal
Canada

gilbert.gagne@ubishops.ca

Pan-European Institute

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KA ZENG

Making sense of the U.S.-China trade war

Expert article • 3278

The recent trade war between the United States (U.S.) represents the largest economic warfare in modern history, with far-reaching implications for both the regional and global political and economic landscapes. While the trade war has captured growing scholarly interests, what have remained relatively little understood so far are the origins of the trade war, in particular the role of U.S. businesses in the trade war and the impact of the trade conflict on bilateral economic relations.

U.S.–China economic relations have been fraught with tensions since the beginning of China's economic reform and opening to the outside world in the early 1980s. While the United States has sought to address its trade concerns with China through a combination of unilateral, bilateral, and multinational approaches through the end of the Obama administration, profound changes in the strategic and economic contexts of U.S.–China relations have significantly altered the calculations of the leadership in Washington. Importantly, China's rise to the center of global manufacturing and trade activities increasingly challenged the U.S. leadership role in the global economy, raising questions about whether the two powers can avoid the so-called Thucydides' trap often associated with a wrenching hegemonic transition. China's embracement of stronger authoritarian control, an increasingly nationalistic and assertive foreign policy, and mercantilist economic policy under President Xi Jinping further contributed to the disillusionment among many U.S. policymakers about the effectiveness of engagement as a policy tool to manage the challenges posed by China's economic ascent. These developments further coincided with the coming to power of President Donald Trump, a unique policy entrepreneur who saw an extraordinary opportunity in scapegoating China as a means of dealing with the domestic backlash against trade and globalization, setting the stage for the large-scale tariff retaliations that started in Spring 2018.

While changes in the broader geopolitical and economic contexts distinguish the recent trade war from earlier trade spats between the two countries, one puzzle that remains is why the U.S. business community, long a staunch supporter of U.S.–China economic integration, has failed to constrain the use of retaliatory trade policies by the Trump administration. During the early years of China's economic reform, the U.S. and China have engaged in the exchange of products in which each had a comparative advantage, leading to a highly complementary trade structure whereby U.S. producers are highly dependent on the production of labor-intensive products from China. High levels of import dependence have attenuated the protectionist impulse of American producers, limiting domestic pressure for trade restrictions and hence a tit-for-tat trade war. To what extent has such dynamics changed in more recent years? On the one hand, there is evidence that China has gradually climbed the ladder of technological development to pose growing competitive challenges to U.S. dominance in critical sectors such as artificial intelligence, quantum computing, and 5G wireless networks. This may have

potentially tilted the balance of political power in the United States in favor of protectionist interests. On the other hand, however, recent research has shown that as a result of China's deepening participation in global production networks, firms heavily dependent on input sourcing from China or engage in production in China have fiercely resisted the imposition of retaliatory tariffs against Chinese products and that corporate opposition has far outweighed the support for the trade war stemming from an anti-trade coalition composed of import-competing interests and those seeking to challenge China's unfair trade practices. A closer examination of the preferences and stance of corporate actors is therefore merited for us to better understand the domestic politics behind the trade war in the United States.

How has the trade war impacted U.S.–China economic relations? An examination of monthly bilateral trade data between the beginning of the trade war in March 2018 and the onset of the COVID-19 pandemic at the end of 2019 suggests that heightened bilateral tensions under trade war conditions have negatively affected U.S. imports from China, in particular in those segments of the two economies that are most closely integrated with each other through global supply chain linkages. Between 2017 and 2019, total U.S. imports from China have declined by 9.5 percent, with the drop being most pronounced for industries most closely integrated into China-centered production networks through input sourcing, downward exports, or vertical foreign direct investment. Furthermore, not only have such industries been subject to steeper tariff hikes, the impact of the tariffs has also been more sustained on such industries. In other words, while the more confrontational and aggressive negotiation approach under President Trump has done relatively little to address China's malpractices in the global trading system, it has had a chilling effect on U.S.–China trade relations and the strong supply chain relationships that U.S. companies have built with Chinese producer over the years. The continuation of a policy of decoupling may therefore inflict considerable damage on the two largest economies in the world, with far-reaching implications for both regional and global economies and the pattern of geostrategic competition. Future studies could examine the impact of the trade war on not only bilateral but also regional trade and investment relations to more fully unveil its repercussions. ■

KA ZENG

Distinguished Professor
Department of Political Science, University
of Arkansas
USA

kzeng@uark.edu

LENITA TOIVAKKA

The geopolitical situation brings uncertainty

Expert article • 3279

Just a year ago the world looked different to us. It was thought that after vaccines the pandemic situation would improve – and the world would open up for trade and travel again. Economic forecasts and companies' export prospects were positive. The work against climate change got a new lease of life at the United Nations Climate Change Conference in Glasgow, where the key players committed to reducing their emissions. A major concern, however, was the increasingly tense relations between the United States and China. The intensification of Russia's ambitions for a sphere of power was also worrying, but was not taken seriously, despite the events of 2014. Now, one year later, there is war in Europe.

Russia's aggressive war in Ukraine has dramatically changed Europe's security environment. The effects of the war are felt in the form of a food crisis and material shortages as well as global logistical problems. The Ukrainians, who still bravely fight for their own freedom as well as European values, suffer the most of the war. Moreover, the war's damage to Russia's own development is huge. The united economic sanctions by Western countries are hitting Russia's economy and their effects will be long-lasting, targeting Russia's ability to wage war and halting the country's technological development. Russia is isolating itself from the rest of the world with its aggressive military operations.

World trade is currently strongly politicized and the relationship between Russia and China should be monitored. The clear common denominator of this partnership is opposition to the United States. The countries are also united by a fear of the spread of the democracy. Russia's war intensifies the already tense relations between great powers. However, the development of the relationship between China and the United States is crucial for world trade. It will determine how the world economy and global trade will be divided into differentiated blocs. Currently, the trade between China and the United States is at a record high, despite a trade war that is now in its fourth year.

The Chinese market is changing and uncertainty is increasing. China's isolation has made it an unstable trade partner. China's harsh covid restrictions, its partnership with Russia and the surprising and sudden regulatory changes have a strong impact on Finnish companies. With China risks on the rise, it becomes necessary for companies to evaluate their dependence on China in the new and tense global context. Now companies must be more careful in anticipating different developments and assess in which countries to invest and operate. Monitoring, evaluating, and preparing for geopolitics have become a permanent strategy area for companies. Even small companies need to assess their global value chains and risks. According to the Finland Chamber of Commerce's spring 2022 Export Leader Survey, the tense geopolitical situation affects the profitability of up to 95 percent of Finnish export companies.

Finland's trade with Russia has waned already since the imposition of sanctions in 2014. As a result of the new sanctions, this trade has collapsed sharply and will dwindle to nothing in the

coming years. Finnish companies have condemned the Russian war by jointly supporting imposed sanctions. Their commitment has been commendable, and many companies ended their operations in Russia quickly, even though their losses may have been significant in individual cases. There is no way for companies to return to Russia in the coming decades as trust is gone.

I strongly believe that the end of the trade with Russia is in the interest of Finnish companies and society. Our eyes have been opened to the true nature and goals of Russia. Finns' strong support for NATO membership and the start of the application process will bring Finland more clearly into the Western community of values where our country belongs.

The change in the security policy environment opens doors for Finnish companies. NATO membership has increased interest in Finland, and it offers companies to strengthen trade relations with the United States and other partner countries. Membership in a defensive alliance removes the uncertainty arising from our geopolitical location and significantly reduces our country risk.

The world needs Finnish companies' know-how, technology, and solutions to global challenges. The current geopolitical situation provides a unique opportunity for Finnish companies to share their know-how and to export it around the world. Finland is known for its reliability, and Finnish companies benefit from this reputation.

In a challenging geopolitical situation, companies need the European Union to open doors and create more competitiveness. The more than forty free trade agreements negotiated by the EU bring companies' easier access to the markets of eighty countries. The EU's trade policy must be more active than in previous years, and it must not remain overshadowed by other goals. An active EU trade policy must defend fair competition and sustainable development, actively strive to reduce trade barriers and create strong global value chains. ■



LENITA TOIVAKKA

Director, International Affairs
Finland Chamber of Commerce
Finland

RICARDO BORGES DE CASTRO

The European Union's phase of power

Expert article • 3280

Russia's war on Ukraine and its consequences for Europe's security order usher the European integration project into a new chapter: The phase of power.

After the phase of 'peace, reconciliation, and consolidation' (1951-1991) and the phase of 'progress and reunification' (1991-2021), the European Union needs now to adapt to a new context of permacrisis that is more uncertain, volatile, and unpredictable than before. 'Hard power' has become a key currency of international politics and the EU should adjust to this evolving reality.

Although the EU has attempted unsuccessfully in the past to become a more credible geopolitical actor, the events unleashed by Russia on 24 February 2022 are a watershed moment for Europe, and the Union can only thrive if it learns and speaks the language of power in this new environment.

Challenges lie ahead. The EU's crash course in geopolitics will be shaped by key structural changes to the global order and adverse trends. A clear understanding of these framing factors along with foresight, unity, and political will, can be the difference between EU mastering or not the coming decade.

Structural changes

The nature of power has changed. Traditional elements of power – population, territory, GDP and military might – are no longer sufficient to wield influence in today's world.

Relationships, connectivity, technology, and soft power are as important to navigate the 21st century. Hybrid threats, including the weaponisation of mundane goods and events such as information, energy, or movements of people, are on the rise.

The number of global players has increased. Non-state actors (malicious or not), private foundations, civil society, networks, cities and regions, as well as influential individuals have joined nation states, international organisations, and multinational corporations on the world stage, making it more complex. Additionally, actors that have been dominant until now, such as Europe or the United States, are being challenged by emerging powers with the ability to re-shape the international system and propose alternative governance models, like China. Russia's war on Ukraine is now the most serious test to the order that emerged after World War II.

The pace of change is accelerating. The speed of the technological and digital revolution is increasing, a trend further bolstered by the COVID-19 pandemic. Governments – especially democracies – lag when it comes to adapting to disruptive technologies and offsetting their potential negative effects. More robust anticipatory democracies are needed to face this growing challenge. If European democracy can't be faster, it needs to be smarter.

Trends

Digitalisation and climate change – can be considered 'meta-trends' because they affect all global players and all EU policies, as well as other key drivers of change. The remaining four are not exclusive to Europe, but they play a determining role in its future: demographic dynamics; the shift of economic power to the East; the decline of democracy; and the return of great power politics.

Meta-trends

Digitalisation and the tech revolution were accelerated by the pandemic. Today, digital tech is an integral part of how countries govern

or fight, as well as of how people work, learn, consume, socialise, and access services. The tech revolution increasingly shapes geopolitics too. When compared to the ongoing race between the US and China on Artificial Intelligence, robotics, 5G, chips, quantum, and other cutting-edge technologies, the EU is behind and that undermines its global standing.

Following current trends, the global temperature is expected to increase by 1.5°C by 2040, and even earlier, if emissions are not drastically cut in the coming years. This will likely accelerate the intensity and frequency of extreme weather events, droughts, forest fires, and loss of biodiversity, with important implications for everything from food (in)security, global and local governance to displacement of populations and conflict. The EU will be called to step-in and step-up in responding to the effects of climate change.

Key trends

While demographic patterns are mixed within Europe, the overall trend shows that there will be fewer Europeans, and they'll be older in general. By 2030, 25.5 per cent of Europe's population will be over 65. There are many implications, but by far the most relevant is the future sustainability of Europe's welfare state (already strained by the pandemic). Yet, only a strong and resilient social fabric can support a credible EU in global affairs.

Not only will Europeans be fewer and older, but Europe's economic power is also waning. The economy matters to Europe's role in the world, and it is projected that by 2030, the EU27 will become the world's third economic power after China and the US. What is more, the centre of economic gravity is likely to progressively shift to the East. The pandemic and Russia's aggression on Ukraine revealed EU global value-chains' dependencies and vulnerabilities likely to lead to a transformation of the current model of globalisation and free trade.

Europe's (and the West's) governance model is also being challenged worldwide. Until 2005, democracy and freedom were on the rise. But, according to FreedomHouse, for the last 16 consecutive years, the adherence to fundamental rights and freedoms (of expression, religion, press, etc.) and the rule of law has been steadily declining. COVID-19 made matters worse. In Europe too, democratic backsliding is spreading and that should be an eye opener for policy- and decision-makers when they consider Europe's place in the world.

The global decline of democracy may also be a result of the return of great power (strongman) politics, which is testing the international, rules-based multilateral order, resulting in a more challenging environment for the EU. The outcome of Russia's illegal war of aggression on Ukraine may well determine the future of the post-World War II international system.

Keeping the eye on the ball

Supporting Ukraine and making sure that Russia does not get away with a brutal war of aggression, as well as all the crimes committed against Ukrainians should be at the top of the agenda of any European leader.

But to eventually master the permacrisis the EU and its member countries need to understand the ongoing structural changes and key trends shaping the EU's global role and adapt to this new 'phase of power' in the European integration project. ■

Expert article • 3280



RICARDO BORGES DE CASTRO

Associate Director and Head of the Europe
in the World Programme
European Policy Centre
Belgium

Pan-European Institute

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ANNA KARHU

Fragile international relations, trade, and policy

Expert article • 3281

The past few years have witnessed that nothing is as permanent as change. It seems that our global economies have faced new crises increasingly frequently. Just as we have been able to take a breath and have gained a flicker of the new normal, yet another disruption shakes our renewed balance. The global financial crisis in 2008, followed by the US–China trade war, global Covid-19 pandemic and the Russia's invasion to Ukraine, have all shaken the global structures that govern the increasingly interconnected trade. As the growth of global trade has brought us welfare and increased living standards, it has also brought us increasingly interconnected and diverse international relations.

To understand our current challenges, it is necessary to look back on how did we get here. International trade as we understand it today with its multinationals, global value chains, global governance structures and mantra for open trade has its roots in Bretton Woods agreement negotiated in 1944 in the turmoil of the two World Wars. This agreement stemmed from the widely shared will between the different counterparts of the war to gain world peace. The leading economic minds of the time had presented ideas that we could gain more through comparative advantage, meaning that nations could focus on producing things they produce relatively more efficiently than other nations, and rely on other nations regarding other goods. Thus, the simplified logic was that if we increase economic interdependencies between countries, they would be more hesitant to go to war. These new arrangements focused on global coordination of tariffs, quotas, etc. that would ease out the cross-border trade. The global trade and economic development then witnessed long period of growth between the end of 1940s and 1970s.

However, this growth slowed down towards 1980s: the tariffs and quotas were already low and did not boost the growth any more, and the challenges for international companies emerged in other areas. Therefore, a new set of experts sat down in a new meeting, Uruguay round, in 1986. This round took multiple years and concluded in 1994, and set the ground for establishing WTO in 1995. Here the focus was not anymore on crossing the border, but rather entering the market. When a product from country A entered country B, although the tariffs or quotas were minimal, the foreign company could face unfair competition as host country governments for example might subsidize unfairly the local producers. To overcome these challenges, the discussion turned to global trade productivity and included a new set of rules and standards. This changed the game, as now these agreements were not only influencing tariffs and quotas on borders, but the national regulation and laws needed to be aligned with the globally agreed standards. Therefore, negotiating became more difficult in addition to the increasing diversity as rapidly growing emerging markets (particularly BRIC countries) gained more economic power and wanted to be heard when discussing these global rules.

This simplified summary of the past development brings us to the disruptions mentioned at the beginning. The financial crisis in 2008

caused a massive drop down in global trade. It showed the fragility of the interconnected economic systems and global value chains as well as pointed out the need to renew our global governance systems. The US–China trade war also had some of its root causes in the inadequacy of the global governance systems built in WTO. Covid-19 pandemic, in addition to the enormous healthcare and economic challenges, boosted the increase of protectionist policies. Russia's invasion to Ukraine even further challenged the global interconnectivity, and pressures further towards global decoupling, a shift to “two globalizations” – one organized around the US, and the other around China.

The global governance system was meant to create a neutral framework of rules that would bring productivity and efficiency gains. However, it seems that the system has increasingly been applied as a tool in power struggles in international relations. As the global governance began to serve additional values than only increasing interconnections in trade, meaning more socially desirable goals like human rights and environmental goals, it also became a battle field for the multiplicity of values inherited in the 193 countries in the world. Therefore, it now seems that the global governance system is open to change. This means that the choices made by a country or a set of countries can influence and reshape the rules, potentially moving the entire system in favor of some powers rather than others. Thus, it seems we are breaking out from the universalism of the previous order, where common rules govern trade.

Pursuing a global agenda, for example for environmental goals, digital trade, etc., is incompatible with a fragmented global economy that now seems to be emerging. If this decoupling is completed, the multilateral institutions that were created to manage globalization will become outdated. The public discussion seems to be developing towards a perspective that an ideological struggle between democracies and autocracies is taking hold. However, it is necessary to remember that many of the recent crises brought up the challenges in global governance system rather than a clear conflict between the different ruling systems. For example, the West did not impose sanctions against Putin's regime merely because it does not meet a particular democratic standard, but rather that Putin's decision violated the principle that the borders of an independent and sovereign state cannot be changed by force.

In closing, it is evident that we need to search for new ways of working together in spite of our different value bases and be able to find, recognize and create shared goals and opportunities. At the Pan-European Institute, we have supported the emergence of such activity in a three-year project focusing on trade policy and international business. Now the project is coming towards its end. As one of the project outputs, we edited a book “Global Trade and Trade Governance During De-Globalization” that discusses in more detail the themes brought up in this short essay. The book is published by Palgrave Macmillan and is coming out at the end of 2022. Welcome to check it out to learn more about the past, present and future of trade policy. ■

Expert article • 3281



ANNA KARHU

Research Manager
Pan-European Institute (PEI), Turku School
of Economics, University of Turku
Finland

Pan-European Institute

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FRANK HEEMSKERK

Europe's loss in competitiveness: Home-made solutions for a home-made problem

Expert article • 3282

Earlier this summer, the European Round Table for Industry (ERT) published its 2022 Benchmarking Report, a collection of 64 indicators comparing Europe's industrial strength with our global peers in the US, China and elsewhere. Its findings aren't particularly reassuring: Europe is losing its global competitiveness and is behind the curve on adopting the emerging production technologies that will secure future prosperity. Other jurisdictions, notably China, are taking on a prominent role, and in many key areas the US, too, are ahead of us as well.

Please note that our loss in competitiveness is not merely due to being overtaken by China. Rather, it is a consequence of Europeans having taken our industrial competitiveness for granted for too long.

But consider this good news: home-made problems have home-made solutions. If we act decisively now, we can still create the environment our industries need to maintain some leadership and secure prosperity for our children and grandchildren. In order for that to happen however, we cannot afford to lose any more time.

Let's look at the landscape of sectors and what needs to be done:

Energy: The consequences of our dependency on imported fossil fuels have become painfully clear. The urgency of achieving the transition to renewable energy sources is more evident than ever. We must now direct our resources to rapidly creating the necessary energy infrastructures in Europe to generate sufficient green energy locally and a true single market for energy including transmission between countries, imported LNG and, in the future, green hydrogen.

Connectivity: Europe is far behind its peers in 5G infrastructure and Very High Capacity (fibre) networks. This delays the adoption of new technologies that are instrumental to productivity growth in Europe's ageing societies. These include technologies in medical innovation, industrial robots and the Internet of Things. We risk falling behind not only on what we produce, but also on how we produce, which directly undermines future competitiveness. Catching up will become ever more difficult if we continue to lag our competitors on this point.

R&D: We are leading in terms of the number of researchers, but we do not perform top of the class when it comes to the number of patents in key innovation areas and putting innovation to market. There is a disconnect that is further compounded by the fact that European industry's share of global R&D investment is decreasing, compared to its peers.

Semiconductors: the dependency on imported semiconductors and supply chains that are vulnerable to geopolitical risk have been recognised as an Achilles heel of all high technology sectors. The European Chips Act is an important initiative – a clear example where

a strategic view of Europe's position and exposure provide a much-needed impetus for action.

Industrial raw materials: Europe is highly dependent on raw materials – such as precious metals – that need to be imported. The Covid crisis and the Russian war have both laid bare our vulnerabilities. Whilst autarky is not a solution at all, these vulnerabilities need to be addressed in a smart way including via diversification, strategic partnerships and making Open Strategic Autonomy work.

Across all sectors, the EU is somehow allowing itself to neglect its greatest asset. The EU's Single Market remains below its potential because so many barriers are allowed to persist. The opportunity costs for this are huge for companies and consumers. Last year, ERT published a collection of *Single Market Stories*, sharing very tangible examples of these problems. Most of our interlocutors agree that the problem is massive. And yet, we are keenly aware that strengthening our internal market cannot be solved with one bold, politically-rewarding strike, but only by a disciplined, persistent, 'nitty-gritty' effort across many fronts, requiring political courage and patience.

If the EU and its Member States do not invest political capital in completing the Single Market of 450 million consumers, Europe's economy will always face a disadvantage vis-à-vis our most important global competitors, the US and China, with their more integrated home markets of 330 million and 1.4 billion consumers.

The boost an integrated Single Market would give to Europe's economy is estimated at roughly the size of the EU Recovery and Resilience facility, with the additional advantage of being fiscally neutral.

Data on global companies' market values show these concerns are real. Our share in the world's highest capitalised companies has already shrunk dramatically. The risk of a downward spiral is real: with a loss in income comes a decrease in private and public investment. A cut in investment today will lead to a loss of jobs and relevance tomorrow.

Russia's war in Ukraine is an outrage, a humanitarian disaster and a tragedy. It also deepens divisions between different types of economic and political systems depending on values and priorities. How much of this will become the "new normal" is unclear, but there is no escaping the fact that it is also accelerating change in energy, trade and more. Europe can no longer afford to leave so much of its economic potential untapped.

At ERT we compare the 2022 Benchmarking Report to a cold shower. The good thing about cold showers is that afterwards, you're awake ready to take on the challenges of the moment. ■

For more information, visit <https://ert.eu/2022BMR/>

Expert article • 3282



FRANK HEEMSKERK
Secretary General
ERT
Belgium

Pan-European Institute

BALTIC RIM ECONOMIES

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DOMINIC BOUCSEIN

The importance of an active EU trade policy for a resilient and prosperous Europe

Expert article • 3283

As Europe discusses a potential 8th sanctions package against Russia following a further escalation in Putin's unjustified war in Ukraine, the economic headwinds for business in Europe are getting ever stronger.

Fuelled by the war in Ukraine, energy prices are skyrocketing, and with it inflation levels in the euro area has steadily risen and now stand at around 9%, with core inflation reaching 5.5%, the highest point since the introduction of the euro.

Additionally, external demand in some of our key export markets is dropping, protectionist tendencies are rising, and strict COVID containment policies are further dampening economic prospects and straining supply chains for internationally active European companies.

It is therefore of no surprise, that economic sentiment among European business, especially SMEs is hitting new lows, as Europe is likely heading into one of the most challenging winters it has seen in a long time.

Thankfully however, European policy makers have several tools in their repertoire to aid businesses during such extraordinary times, and the EU's trade policy is a formidable instrument that can help businesses better cope with a fast changing, volatile geopolitical environment, when budgetary pressures are similarly increasing at home.

In this sense, in 2021, the trade policy review carried out by the European Commission set out the strategy for the upcoming years for an open, sustainable, and assertive EU trade policy. As Chambers we warmly welcomed the Commission's strategy, as these elements are will be essential to secure and expand our economic interests on the world stage.

Nonetheless, the success of the Commission's strategy was always going to hinge upon maintaining the right balance between these concepts. In particular, between an open, and assertive trade policy, and one which secures sustainability both in terms of promoting sustainable investments and business models abroad, but equally in protecting European companies from being unfairly undercut at home.

Over the past years, this balance has been slowly eroding, as European trade policy turned more inward-looking. A welcome array of defensive measures and tools have been either proposed or adopted, such as the anti-coercion instrument, the foreign subsidy regulation, or the international procurement instrument. These measures all deserve support, as we cannot have an open strategic autonomy in Europe without giving us the tools to defend ourselves in a world where protectionism is rising, and trade is increasingly weaponized and managed by State actors.

At the same time however, the European Commission has thus far not made sufficient the progress in advancing our offensive interests, namely our trade agenda, which has been the hallmark of

European success in being the world's largest trader. Meanwhile, our competitors, especially in Asia, have taken increasingly bold steps to further integrate their markets, raising risks that Europe is moving too slowly to secure and expand our position in ever more competitive international markets. Recently, 15 Member States have made a welcome, similar case in an open letter to Executive Vice-President Valdis Dombrovskis.

In fact, in the current economic slowdown and energy crisis we must not hesitate to seize all opportunities to open new doors for businesses, and to assist companies in remaining internationally competitive. This makes the case for an active and predictable EU trade policy more important than ever.

Today, almost 38 million jobs in the EU depend on exports alone, 11 million more than a decade ago, of which over 6 million have been created directly by SMEs. Moreover, millions of jobs have been created through imports from third countries, as well as through trillions in foreign direct investment in the European Union.

Similarly, if we look at one of our newer generation trade agreements, such as the one the EU concluded with Canada, which last month had its 5th anniversary since entering into force, we can see that during the course of time, including during the depth of the COVID-crisis our exports have performed better with Canada than those to the rest of the world. In addition, around 10,000 new European SMEs are now exporting thanks to CETA across a variety of sectors compared to the time before the trade agreement. Bilateral trade in environmental goods also increased by more than 25% to 5.9bn Euros in 2021, in everything from materials and products for energy storage, wind, solar or hydropower, among others. Also new opportunities arose in the area of green procurement.

This means that trade means jobs, and we should fully harness its potential for our economic recovery. At the same time, we must work for trade to be geared ever more to make digitalization and sustainability into drivers of our global competitiveness, including by ensuring effective long-term access to the raw materials we need to make the twin transition a reality.

Therefore, for the remainder of the Commission's term, its high time that the EU re-focuses on delivering an ambitious trade agenda, by securing new agreements with key emerging markets, especially in the Indo-Pacific region, such as Indonesia, Australia or India with its 1.3 billion consumers.

Likewise, the EU Institutions should also work more efficiently together to secure a faster ratification, and a better, and more coherent implementation of concluded trade deals. Especially in a context where alternative markets and suppliers are essential to European business, it's of limited use if our trade agreements cannot be ratified, and if their economic potential is not fully utilized across the Union.

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In terms of pending deals for ratification, this is especially the case for agreements with Latin American countries, such as Mexico, Chile or the Mercosur bloc. These balanced and mutually beneficial agreements can play an important role in fostering our strategic economic partnership with a key like-minded region, and help us build more permanent strategic, political, cultural and economic links between both economic blocs, and a chance to better navigate common challenges together. ■

**DOMINIC BOUCSEIN**

Head of International Trade and Foreign Policy

Eurochambers
Brussels, Belgium

MIRELA MĂRCUȚ

Digital policy: Weapon of choice for EU global leadership

Expert article • 3284

On July 18th, 2022, the Foreign Affairs Council decided the inclusion of digital diplomacy as “[a core component and an integral part of the EU external action](#)”, based on the acknowledgement that digital technologies can „shift the geopolitical balance of power”. The same document illustrates the purposes of the EU digital diplomacy, first among which is the strengthening of the EU standing global digital affairs. Other significant purposes are to “promote the EU’s human-centric and human rights-based approach to the digital transition” and to “actively promote EU internal digital policies and regulations”. These elements are to be translated into action by the news that the EU is opening an office in San Francisco this year, a major uptake into its digital diplomacy efforts.

Even though digital diplomacy had not been an official tenet of EU external action, the actions of the EU have already signaled this turn towards the global stage ever since the Commission presented its vision towards Digital Europe back in 2020. The “geopolitical Commission” detailed the idea of European-style digital society and advocated for a European approach towards AI, all efforts to crystallize the European vision towards digital transformation. The contextualization of this European approach means that there might be room for a different approach in global digital affairs and the EU might be able to fill the gap.

Why digital policies? The domain is split between the EU and Member States by virtue of the system of competences of the Lisbon Treaty and, historically, the [EU has had issues](#) with the competitiveness gap in this field. Leadership, in this respect, can be a challenge, and the USA and China are currently the frontrunners. The USA is the country of origin for BigTech, while China has stepped up its efforts to gain competitive advantage in artificial intelligence (AI).

Nevertheless, the EU possesses mechanisms that have propelled it to the center of global digital affairs and of which it intends to take advantage to develop its digital diplomacy. Against the backdrop of the Capitol riots fuelled by misinformation and fake news on social media, the Facebook revelations that opened discussion about social media and mental health, as well as the COVID-19 misinformation, the EU has found its competitive advantage in global digital affairs, namely the ability to regulate. Based on neofunctionalism, European integration has been pursued with efforts to approximate legislation and to create a harmonized set of rules. The Digital Single Market (DSM) has been built with these steps. Additionally, given the sheer market size of the EU and its significance in global affairs, key pieces of legislation have managed to be *exported* internationally. This is the case with the General Data Protection Regulation, which companies have adopted as a global standard, prompting researchers to discuss about a “[Brussels effect](#)” applied in privacy and digital economy.

What are the key components of the possible EU leadership in global digital affairs? Firstly, the appetite for regulation at the origin of current efforts sits at the center of EU global leadership. The recently

approved Digital Services Act and Digital Markets Act are key examples in this respect, considering that they attempt to rein in some of the overwhelming influence of social media companies and other BigTech companies. These regulations aim to limit targeted advertising, require transparency and risk assessments, interoperability and much more in order to protect European consumers, to limit BigTech monopolies, and to safeguard democracy.

Secondly, as the Council conclusions on digital diplomacy showcase, the EU approach to digital transformation is rooted in human rights and is *human-centric*. In this respect, the EU has recently put forward the *European Declaration on Digital Rights and Principles*, with key ideas, such as ‘people at the center of digital transformation’, ‘freedom of choice’, ‘participation in the digital public space’, ‘safety and security’, and ‘sustainability’. Empowerment of citizens is at the center of digital transformation, compared to other contenders, such as China, where control and surveillance are used to keep people in check. With the launch of the transatlantic partnership with the USA, the EU aims to start an international dialogue based on the respect for fundamental rights in the digital space. This is especially relevant, considering that the US has not managed to put forward legislation to regulate BigTech companies, while public discourse manifested in the words of former President Obama or US Senator Amy Klobuchar laments that the US is on the sidelines of this discussion.

Finally, not only has the EU approved legislation to curb the power of big platforms, but it has also extended into new legislative territory, being the first entity to put forward legislation to regulate AI. A step forward from the AI strategy, the approach develops a risk-based assessment tool for the use of AI systems in the EU. Albeit a consumer protection regulation, the EU stands to gain ‘first mover advantage’ that can inspire other entities to apply the same approach.

Digital policy is a weapon of choice for the EU, as it aims to take advantage of the favourable international context, as well as of the internal expertise with the regulation of the digital space that the EU has developed out of need for integration. The main tenets of digital policy are the appetite for regulation, the explicit human-centric vision, and the incursion into emerging fields of policy, such as AI. The bigger question is whether the EU can do it and, based on the ideas of the Brussels effect and the lackluster response of the US in similar matters, the EU has chosen the best weapon of choice for global leadership. ■



MIRELA MĂRCUȚ

Dr., Lecturer
University of Oradea
Romania

mirelamarcut@uoradea.ro

KATHARINA L. MEISSNER

EU sanctions: A powerful tool in a ruthless world?

Expert article • 3285

On February 24, 2022, Russia invaded Ukraine. The EU's response came immediately in the form of sanctions. The core question, however, was not whether to sanction, but which exact sanctions to impose.

Ever since sanctions were incorporated into the Common Foreign and Security Policy (CFSP), their number has risen sharply. In the last decade, the EU has increasingly resorted to restrictive measures, as sanctions are called in EU jargon.

Yet, tough economic sanctions, such as the ones imposed on Russia, tend to be the exception among the restrictive measures. One reason for this is the effects that comprehensive sanctions have on the EU's supply chains with third countries. Nevertheless, the EU has increasingly adopted tough economic sanctions in recent years.

Comprehensive economic sanctions can be understood as measures that restrict trade relations with a third country and affect at least one entire sector such as energy, financial transactions, or dual-use goods. The EU currently imposes autonomous comprehensive economic sanctions on six countries: Iran, Myanmar/Burma, Russia, Syria, Venezuela, and Russian-controlled areas in Ukraine. With the exception of Venezuela, these states are subject to a variety of economic sanctions, including dual-use goods as well as financial transactions and certain exports and imports.

Why does the EU opt for comprehensive economic restrictions when targeting states like Russia but also countries like Myanmar/Burma? In a recently published article, I suggest that the EU adopts comprehensive economic sanctions in response to gross violations of human rights or of international law by such states that possess corresponding military capabilities. In the case of the Russian invasion of Ukraine, the breach of international law is obvious. Also Myanmar/Burma is accused of gross human rights violations against the Rohingya minority.

However, the EU opts for comprehensive economic sanctions only when human rights or international law violations are highly salient in public or when EU member states ally with the United States. The Russian war on Ukraine is unprecedented in this regard. The EU imposes strong economic sanctions together with the United States backed by a broad international community and under public attention.

When talking about sanctions, the public usually refers to restrictive measures that fall under the CFSP. However, the EU has a wide variety of sanctions instruments at its disposal. In fact, such 'disguised' sanctions that fall under the EU's development cooperation or its trade policy are used more frequently than CFSP restrictive measures.

One example for such sanctions 'under disguise' is the EU's generalized scheme of preferences (GSP). With the GSP, the EU privileges developing countries with duty-free imports of certain goods. However, the GSP is linked to conditionality clauses. These clauses refer to values, which the EU seeks to uphold, including

democracy, the rule of law and human rights. If a developing country breaches any of these values, the European Commission can initiate a procedure so that the GSP is temporarily or completely suspended. So far this has happened in four cases: Myanmar/Burma (1997), Belarus (2007), Sri Lanka (2010) and Cambodia (2020).

Association and trade agreements with third countries, too, are subject to conditionality clauses. Similar to the GSP, international agreements can be suspended temporarily or completely in case of rights violations. In its relations with the African, Caribbean, Pacific (ACP) countries, the EU has already made frequent use of this possibility.

Despite this arsenal of instruments, researchers document a low success rate of sanctions. One reason for this is the very definition of sanctions' (in-)effectiveness. Even if sanctions do not bring about any immediate change in behaviour in the target state, they may still send a strong signal to the target and the international community.

Yet, sanctions, especially comprehensive economic ones, also bring about humanitarian consequences that affect the population in a target country. This happens in a vast majority of sanctions cases; for UN sanctions, for example, they occur in 94 percent of cases. Unfortunately, there is a high risk of sanctions' unintended consequences also in the case of Russia. Unintended consequences of comprehensive economic measures occur primarily when the country is led by a stable, authoritarian regime that has strong control over the media. The regime can then shape the sanctions' narrative while establishing economic channels with alternative trading partners, as is the case in Russia with China.

Still, even if researchers are pessimistic about the success of sanctions, it is necessary to keep in mind the current horrific situation. The EU needs to clearly signal with tough restrictive measures that the Russian war on Ukraine is not acceptable under any circumstances.

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KATHARINA L. MEISSNER
Postdoc and Project Leader (FWF M-2573)
Department of Political Science, Centre
for European Integration Research (EIF)
University of Vienna
Austria

katharina.meissner@univie.ac.at

TONY HERON & GABRIEL SILES-BRÜGGE

‘Global Britain’ and ‘post-geography’

Expert article • 3286

In its trade policy discourse, the UK has repeatedly made references to a ‘post-geography trading world’. Speaking in 2016, former Trade Secretary, Liam Fox argued that the UK is ‘much less restricted in having to find [trade] partners who are physically close’, such as its erstwhile fellow member states in the EU. Instead, a hard Brexit has been pursued by the Government to give ‘Global Britain’ the trade policy independence it needs to pursue new trade agreements with partners further afield.

Initially, the focus was on English-speaking states. The very diverse Commonwealth provided one anchor but was less significant as a spatial imaginary in Eurosceptic policy circles than the ‘Anglosphere’: the white-majority former settler colonies of Australia, New Zealand, Canada and, most importantly due to its relative economic size, the US. Closer association with the UK’s ‘kith and kin’ was seen as a viable alternative to EU membership. It actively translated into a policy of seeking new Free Trade Agreements with Australia, New Zealand and the US as soon as possible following formal Brexit.

The economic gains to be had from these agreements, however, are relatively meagre compared to the costs of a hard Brexit. The agreement with the US, which was the centrepiece of the Government’s initial trade negotiating flurry, was estimated to boost GDP by only around 0.07-0.16% according to the Government’s own modelling, several orders of magnitude lower than the estimated losses of leaving the EU Customs Union and Single Market.

The UK’s trade policy has not been focused primarily on economic gains, constrained as these are by the effects of economic gravity: closer and larger economies are more significant trading partners. Instead, it has been driven by a desire to perform its new trade policy independence: the UK has sought to emphasise the benefits of exercising post-Brexit sovereignty for sovereignty’s sake, differentiating itself from the EU. In the words of Liz Truss, former Trade Secretary and leading contender to succeed Boris Johnson as Prime Minister, its ‘values-based’ trade policy is anchored in ‘our fundamental values of sovereignty, democracy, the rule of law and a fierce commitment to high standards’. The EU, in contrast, reflects ‘the twin errors of values-free globalisation and protectionism’. The Anglosphere, with the UK at its core, was a different kind of space, less constrained by geography and united in its commitment to free enterprise.

The failure to make much progress in negotiations with the US led the UK to shift its focus from the spatial imaginary of the Anglosphere to the Asia-Pacific and membership of the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP). Agreements with Australia (2021) and New Zealand (2022) were recast as steppingstones towards CPTPP accession. Once again, the logic is to re-imagine space in a way that allows the UK to perform its trade policy independence, and difference, from the EU.

There are three elements to this in relation to the Asia-Pacific. First, the policy reflects the idea that trade is increasingly unconstrained by geography; gravity does not constrain economic exchange. It is also reflected in the specific emphasis on rules for digital trade. The CPTPP promises differentiation from the EU’s data protection rules, said to constrain the information flows necessary to facilitate international exchange. Second, in the words of Liz Truss, the CPTPP

offers free trade ‘without EU-style strings attached’. CPTPP is one in a series of ‘high standards, rules-based, modern trade agreements’. These stand in contrast to the EU’s sovereignty-diminishing model of regulatory harmonisation and oversight by the European Court of Justice. Finally, CPTPP is presented as the gateway to the dynamic East Asian region, a term used in the same breath as ‘Asia-Pacific’ and, increasingly, ‘Indo-Pacific’. In the words of Truss, ‘two-thirds of the world’s middle-class will be in Asia by 2030’. The UK would thus be swapping a ‘low-growth’ bloc, the EU, for a ‘high growth’ one. This is even though only a minority of CPTPP parties can be classed as being within East Asia.

In addition to coming up against economic gravity, the focus on ‘post-geography’ also ignores important geopolitical realities in the region. The UK Government has consistently othered China as a rule-breaker inimical to its ‘values-based’ trade policy. The Trans-Pacific Partnership (TPP), moreover, was negotiated between the US and its client states to explicitly exclude China. When the US pulled out, and the remaining parties came together to sign the CPTPP this intention remained. And yet China and its economic weight remains implicit in the economic conception of Asia-Pacific region, especially if this is equated with East Asia. By presenting the CPTPP as a boundless space of like-minded states the UK is projecting an imaginary which suppresses the political norms of the region. ■

**TONY HERON**

Professor of International Political Economy
University of York
UK

tony.heron@york.ac.uk

**GABRIEL SILES-BRÜGGE**

Reader in Public Policy
University of Warwick
UK

g.siles-brugge@warwick.ac.uk

VIDMANTAS JANULEVIČIUS

We need to be ready to act in new conditions at any time

Expert article • 3287

The past year brought us a number of problems and challenges – fragile supply chains, geopolitical challenges that led to the closure of the No.1 raw material and component manufacturer of many Lithuanian companies – China. The events of the last few months in Ukraine have completely rebalanced the usual logistics routes, energy and raw material prices – making us even more vulnerable to shortages of these.

Baltic companies are most concerned about the short-term consequences of Russia's invasion of Ukraine – higher energy, raw material and production costs. The long-term impact of Russia's war is considered to be a change in logistics routes. A fifth of Lithuanian companies predict that business relations with certain regions will eventually become interrupted or restricted.

When the war broke out, supply chains from Russia, Belarus and Ukraine to Lithuania, both in terms of logistics and raw materials, were disrupted. Most importantly, this halted the supply of raw materials, forcing not only Lithuania, as well as the whole world, to frantically search for alternative suppliers of wood, biofuels, metal and other materials. It takes time to find alternative sources of supply. The key principles guiding businesses in their search for alternatives are the costs of raw materials and logistics, and the length of delivery. It is therefore logical that alternatives are sought as close to Lithuania as possible, before expanding the geography to a more global environment.

Business faces the same challenges when it comes to diversifying export markets. Business has learned to adapt quickly to new circumstances, but expanding and diversifying export markets takes time. Finding new markets, establishing a foothold and certifying products takes 5-7 years.

As a small and open economy, Lithuania has integrated quite well into the global economy and global value chains. But as the statistics for the first quarter of this year show, our economic interests are still mainly focused on our region and the EU market (apart from US and UK markets). Businesses are well aware that in this competitive environment, with rising costs, it will soon be very difficult to compete within the EU market, so they are looking for and will seek niche markets for their products. A principle exists that doubling the distance halves the number of economic relations, and the trends of the last 25 years prove it. Most of our direct economic interests have for many years been within a radius of 1500-2000 km, but this trend has been changing dramatically in the last few years.

The pandemic and global political tensions have exposed the inefficiencies and vulnerabilities of many supply chains, and businesses across Europe have been addressing these issues and looking for alternatives for some time. They are investing time and resources to re-evaluate their supply chains to find and address weaknesses.

Europe as a whole has now learned the harsh lessons, and Europe is now rapidly replacing "Made in China" with "Made in EU", and Lithuania has been one of the lucky ones in this process. A third of new orders to factories have come as a result of the shift away from Asian suppliers. Now is the time when we can make this process irreversible, and what the Lithuanians have recovered from Asia can remain, provided we can secure raw materials at affordable prices and procure the necessary workforce.

Looking at the impact of global events and trends on Lithuania and its economy, the main focus today is on reviewing economic relations and how they affect prices. Europe, recovering from a pandemic, faces a situation in which it is economically tied (especially in terms of fuel and energy) to an aggressor state. This means that European countries and their economies will have to deal with the consequences of inflation caused by the pandemic and exacerbated by the energy price shock and the dilemmas of energy dependence.

Russia's war in Ukraine has prompted the EU to reassess its relations with China. This European dependence on Russian energy resources has shown the EU the dangers that could await it if it increases its economic and trade dependence on China. Foreign experts say the era of huge Chinese investment in Europe may be coming to an end. German industrialists say that while Lithuania's tensions with China have not yet had a direct impact on European businesses operating in China, the case of Lithuania has made it very clear to the whole EU that economic sanctions are a tool that China is willing to use as a response to political pressure. It is clear that the trend that started with COVID – to move production back to Europe or closer to home – is only going to gain more momentum, especially if issues of the energy sector are sorted.

Our geographic location, combined with regional and global trends, reminds us that we do not have the luxury of a predictable and stable environment and, unfortunately, we may not have such a luxury in the near future. We need to be ready to reorient and operate in new environments at any time, and diversification of export and raw material markets is an important prerequisite for a resilient economy.



VIDMANTAS JANULEVIČIUS
President
The Lithuanian Confederation of
Industrialists
Lithuania

CYNTHIA J. ARNSON

Economy and politics in Latin America

Expert article • 3288

COVID-19 has wrought deep and lasting changes in Latin America and the Caribbean, as in other parts of the world. But comprehending the pandemic's impact requires looking first at what preceded it.

With notable exceptions, the region had stagnated economically by 2019. A 2002-08 commodities boom had lifted millions from poverty, but a subsequent slow-down in growth dashed the expectations of a precarious middle class. The UN reported that growth from 2014 to 2020 was the lowest in seven decades. Modest gains in reducing the region's high inequality also came to a halt. In 2018 the Organization for Economic Cooperation and Development explored how long it would take for someone in the bottom ten percent of the income distribution to reach an average income level. In OECD countries, it took about four-and-a-half generations. In Brazil, 9; in Argentina and Chile, 6; and in Colombia, almost 11, the worst of all the countries surveyed. By late 2019, an accumulation of grievances—inequality, corruption, poor governance, lack of opportunity—led to mass protests in countries as diverse as Chile, Colombia, Ecuador, Bolivia, and Haiti.

Soon, however, strict COVID-induced lockdowns emptied the streets of protestors while plunging the region into its worst economic crisis in over a century. Latin American and Caribbean economies contracted by an average of 7 percent, the worst performance among all emerging market. Tens of millions were thrown out of work and into poverty or extreme poverty. By 2021, the Food and Agriculture Organization reported that more than 40 percent of the population suffered from moderate to severe food insecurity; and by mid-2022, the World Food Program said that the number of acutely food insecure had grown six-fold over pre-COVID levels. Governments wisely expanded social safety nets but took on greater debt at a time of shrinking revenues. According to the World Bank, by the end of 2021 average public debt in the region had risen to over 75 percent of GDP, compromising future public investments in education, health, and innovation.

The global effects of Russia's invasion of Ukraine set back the region's modest economic recovery in 2021. Escalating food and energy prices sent inflation soaring to the highest levels in twenty-five years, according to the International Monetary Fund, disproportionately impacting the poor. Rising interest rates in the United States and elsewhere made dollar-denominated debt more expensive, further straining government coffers.

The region's politics became more volatile in light of the accumulation of economic pain and COVID-induced death tolls that, per capita, were the highest in the world. Surly electorates voted incumbents out of office, punishing them for the pandemic's hardships. Candidates of the left in Chile and Colombia replaced presidents of the center-right in elections held in 2021 and 2022, respectively. The shift had less to do with ideology than with a desire to rebuke existing leaders. A similar dynamic took hold in Brazil;

elections scheduled for October 2022 favor the left over an incumbent rightist. And in Ecuador, a businessman of the center-right triumphed in 2021 following years of leftist rule. Once elected, however, political oppositions found their honeymoons short-lived. The depth of socio-economic pain, limited fiscal space, political fragmentation, growing demands by indigenous and racial minorities, and conflicts over the environment and the region's extractive industries have tested leaders regardless of ideology.

Thus far, democracy in the region has proved resilient: in its 2022 survey, the Americas Barometer of Vanderbilt University called democratic attitudes "weak but stable." But trends in public opinion are worrisome. In 2021 the Santiago-based polling firm Latinobarómetro found that fully 70 percent of citizens were dissatisfied with how democracy functioned. And only 22 percent believed that the country was governed for the benefit of all rather than a powerful minority. The Americas Barometer found that more than three in five citizens believed most or all politicians are corrupt. Most sobering, albeit perhaps unsurprising, was a late 2022 finding by Vanderbilt, that over half of the region's citizens would trade elections for a basic income and services. The trend was strongest among young people and those of lower educational attainment and income.

The diverse political systems of Latin America and the Caribbean are not all headed toward the authoritarianism characterizing Venezuela, Nicaragua, and Cuba. But dangerous signs of democratic erosion abound. Effective leadership, institutional strengthening, and a more forgiving international environment hold the keys to the region's democratic future. ■

CYNTHIA J. ARNSON

Distinguished Fellow

Woodrow Wilson International Center for
Scholars

Washington, D.C., USA

LUIS BALDUINO

The Mercosur-European Union Trade Agreement

Expert article • 3289

On 28 June 2019, precisely 20 years after the Heads of State and Government of Mercosur and the European Union had launched negotiations for an inter-regional Framework Cooperation Agreement, the two blocs concluded a wider trade agreement considered by all negotiating parts as ambitious, not only for its size, but also for its thematic breadth and political significance. The new framework includes commitments on free trade, rules of origin, sanitary and phytosanitary measures, small and medium-sized enterprises, services, government procurement, intellectual property and sustainable development, creating significant opportunities for sustainable growth on both sides, as some figures point out:

- It sets up a single market of 780 million people and comprising about 25% of the global GDP.
- Over 90% of the trade tariffs are to be eliminated after the established transition period.
- Beyond trade, the agreement will enhance political dialogue and increase cooperation in areas such as migration, digital economy, research and education, human rights, including the rights of indigenous people, corporate and social responsibility, environment protection, ocean governance, as well as fight against terrorism, money laundering and cybercrime.

The documents comprising the agreement are currently undergoing legal review ("legal scrubbing"). Once this stage is completed, the texts will be ready to be signed and, subsequently, submitted to internal parliamentary approval, which will allow for the ratification of the agreement and its effective entry into force.

Trade in goods between the four Mercosur countries and the European Union reached 88 billion euros in 2021, while trade in services represented 25 billion euros. European companies had a stock of 380 billion euros invested in Mercosur, in 2017. On the other hand, Brazilians had over 150 billion euros in assets in the European Union (2015). Currently, 696 Finnish companies export to Mercosur countries, about 80% of which are small and medium sized. Trade with Mercosur supports about 13,000 jobs in Finland. When the agreement enters into force, these numbers are likely to increase substantially.

Ongoing geopolitical tensions, both in Europe and globally, have raised awareness on the need to rely on trustworthy partners. Mercosur countries are democracies, governed by the rule of law, respectful of human rights and with a long history of peaceful relationship with European countries, with which they have strong historic and cultural ties. In the prevailing uncertainty in international relations, the Mercosur-European Union trade agreement offers a unique potential to create new and better jobs for hundreds of millions of people, cooperate on policies for environment protection and help to provide energy and food security and predictability of trade flows.

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LUIS BALDUINO

Ambassador of Brazil to Finland

PEDRO PAULO ZAHLUTH BASTOS

The meaning of the trade policy of the Jair Bolsonaro administration: A historical perspective

Expert article • 3290

The trade policy of the Jair Bolsonaro administration cannot be understood without grasping its global economic policy project. Such a project can be comprehended as a swing in the pendulum between nationalism and neoliberalism that has characterized Brazilian politics since the 1980s. However, the Bolsonaro administration radicalized the liberal turn to abandoning some safeguards that other neoliberal administrations were reluctant to relinquish.

In general terms, neoliberal administrations, such as Fernando Henrique Cardoso in the 1990s, praise trade liberalization on a multilateral basis and the attraction of foreign direct investment (FDI). The argument is that more trade openness increases the competitive pressure that forces efficiency gains from local firms, enabling Brazilian exports to capture the market opportunities opened as counterparts in the liberalization agreements. FDI, in turn, must be attracted to bring in new technologies and international marketing channels by guaranteeing a friendly business environment consolidated by international treaties and, therefore, less subject to the succession of governing coalitions in Brazil.

On the other hand, nationalist administrations, such as Luís Inácio Lula da Silva in the 2000s, were more cautious in opening up trade to defend market and policy space for the growth of local industrial capacity. They also resist pressure for privatization because they understand that state-owned companies can perform strategic tasks, such as Petrobras in oil exploration in the pre-salt layer and in developing technological capabilities for oil exploration in deep waters.

Until the Bolsonaro administration, neoliberals and nationalists agreed on at least four things: 1) on the importance of preserving a diversified industrial system, 2) on demanding market opening for Brazilian agricultural exports in return for the industrial opening demanded by developed countries, 3) in limiting the internationalization of lands, 4) in preserving the preferential trade agreements in South America, and in particular Mercosur (the Customs Union with Argentina, Paraguay, and Uruguay), where most of the Brazilian industrial exports are directed.

The Bolsonaro administration abandoned the four consensuses: 1) it eliminated policies to support the manufacturing industry and negotiated a strong trade opening with the European Union with significant sectoral impact; 2) it was content with the much less than the proportionate opening of the EU agricultural market; 3) it supported the creation of financing mechanisms that remove limits on foreign ownership in agriculture; 4) pressures Argentina, led today by a nationalist administration, to allow for the "flexibilization" of Mercosur, that is, to authorize the negotiation of free trade treaties in isolation by member countries of the trade bloc, which would mean the end of the Customs Union. If "flexibilization" is not negotiated, it threatens to leave the bloc.

Such radicalism goes against the trends of industrial activism evident, for example, in the former Build Back Better in the US, and today in the CHIPS and Science Act or the Inflation Reduction Act, in the European Commission's strategy for the twin transitions (green and digital), as well as in the Made in China program.

The neoliberal turn of the Bolsonaro administration is regretted by those who believe that industrial diversification is an essential condition for economic development and that the state must support the development of cutting-edge industry. However, the plan cannot yet be fully implemented because several European Union member countries resist ratifying the Mercosur-European Union Agreement, or Brazil's entry into the OECD, due to the Bolsonaro administration's performance on the ecological question.

Furthermore, nationalist angst can be temporary. Opinion polls regarding the October 2022 presidential election indicate that the most likely scenario is the failure of Jair Bolsonaro's re-election attempt and the election of former President Lula da Silva. If that happens, we can expect a new swing in the pendulum between neoliberalism and nationalism that should at least recover the four historical consensuses abandoned in the last four years. ■

**PEDRO PAULO ZAHLUTH
BASTOS**

Associate Professor
Institute of Economics, University of
Campinas
Brazil

MARCO ANTÔNIO ROCHA, VICTOR YOUNG, ARTHUR WELLE & PEDRO PAULO ZAHLUTH BASTOS

Open trade with ecological devastation? The failure of the trade policy of the Jair Bolsonaro administration

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The Jair Bolsonaro administration gambled on an economic policy that gave the private sector a leading role. It would be encouraged to fill the space left by the expected retraction in public spending and the privatization of state-owned companies. Encouraging private investment would come from reducing costs, whether in taxes, wages (through labor reform), or by eliminating costly regulations such as environmental protection.

An essential part of the tax reduction would come through free trade agreements by reducing or eliminating customs tariffs. The idea was that cheaper imports would allow the transfer of technologies embedded in production goods and machines, which the expansion of international competition would force local companies to incorporate. In addition, the expected efficiency gain with the increase in imports would lead to the growth of exports facilitated by trade agreements.

To complement national savings, the government also gave centrality to the ability to attract foreign direct investment (FDI) through a friendly business environment. Such an environment should be consolidated by international treaties, considering that the convergence of standards would increase the credibility of Brazilian institutions.

Two international agreements would be vital to ensuring such institutional convergence. First is Brazil's accession to the OECD. Particularly regarding the financial sphere and capital flows, the OECD has a series of Codes of Liberalization to which member countries must comply, including, for example, the Code of Liberalization of Capital Movements. The intended signal to foreign investors is that the normative convergence would be locked-in with the accession to the OECD, being protected from an eventual alteration of the ruling coalition.

The Mercosur-European Union trade agreement would play a similar role. In addition to eliminating tariffs on industrial products within 15 years, there is a commitment to liberalize government procurement, except for defense, health, education, mining, and oil extraction. Historically, government orders have been a mechanism used by developing countries to stimulate the development of private companies. However, the Bolsonaro administration considers that Brazilian engineering companies would have more to gain and can already compete in the big European market for government procurement.

This expectation, together with the expected gain in efficiency with the liberalization of industrial imports from Europe, at least in the administration's calculation, would compensate for the much less

than proportional opening of the agricultural market in the European Union. This market will be partially opened with the use of quotas for sensitive products such as meat, poultry, sugar, and ethanol. To give an idea of the reduction in Brazilian ambition, the demand was for a quota of 300 thousand tons of tariff-free beef per year in 2004. Still, the Bolsonaro administration agreed to only 67 thousand (net of bones).

The problem is that attempting to reduce customs tariffs and attract FDI through international treaties is at odds with reducing costs by eliminating environmental regulations. Due to the dismantling of the inspection system and the incentive given by President Bolsonaro himself to logging, deforestation in the Brazilian Amazon rose from 7,536 km² in 2018 to 13,038 km² in 2021, an increase of 73%. The latest monthly data detected, in June 2022, 1,429 km² of deforestation in the Amazon, a 54% increase compared to June 2021.

Because of this, in 2020, the year in which the Covid-19 pandemic stopped the world economy and caused an unprecedented reduction of almost 7% in global emissions of greenhouse gases, emissions in Brazil increased by 9.5%, practically the same rate as the previous year. They certainly increased even more in 2021 and 2022.

This is a disaster for global ecology and is perceived by Brazilian trading partners. The Mercosur-European Union Agreement and Brazil's entry into the OECD tend to be barred on the grounds that one should not reward a government that does not comply with environmental agreements that are fundamental to controlling global climate change. It is hoped that, in a post-Bolsonaro future, international cooperation will be guided by a positive agenda that keeps the forest standing, ensuring the reproduction of populations with a diversified circular economy. ■

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MARCO ANTÔNIO ROCHA

Assistant Professor
Institute of Economics, University of
Campinas
Brazil

ARTHUR WELLE

Researcher
Institute of Economics, University of
Campinas
Brazil

VICTOR YOUNG

Researcher
Institute of Economics, University of
Campinas
Brazil

**PEDRO PAULO ZAHLUTH
BASTOS**

Associate Professor
Institute of Economics, University of
Campinas
Brazil

DOROTEA LÓPEZ & ANDRÉS BÓRQUEZ

Chile-China trade relations: Challenges and opportunities

Expert article • 3292

Chile has had one of the most active trade policy performances in Latin America during the last 40 years. Since Pinochet's dictatorship, this country has established an active trade opening plan following the paradigms of liberalism and State non-intervention. Then, economic integration has been one of the pillars of its development strategy. During the 1970s, Chile carried out a profound unilateral reduction of the country's existing tariff and non-tariff barriers. The beginning of the democratic period (1990) was a decisive moment for the country, with a consensus on the need to continue with the insertion but with a different strategy, defining negotiation as the main principle. This allowed the new government to differentiate from the previous period and recover the country's diplomatic relations. Chile's commercial diplomacy of negotiating free trade agreements (FTAs) has been part of this wider geostrategic vision. Today Chile is the country that has signed most FTAs in the world and the first Latin American country to sign an agreement with China.

China has increased its trade engagement worldwide under the framework of China's "going out" policy, establishing more diverse forms of interactions. China's entrance to the World Trade Organization in 2001 was considered a turning point for world trade, its participation in APEC has been relevant to building a framework for its approach toward economies in the region. After this period of adaptation, China began a new phase of interaction in global trade through the Belt and Road Initiative which aims to develop infrastructure and connectivity of countries along different regions. This opening into the world as a key trade actor, has had an impact on the Latin American economies in many aspects: culturally, educationally and politically, and the relation is experiencing an interesting period. The economic ties between China and Latin America have increased dramatically in recent years.

Even though Chile and China are two countries that are geographically far apart, they have developed a very strong relationship. Chile was the first South American country to establish diplomatic relations with China in 1970, and the first country outside Asia to sign the FTA with China in 2005. Moreover, Chile supported the accession process of China to the WTO in 2001. In 2004, in the APEC forum, the FTA negotiations were launched between the two countries, and on October 1st, 2006, China signed its first FTA with a non asian country. In November 2018, Chile signed a cooperation agreement on the Belt and Road Initiative and upgraded its bilateral free-trade agreement with China in March 2019. The expanded agreement deepened the chapters that are relevant, such as trade, trade in services, electronic commerce, rules of origin, technical and economic cooperation, and trade rules. In 2021, the Export-Import Bank of China became the third Chinese bank to operate in the country. Chile joined the Asian Infrastructure Investment Bank in July 2021 and has been a member of the Belt and Road Initiative since 2018. Actually, the relationship is becoming stronger and China concentrates more than 38% of Chilean exports. Chile has become China's major supplier for a variety of goods and commodities ranging from copper and molybdenum to fresh cherries, grapes and plums.

In recent years, fresh cherries have been an export phenomenon: In 2022, Chile sends 88% of its cherries (worth over \$2 billion) to China.

Some critics point out that China is reproducing the reprimarization of economy with some countries. Nearly 50% of the Chilean export basket consists of one product, copper, and the country is highly dependent on its external sector. Therefore it is clear that Chile has to diversify products and destinies of its exports as well as to incorporate small and medium enterprises. For some experts, Chinese-Chilean relations have crossed the threshold to a new phase that goes beyond copper and could be an opportunity to address these challenges.

For this, Chile must also establish strategies to access the markets of China's inner regions, which have been less explored despite being areas where the emerging middle classes are increasingly demanding quality imported products. Along these same lines, the distinctive "Chile brand" must be strengthened so that the new products and services that are exported to China can be inserted without starting from scratch.

Among the new opportunities offered by the Chinese market, there is space to develop specialized food products for an increasingly sophisticated Chinese consumer. Mainly, non-traditional products are identified, such as snacks (sticks, chips and cereal bars) that incorporate both food from the traditional diet and highly healthy food and bottled wines. Additionally, some services with potential opportunities for the new Chinese middle classes are identified: Chile is an attractive place for international tourism and is one of the countries in the Latin American region that has paid the most attention to the digital economy. This could facilitate the export of e-commerce services, virtual education, computer games industry, amongst others.

Finally, the relations between Chile and China will face some challenges beyond economy. On one hand, there is a growing tension between China and the United States – the first being the major trading partner and the second country being the first investor of Chile. The rise in tension has increasingly become challenging for Chile in trying to stay neutral in a possible conflict between these global powers. On the other hand, Chile is in the middle of important domestic transformations, such as its constitutional process, which could have an impact on the relationship. ■

DOROTEA LÓPEZ

Professor
International Studies Institute,
University of Chile
Chile

ANDRÉS BÓRQUEZ

Professor
International Studies Institute,
University of Chile
Chile

FRANCISCO JAVIER ORTIZ DE ARTIÑANO

Mexican foreign direct investment, an opportunity for Europe

Expert article • 3293

The potential of Mexico as a direct investor country has been truly underestimated for many years. Mexico's GDP has reached 1.07 trillion in 2020 (World Bank data). To put it into perspective, this is a little less than Spanish GDP, of 1.20 trillion, or higher than the one of the Netherlands (0.93). Usually, and unfortunately, only news about the violence arrive to Europe, but there are also other types of news, of an economic nature, not so well known. For example, there are currently more than a hundred Mexican companies in Spain, which have created nearly 50,000 jobs in this country alone, making it the sixth largest investor country.

It cannot be denied that for many years, Mexican companies did not consider investing in other countries, but in the last years. There has been a clear change of attitude. The reasons are many, but among them we can highlight.

- The large increase in funding available for investment. In recent years, many Mexican companies have had a large increase in their capital reserves, but have not had the opportunity to reinvest them.
- The lack of opportunities in the Mexican market, with very low profitability in rental products, and a risk that does not suit with the profitability offered. As an example, an A+ building in the financial area of Mexico City has a lower return than an equivalent building in Paris, Madrid or London.
- A very local vision of the Mexican business community, who did not consider investments abroad, since starting business or investments in other states was considered equivalent to foreign investment by many Mexican entrepreneurs, due to the size of the country and the market (Do not forget that Mexico is a country of almost 2 million km², equivalent to almost 50% of the European Union). I experienced this situation in 2013, with a family office, from a quite wealthy and known Mexican family, to whom I offered the possibility of investing in Europe. When meeting with them, I was told that they had never done anything outside of Mexico, and that they were considering doing something in New York for the first time. Europe was too far away for a first step.
- A strong development of new start-ups, with a globalist vision, starting with their foreign expansion from the very first moment. Today there are already a dozen unicorns in Mexico and the number keeps growing. Kavak (car sales), Bitso (crypto exchange), Clara (fintech), Clip (electronic payments), Konfío (revolving cards), Incode (authentication platform), Merama (e-commerce) show the great development of the Mexican technology sector.
- The political situation within Mexico, with many bureaucratic difficulties, that make investment abroad an easier and smarter opportunity for many companies.

As expected, Mexican investments in Europe have taken Spain as its gateway, due to the previous economic, political and affective ties. However, an irradiative effect is already beginning to be felt in the rest of the European Union. Cemex has plants throughout Europe; Sigma has already acquired 100% of Campofrío, and has begun to use the entire distribution and commercial network that this company has, to develop new lines of business, such as Better Balance vegetable sausages, another one of its brands; Bimbo has increased its sales in Europe by more than 7%, Carso has acquired a control package in FCC and has recently issued a takeover bid for 24% of Metrovacesa. And this is only the beginning, since once a country begins an internationalization process, and a critical mass is achieved, a multiplying effect starts and direct investments skyrocket, so in the coming years we are going to see an even greater growth of Mexican companies and funds interested in the European market.

And how could European companies attract such capital and companies? For this it would be important:

- Greater development of direct and inverse missions with Mexico. Unfortunately, Promexico no longer exists, which means that the weight of these missions falls in the countries interested in receiving said capital: Finnpro, Enterprise Estonia, Exportradet, Nordtrade. ...
- Greater involvement of the chambers of commerce assisting entrepreneurs and investors from Mexico. A common complaint is the lack of help at the beginning, and very often they come into contact with law firms that charge them a very high bill, with very poor results. I have personally heard complaints regarding Ireland and the Netherlands.
- When working with Mexican businessmen, patience is necessary. Usually you will find a high level of professionalization in the business community in Mexico, but long delays on decisions are common, a consequence of the problems in the country and that makes them hesitate a lot before taking decisions.

Just to end this article, I should mention again the family office case aforementioned 3. Before the pandemic, they had already bought their first building in Spain. And now they are searching for more assets to buy. So there is a wonderful opportunity waiting for governments and companies that decide to seize the opportunity. ■

FRANCISCO JAVIER ORTIZ DE ARTIÑANO

Honorary Consul of Mexico in Estonia
Republic of Estonia

Javier@ftrconsultants.ee

ANETA TYC

Labour rights in the EU FTAs with Australia and New Zealand

Expert article • 3294

Labour provisions in free trade agreements (FTAs) have proliferated over the last two decades – from only 4 in 1995, the number of FTAs that include labour provisions increased to 21 in 2005, 58 in 2013, 77 in 2016 and 85 in 2019 (ILO, Labour Provisions in G7 Trade Agreements: A comparative perspective, Geneva 2019, 15). Considering the chronological order, the EU FTA with New Zealand (concluded on 30 June 2022) and Australia (under negotiation) constitute examples of FTAs of the fourth generation characterised by the inclusion of labour provisions in the chapters entitled “Trade and Sustainable Development”.

New templates used by the EU introduce temporary remedies, according to which if non-respect of core labour rights is found by the panel, a “mutually acceptable compensation” may be developed by the parties. Besides, the suspension of “the application of obligations under the covered provisions” has been envisaged. However, the agreements still use only soft, promotional formulations, e.g. “Each Party shall make continued and sustained efforts to ratify the fundamental ILO Conventions if they have not yet done so”. This language should be stronger considering that Australia has not yet ratified ILO Convention no. 138 (Minimum Age) and no. 187 (Occupational Safety and Health), and New Zealand has not ratified Convention no. 87 (Freedom of Association and Protection of the Right to Organise) and Conventions nos. 138 and 187 (mentioned above). In addition, more emphasis should be placed on the Conventions which have already been ratified. Even if Australia and New Zealand ratified Convention no. 100 (Equal Remuneration) and no. 111 (Discrimination in Respect of Employment and Occupation), this absolutely does not mean that discrimination has been eliminated in these countries.

The EU-Korea labour dispute case may give the impression of the effectiveness of the EU templates – after all Korea ratified three out of four outstanding – at that time – ILO Conventions (has not ratified Convention no. 105 – Abolition of Forced Labour). However, “questions do remain on whether the Korean legislation amendments fully implement the provisions of C29, C87 and C98. The case thus remains open and the EESC reinforces its call for follow-up action” (the opinion of the European Economic and Social Committee “Next Generation Trade and Sustainable Development – Reviewing the 15-point action plan” 2021). The question is also whether all partners in the future will be willing to introduce changes to their domestic legislation and ratify 10 fundamental ILO conventions under recommendations issued by the panel of experts.

Recently the European Commission itself has admitted that the current approach needs improvement and in its new document “Trade Policy Review – An Open, Sustainable and Assertive Trade Policy” (2021) has pointed out that there is a need for “a greater effort to ensure the effective implementation and enforcement of sustainable development chapters in EU trade agreements, to level-up social, labour and environmental standards globally”. It is also worth noting

that according to the aforementioned opinion of the EESC: “compliance problems not only exist in partner countries (...), there seems to be a lack of instruments for robust enforcement in the EU and its Member States”. The EESC also highlights “the importance of securing pre-ratification commitments of core international agreements or binding and enforceable roadmaps within the TSD chapter itself...”.

In this context, the EU model should be compared with the US one. The latter involves FTAs that use a conditional approach. This amounts to the fact that FTAs contain labour provisions that make the conclusion of a FTA conditional upon respect for particular labour standards (pre-ratification conditionality) and/or provisions in the concluded FTAs that authorise sanctions if labour standards are infringed (post-ratification conditionality). On the other hand, the EU model involves a promotional approach focusing on dialogue and cooperation. A comparative legal analysis may lead to the conclusion that the EU may draw some lessons from the conditionality-based model in place in the US. A new FTA between the US, Mexico and Canada (USMCA) may serve as an example. It effectively required Mexico to carry out very serious reforms of labour law (in 2019) and to ratify all the fundamental ILO Conventions. Moreover, the USMCA introduces other important solutions, e.g. considerably stronger language as regards labour rights, “facility-specific rapid response labor mechanism”, “Labor Value Content” requirements or “greater certainty” clauses, each of which encourages us to perceive the USMCA as a model agreement that could be used when concluding a new treaty. ■



ANETA TYC

Doctor of Law, Assistant Professor
Department of European, International and
Collective Labour Law, Faculty of Law and
Administration, University of Lodz
Poland

atyc@wpia.uni.lodz.pl

LYNDA CHINENYE IROULO

The African Union needs a single foreign policy

Expert article • 3295

On 25 May 2023, the African Union (AU), which began as the Organization of African Unity (OAU), will celebrate its diamond jubilee. Sixty years later, the quest for African integration has not been achieved. The AU has succeeded in building common positions focusing on global issues like the Common African Position on Humanitarian Effectiveness and has responded to various issues, including Covid-19, civil conflicts, and development. Although the AU has evolved, broadening its scope to promote cooperation and development, the promise of regionalism remains unfulfilled. The AU has paid laudable efforts at cooperation, and it has to tackle integration with similar fervour. Its time for deeper integration to be supported by an African foreign policy to achieve complex domestic and international agendas.

African countries, most of whom belong to multiple regional organizations, have designated the eight sub-regional bodies as building blocks for continental integration. In addition, institutions like the African Union Development Agency, African Peer Review Mechanism, African Commission on Human and Peoples' Rights, and African Continental Free Trade Agreement are valuable instruments for fostering deeper integration. Thus, integration should top the AU's priorities to go hand-in-hand with cooperation. The AU Assembly, the heads of states responsible for the final decisions, needs to leverage the benefits of cooperation to pursue integration.

Over the years, the AU has worked towards building consensus around 'commons' for the continent. But a single document reflecting an African foreign policy is conspicuously absent. There are two key reasons why the AU should adopt a foreign policy document, which has always featured as propriety since the organization's inception. First, the gradualists won when two factions of newly independent African countries competed over the design of a continental organization. However, they won with the view of eventually integrating a bottom-up approach that would adopt a common foreign policy which the revolutionaries envisioned. Hence, the time is now. Also, pursuing a single foreign policy by the AU in critical areas will accelerate the common gains of promoting development across the continent, given its available natural, human and organizational resources necessary for such an endeavour. Moreover, a single foreign policy will transform African countries' relations externally. Adeoye's analysis of common African positions shows that a united voice has strengthened Africa's position as a global player.

For instance, the AU can employ the African Continental Free Trade Agreement to create the conditions for African countries to pursue a common trade policy in international affairs. It behoves the AU to draft an African foreign policy leveraging this effective arrangement as a catalyst for its other action plans. On trade, a strategy should be laid out not just on how the AU member countries liberalize the movement of goods and services within the continent but also on its international trade through clear stipulations on a single tax system for goods and services by non-African countries. Equally critical is an AU reform directed at mitigating over-dependence on foreign donors.

Member states can extend that initiative by developing an import duty for non-African goods and services with the 0.2 per cent duty on eligible imports reserved for the financing of the AU. Foreign actors should be made to engage with Africa as a single economic bloc to ensure that both big and small states on the continent rip the benefits of this integration.

The AU should perform due diligence to protect the continent, which has morphed into a dumping ground for substandard goods, expired drugs, technologies and fabrics, all of which are most harmful to the health of African people. A unified trade policy will not only send a strong message but will also rectify the problem by stipulating prerequisites for the quality of goods coming into the continent. Other needed steps, the AU should demand that Multinational corporations hire Africans for both representations and checks and balances as regards labour conditions. Implementing a standard foreign policy will ultimately benefit Africa by mitigating the effects of the prevailing power imbalances transnationally.

A strong case to be made regarding a standard foreign policy involves migration outside the continent. [The Henley Passport Index, 2022](#), has shown record-breaking travel freedom for top-ranking countries, gaining visa-free access, on average, from 57 to 107 countries. However, it has also documented the widest mobility gap, so much so that UN Secretary-General Antonio Guterres labelled it a "travel apartheid". This is because richer states consider African citizens to be high risk at the levels of security, asylum and visa overstaying.

With the Covid-19 outbreak, the African experience has once again shown us why it is essential that Africa sets a single foreign policy on migration. Although the continent has one of the least infections and death rates, it has faced the most discriminatory travel policies. Africans must be treated humanely around the world. Some sub-regional bodies like the Economic Community of West African States already have free movement protocols that should be replicated across Africa. The AU can begin by using each REC passport as the pilot passport for free movement across the continent, making it an international passport. Furthermore, an AU foreign policy on migration should demand reciprocity with non-African states. Thus, if a non-African passport holder can travel visa-free within the continent for three months, then an African passport holder should be accorded the same rights afforded easily to non-Africans to enter most African states, no questions asked.

However, to initiate these steps towards a single AU foreign policy, the Assembly must merge talk with action by implementing these urgent policies. Re-echoing the warnings of the great Kwame Nkrumah, *Africa Must Unite* to deal with challenges that are best addressed continentally. We have remained disadvantaged for too long while still having the opulent resources to achieve our objectives. Deeper integration supported by a single African foreign policy will be beneficial. ■

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LYNDA CHINENYE IROULO

Assistant Professor of Government
Georgetown University
Qatar

li94@georgetown.edu

Pan-European Institute

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JAE SUNDARAM

TRIPS waiver and the failure of multilateralism

Expert article • 3296

Introduction

The multilateral trading system's functioning was reviewed by the Ministers from Member States during the WTO's twelfth Ministerial Conference (MC12) was held between 12 to 17 June 2022 in Geneva. The MC12 produced a set of agreements called the 'Geneva Package' covering several issues, including a waiver of certain requirements concerning compulsory licensing for COVID-19 vaccines (WT/MIN(22)/30/WT/L/1141). This brief paper is concerned with efforts taken by some Member States of the WTO for the partial suspension of the TRIPS Agreement in relation vaccines during the COVID-19 pandemic, and its outcome at the MC12.

The proposals

An unprecedented proposal for partial suspension of TRIPS was submitted by India, and South Africa to the WTO's TRIPS Council in October 2020 in the wake of the COVID-19 pandemic [(IP/C/W/669) (2 October 2020)]. The TRIPS-waiver proposal sought the suspension of 'Sections 1, 4, 5 and 7 of Part II of the TRIPS Agreement ... [and related enforcement] under Part III of the TRIPS Agreement ... in relation to prevention, containment or treatment of COVID-19'. This proposal also covered copyrights, industrial designs, patents, and the protection of undisclosed information, as they related to 'health products and technologies like test kits, masks, medicines, vaccines, components of ventilators like valves, control mechanisms and the algorithms and CAD files used in their manufacturing'. The proposal had the support of over 100 Member States, over 300 civil society organisations, the WHO, the UNICEF, the CESCR, the South Centre, etc.

The original proposal pursued a limited period of waiver, i.e., until 'widespread vaccination is in place globally, and the majority of the world's population has developed immunity'. At the time of lodging the proposal in October 2020, no vaccine or medicine were invented to prevent the spread or treat the COVID-19 virus. The proposal arose out of concerns prevailing in the developing country Member States about the lack of access to diagnostics, vaccines, medical devices, and other health products. At the time when the pandemic broke out, the global supply of antiviral medicines, and PPEs were limited and not easily accessible. The situation was further exacerbated by nationalist approaches to acquiring antivirals, PPEs, etc. Reports also emerged that major pharmaceutical companies had charged developing country Member States higher prices for COVID-19 vaccines than their developed country counterparts.

The proposal was well received in the developing country Member States, but not amongst the developed country Member States and some policymakers. One of the strongest criticisms to emerge came from a former presiding judge of the WTO's Appellate Body, James Bacchus. With the election of President Joe Biden, the US stance on the proposal changed from being totally opposed to offering limited support to text-based negotiations with a view to ending the

pandemic. The US stance, which was a clear departure from its earlier stance on patent rights, sent out a strong signal that it does not oppose others from waiving patent protection for vaccines. Buoyed by the United States' stance, a revised proposal was submitted by India, South Africa, and other sponsors on 21 May 2021, which highlighted the then prevailing emergency, necessitating the need for a waiver. The revised proposal garnered more support from both WTO Member States and other organisations. The revised proposal sought for a waiver to 'be in force for at least 3 years', which period was to be reviewed by the General Council (per Article IX.3 of the WTO Agreement) to determine if further extension was necessary on the waiver. Despite a renewed support for the revised proposal, the European Union (EU), along with the United Kingdom continued to oppose the waiver. The EU in turn submitted its own proposal, which called for the continued use of available flexibilities under the TRIPS Agreement using Articles 31 and 31bis, without recourse to any waivers.

The EU proposal was not agreeable to most developing country Member States, as it was inadequate and did not propose anything different from the existing position outlined under the TRIPS Agreement. The developing country Member States felt that any consideration of the EU's proposal would take away the time needed to engage in useful negotiations for any waiver of the TRIPS Agreement. It should be noted that pursuant to paragraph 6 of the Doha Declaration on TRIPS Agreement and Public Health, which was adopted during the Ministerial Conference in November 2001, recognised that WTO Member States with insufficient or no manufacturing capacities in the pharmaceutical sector the right to compulsory licensing and parallel importing. It is well-documented that the developing country Member States come under pressure from developed country Member States, whenever they seek to exercise their rights contained in paragraph 6. One of the arguments presented by the opponents of the TRIPS waiver is their opposition to the elimination of any incentives that are essential for promoting innovations in the pharmaceutical sector.

By June 2021, the Member States of the WTO agreed on text-based negotiations on the waiver proposal alongside the proposal tabled by the EU. The negotiations that followed primarily focused on the scope and duration of the waiver, and the protection of undisclosed information. The MC12 which was originally scheduled take place in November 2021 was postponed to a later date. The EU, India, South Africa, and the United States entered 'quadrilateral consultations' in December 2021 to find common grounds to strike a comprised deal. A consensus, or a compromise, was reached by the key negotiating parties sometime in March 2022. Although no details were revealed by the WTO, the draft was leaked to the media.

From the leaked documents, commentators were quick to point out that the Quad Proposal was more in line with the proposal tabled by the developing country Member States than the one proposed by

the EU, and that was still far from desirable, and hence unworkable. Besides, the Quad Proposal focused only on patents, and confined to vaccines as opposed to diagnostics and therapeutics, which was much sought after by the developing country Member States. To further complicate matters the Quad Proposal required eligible developing country Member States to i) 'undertake all reasonable efforts to prevent the re-exportation of the COVID-19 vaccine that ha[d] been imported into their territories under this Decision', and ii) required the countries seeking authorisation to list all patents covered for the production and supply of a COVID-19 vaccine. Despite its shortcomings, paragraph 3(c) of the Quad Proposal included provisions to support donations to other Member States.

The Ministerial Decision

On 17 June 2022, after much deliberation at the MC12, the WTO Member States adopted the Ministerial Decision on TRIPS Agreement. Most interestingly, it evolved from the Quad Proposal. Unlike the waiver proposed by India and South Africa, which covered four types of intellectual property rights, in addition to other health products and technologies, the Ministerial Decision covers only patent rights and COVID-19 vaccines. Pursuant to paragraph 1, eligible WTO Member States are allowed to

...authoriz[e] the use of the subject matter of a patent required for the production and supply of COVID-19 vaccines without the consent of the right holder to the extent necessary to address the COVID-19 pandemic, in accordance with the provisions of Article 31 of the Agreement, as clarified and waived in [the Ministerial Decision].

Interestingly, only developing country Member States are eligible to use Ministerial Decision, which is unlike Article 31 and 31bis which is available to all Member States. Paragraph 1 makes available a new waiver of an existing obligation contained in TRIPS Article 31(f), which states that exports under a compulsory licence must be restricted to the non-predominant part of the authorised amount.

The Ministerial Decision uses the phrase 'subject matter of a patent' as opposed to 'patented subject matter' as used in the Quad Proposal. The rephrasing of the Quad Proposal is consistent with the TRIPS Agreement, as it will obviate any question on whether the Ministerial Decision only covers patented vaccines, or those under consideration for a patent. Footnote 3, which was added to Paragraph 3(c) in the final document of the Ministerial Decision, permits the re-exportation of COVID-19 vaccines in exceptional circumstances, to another eligible Member State for humanitarian and non-profit purposes. Another significant change was the removal of Paragraph 3(a) which required countries seeking authorisation to list all patents involved in the process. Further, Paragraph 9 of the Ministerial Decision provides that such decision is without prejudice to existing flexibilities under the TRIPS Agreement, except with respect of paragraph 3(b) that sets out the new waiver.

Conclusion: The failure to agree

The original proposal tabled by India and South Africa gained considerable support from most Member States of the WTO and civil society organisations, but it did not have the support of the patent rights holding developed country Member States. The rights holding Member States were able to steer the negotiations tactically to ensure it did not produce the desired result of a complete waiver as proposed. The decision taken at MC12 demonstrates that the patent holding developed country Member States backed by the powerful lobby of pharmaceutical corporations still hold sway and can shape the outcome of key multilateral negotiations at the WTO. Although the urgency to save lives, a public good, was on the agenda, it was the need to protect private rights, i.e., pharmaceutical patents rights that won the day, leaving many Member States to feel disillusioned on the credibility of the multilateral forum to take decisive action in times of need. If the waiver proposal had been successful, it would have gone a long way to restore trust and credibility in the WTO. In this battle it was Goliath who prevailed, and not David. Even before the failure at the MC12 some countries have proposed the development of an international treaty on pandemics. The MC12 decision prompts one to look for solutions outside the multilateral order and reshape and reform the WTO as a matter of urgency. ■



JAE SUNDARAM

Reader in Trade & Maritime Law
University of Buckingham
UK

jae.sundaram@buckingham.ac.uk

SANJAY KATHURIA

Is South Asia only a figment of the imagination?: Far from it

Expert article • 3297

It is sometimes said that the term South Asia and its eight included countries is not a useful way to think about the region. As evidence, this narrative points to the very low levels of economic cooperation in South Asia; highlights the fact that leaders of the larger countries do not seem to be much interested in talking to each other, at least as a group (the last South Asian Association for Regional Cooperation summit was held in November 2014); and emphasizes the very different trajectories of cooperation between the eastern and western parts of the region.

I have a very different take on South Asia. I have argued that despite hostility between Pakistan and India, and Pakistan and Afghanistan, and mistrust between many other pairs of countries in the region, the idea of South Asia (comprising Afghanistan, Pakistan, Maldives, Sri Lanka, India, Nepal, Bangladesh and Bhutan) is real, relevant, useful and, ultimately, necessary.

Real, because there are strong cultural and linguistic ties between the countries. Many languages are spoken across overlapping borders—Bengali between Bangladesh and West Bengal and Tripura in India, Urdu/Hindu between much of Pakistan and North and Central India, Pashto between Afghanistan and parts of Pakistan, and Tamil between Tamil Nadu in India and the northern part of Sri Lanka. Bollywood is universally loved and has allowed Hindi/Urdu to be understood across much of the region. A shared passion for cricket has seen Bangladesh and, more recently, Afghanistan, join the traditional elite powers of India, Pakistan and Sri Lanka. Indeed, Afghanistan has been a surprise packet and two of its bowlers are ranked in the top 10 in the world in T-20, the shortest format of the cricket game. Such examples can be multiplied, with music, dance and cuisine finding common ground across South Asian borders.

Migration is also quite evident. Many South Asians were born in other countries in the region, and this is not just a post-Partition phenomenon. In 2000, according to the World Bank's Global Migration Database, intra-regional migration was 50 percent of total migration from South Asia.

Relevant, because the world's most successful regions have all had strong intra-regional economic ties. Think European Union, East Asia, North America. South Asian countries are missing a trick in their development playbook by often ignoring the potential of their immediate neighbourhood. Trade within South Asia is only about 1 percent of regional GDP, versus 2.6 percent in Sub-Saharan Africa, and 11 percent in East Asia and the Pacific. The uncertainty in world trade and the push towards relocating supply chains increases the relevance of South Asia.

Useful, because it has been amply demonstrated that there are major economic opportunities that could be unleashed with deeper economic integration. Neighbors can gain from deeper economic ties with each other. A recent World Bank study (<http://bit.ly/2TLkAGHF>) showed that goods trade within South Asia could be three times as high as current trade. And these estimates do not include services, where, arguably, the potential is even higher. If we bring investment

into the picture, since trade and investment are inextricably interlinked, then the possibilities are yet greater (<https://bit.ly/3ozPISA>). In this context, the virtual banning of trade between India and Pakistan since 2019 can be seen as a "self-goal," at a time when workers, devastated by COVID-19, need all the jobs that they can get (<https://bit.ly/2WH2BSInPk>).

For many, the biggest economic prize, at least in the medium-term, is the enormous potential for energy trade. Nepal is sitting on hydro power potential of at least 40 GW, but current capacity is only a little over 1 GW. Northeast India has also installed only about 1.5 GW of its over 58 GW of hydro power potential. The full potential of these and other endowments in the region can only get translated into reality with cross-border power exports. Indeed, the region is very aware of these possibilities, with power trade having expanded almost three-fold over the last decade, to around 17,000 GWh per year. Similarly, Central Asian countries are endowed with significant hydro potential, with ready markets for power exports in neighboring South Asia. Already, the "CASA-1000" project, currently under implementation, seeks to create a 1300 MW interconnection for power export from the Kyrgyz Republic and Tajikistan to Afghanistan and Pakistan. This incipient relationship can be broadened and extended to other countries, with the stated aim of creating the CASAREM (Central Asia-South Asia Regional Energy Market).

This potentially large-scale hydropower trade could, by substitution of fossil fuels, also lead to positive effects on the environment. A World Bank study (<http://documents.worldbank.org/curated/en/846141468001468272/pdf/WPS7341.pdf>) estimates that regional electricity trade, including hydropower, could reduce carbon dioxide emissions by 8 percent over a 25 year period.

Necessary, because some things cannot be managed alone, even by the biggest country in the region. Pakistan, Afghanistan and India are among the most water-stressed countries in the world. Almost 800 million people in South Asia could be at risk of seeing a sharp decline in living conditions, owing to an increase in greenhouse gas emissions (<https://openknowledge.worldbank.org/handle/10986/28723>). Climate refugees could spell a humanitarian tragedy. All of these critical issues require collective action by South Asian countries; the alternative would be sharp increases in human suffering as well as the cost of addressing and mitigating the impact of water shortages and climate change. The Coronavirus crisis has also delivered a tragic reminder that communicable diseases can cross borders very quickly in an age of globalization, and regional and global cooperation can help address the problem and the impact more effectively.

Regional connectivity is another necessary condition for landlocked countries like Bhutan, Nepal and Afghanistan to access world markets. India's Northeast Region is virtually landlocked and requires Bangladesh to ease its access to the rest of India and the world.

Deeper regional cooperation is also necessary to reduce the immense trust deficit in the region, reflected partly in the burden of defence expenditure for several countries in the region.

South Asian countries have two choices. One choice is to continue to let the eastern and western parts of the region move away from each other. This means that while they may benefit from sub-regional cooperation in their respective spheres, especially on the eastern front, the gains for every country will be sub-optimal, because there are important benefits that can only be unleashed through more comprehensive east-west connectivity and economic integration. The most obvious opportunity costs are those relating to energy and transport connectivity, where there could be potentially significant amounts of energy, transport and trade linkages between Central Asia and South Asia. The other choice is to separate economics from politics, and not allow trade and economic exchange to be hostage to political relationships. In this context, even small wins, especially in India-Pakistan economic ties, can benefit the whole region. Initial steps can focus on less controversial aspects like religious tourism, trade in medical products, and cross-LOC trade.

In Amritsar in 2007, former Prime Minister of India Dr. Manmohan Singh had said, "I dream of a day, while retaining our respective national identities, one can have breakfast in Amritsar, lunch in Lahore and dinner in Kabul. That is how my forefather lived. That is how I want our grandchildren to live." It is this kind of vision, seeking to pull down barriers to connectivity, that will accelerate South Asian countries' progress and provide a firmer foundation to their quest for prosperity. ■

SANJAY KATHURIA

Professor, Global Fellow
Wilson Center
Washington, D.C. USA

Senior Visiting Fellow
Centre for Policy Research
India

Non-Resident Senior Fellow
Institute of South Asian Studies
Singapore

Twitter: Sanjay_1818

REENA MARWAH

India's economic multilateralism in the Indo Pacific: Abundant caution

Expert article • 3298

Introduction

The rise of the rest or Easternization of the world—that took place in this century, has distinctly turned global attention towards the Eastern Hemisphere. And more so, as the geopolitical and geoeconomic construct of the Indo-Pacific region came in vogue in this Century. When Shinzo Abe, the late Prime Minister of Japan addressed the Indian Parliament in August 2007, he first articulated his idea of Indo-Pacific, as 'Greater Asia' conjoining two oceans. Indo-Pacific comprises of nations with differing levels of economic developments and size. ASEAN as a successful regional bloc is considered as central to the Indo Pacific. Rising merchandise trade has helped the growth of countries in this region. It was US President Trump, who despite withdrawing from the Trans Pacific partnership, proposed the Free and Open Indo-Pacific (FOIP) strategy during his Asia tour in 2017 and at the 2017 APEC Summit in Vietnam. The deliberations on the need for the ASEAN to evolve a unified vision and strategy for the Indo-Pacific then commenced. The ASEAN Outlook on the Indo Pacific and India's Indo Pacific Oceans Initiative were both launched in 2019. Other countries in the region have also articulated their own visions of the Indo Pacific.

This article seeks to elucidate India's economic multilateralism in the Indo-Pacific viz. through two major economic initiatives; i.e the Regional Comprehensive Economic Partnership (RCEP)¹ which is now comprised of 15 nations and the Indo Pacific Economic Framework, comprising 14 partner countries.

Regional Bonhomie: India emerges as an important stakeholder

India has been viewed as an increasingly reluctant trade partner by not only western nations, but also by countries in Southeast Asia, with whom the reinvigorated format of the 1992 Look East Policy as the Act East Policy in 2014, brought it with hopes for robust trading relations. The parleys and discussions for the negotiation of the RCEP which picked up momentum in the second half of the second decade of this century, concluded in November 2019, with India announcing its exit from this largest multilateral trading agreement. Delhi, which registered trade deficits with 11 RCEP members in 2018-2019, and through the pandemic, has been reluctant to make deep cuts in tariffs for fear of goods flowing in from other countries, especially China with whom it has registered trade deficits of almost USD 70 billion in 2021-22. India has also demanded greater market access for its service professionals, which has yet gone unheeded. Evidently, India's concerns related to Country of Origin had not been addressed and trade negotiators from India were averse to being caught in the net of rising dependence on Chinese imports routed through ASEAN. Moreover, in the political arena, the Sino-India relationship witnessed difficulties during the two armies clashing in Doklam in 2017, with relations further nose-diving post the June 2020 clashes in the Galwan Valley.

While India had walked out of RCEP, it was not unwilling to continue engagement with Quad countries including Japan, USA and Australia, which came together in 2017. Initially a chrysalis under Japan's strategic formulation, Quad has unfolded as a global coalition of major strategic players who are committed to making their footprints firmly grounded in the strategic space. Although none of the four original Quad countries position this grouping as being anti-China, the Chinese have continuously alluded to it as being an Asian NATO.

The Quad countries, have also been banding together as the Quad Security Dialogue (QSD), despite China's continuing belief that the Quad would dissipate as "sea foam." India with other QSD partner countries have had sufficient *raison d'être* for staying together. The Himalayan clashes of 2020, as well as China's BRI projects in India's immediate neighborhood continuously challenge its sovereignty. With the China threat escalating, Quad appeared as a promising grouping for India to align with. Trump's America First campaign led him to challenge China in more ways than one. While the US-China escalating trade war in 2020 and an increasingly (post-pandemic) aggressive China provided reason enough for the USA to sail its aircraft carriers in the South China Sea. Australia has been the target of China's arm-twisting in both the economic and political arena.

Abe's successor, Suga fully endorsed his predecessor's vision for the Quad and the Indo-Pacific reassured allies. Interestingly, India's Prime Minister Modi and Japanese Prime Minister Yoshihide Suga in their first telephonic conversation on September 25, 2020, decided to take the bilateral special strategic and global partnership to a new level, rearticulating the imperative for a "free and open Indo-Pacific." This came in the backdrop of both India and Japan being at the receiving end of Chinese aggression with a stand-off with the Chinese Army in Ladakh and muscle-flexing in the Senkaku Islands.

Weeks later on October 6, 2020, Japan hosted the second Australia-India-Japan-U.S. "Quad" foreign ministers' meeting in Tokyo, affirming the importance of an aligned vision for the Indo-Pacific region. With Quad in mind, in April 2021, the Japanese Prime Minister visited the United States after Mr. Biden assumed the President's office. Even as Joe Biden continued his predecessor's trade policy towards China, he decided to reassert the position of the United States through the Indo-Pacific Economic Framework or IPEF, which has been formed jointly by the US and partner countries of the Indo-Pacific region on the sidelines of the Quad Summit in Tokyo on the 23rd May, 2022. The IPEF, evidently, is an important plank of US President Joe Biden's strategy to counter growing Chinese clout in the Asian economic sphere. Los Angeles, in USA was the chosen site for the first in-person ministerial meeting of the 14-nation bloc in early September, 2022, demonstrating the significance of the Pacific Ocean.

¹ Regional Comprehensive Economic Partnership (RCEP), includes ASEAN countries, India, China, Japan, South Korea, Australia and New Zealand.

It was jointly declared that the IPEF would focus on four pillars, viz. Connected Economy, which covers fair and resilient trade topics including the seven subtopics of labor, environment and climate, digital economy, agriculture, transparency and good regulatory practices, competition policy, and trade facilitation (led by the U.S. Trade Representative, or USTR); Resilient Economy, which covers supply chain resilience topics; Clean Economy, which covers infrastructure, clean energy, and decarbonization topics; and Fair Economy, which covers tax and anti-corruption topics. Even as countries could choose to join any of the four pillars, they would be required to commit to all aspects of every pillar they joined.²

While the joint declaration was on the expected lines and other member nations joined all the four pillars, India decided to join only three pillars of the IPEF. India has opted out of the trade pillar for now. This has prompted several experts to reiterate India's unwillingness to join regional trade groupings, despite its seeking global stature as the fifth largest economy of the world and a growing market.

The responses by India's Commerce and Industry Minister Piyush Goyal included a lack of clarity on issues as environment, digital trade, labour and public procurement. Moreover, India needed to understand the benefits that would accrue to countries. The minister also pointed out that India was in the process of firming up its digital framework and laws, especially on privacy and data.

Conclusion

When India opted out of RCEP, ASEAN countries as well as Japan and Australia were disappointed. They had viewed India as a balancer to China in the mega trade deal. However, three years later, when India has yet again exited from the trade pillar of the IPEF, the reactions are muted. India's partner countries understand that India is not adequately prepared to handle negotiations on labour, environment standards and digital trade. The fact that India has joined the other three pillars of resilient, clean and fair economy make India an important partner of the IPEF. India has also reiterated that despite its focus on self-reliance, the nation has signed comprehensive partnership agreements with UAE as well as Australia and is negotiating trade deals with the UK, Canada and EU. It has also agreed to including chapters regarding new-generation trade issues.

Japan had earlier stated that without India, RCEP will not serve much purpose. All other 13 nations would also prefer that India joins the trade pillar. The United States Trade Representative or USTR, which will be responsible for this pillar of connected economy must

provide an in depth understanding of several visible and invisible issues including trade facilitation and competition among others for bringing India on board with the holistic vision of the IPEF. Given the war in Ukraine, supply chain disruptions and economic uncertainties, it is anyone's guess when and if India would join IPEF's trade pillar!

India's Indo-Pacific vision exemplifies its ambition of being a "leading power" and it must be engaged as the author of the new order in the Indo-Pacific. Even so, it is merely the beginning of a decadal journey, which will see India shoulder the expectations that befit the world's largest democratic economy. To do this, Delhi must constantly reassess the dimensions of change underway, visualize the possibilities that are on offer, anticipate the attendant risks and author the new order arising out of Asia. ■



REENA MARWAH

Professor

Jesus and Mary College, University of Delhi
India

rmarwah@jmc.du.ac.in

² Apart from India and the US, the 12 other members of the IPEF are Australia, Brunei, Fiji, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. All the other member nations have joined IPEF's four pillars. The IPEF partner countries represent over 40 per cent of the global economy.

ARPITA MUKHERJEE & NIDA RAHMAN

Negotiating FTA with the EU: India's perspective

Expert article • 3299

1 Introduction

India and the European Union (EU) have started renegotiations for a comprehensive trade agreement, which is expected to be signed by December 2023. Being key trade partners, the dividends from an EU-India FTA are immense. In 2021, while the EU was India's third largest trading partner, with a share of 10.8% of India's total trade, India was the tenth largest trading partner of the EU, accounting for 2.1% of the EU's trade. With global supply chain resilience initiatives, India can be a much larger player in the supply chain of EU companies. India's merchandise trade surplus with the EU increased in 2021. The EU has been a prime source of investment in India totalling around €87.3 billion in 2020, with presence of around 6000 European companies. India and the EU are cooperating at multiple regional forums such as the Indo-Pacific and, G20. A comprehensive trade agreement will further strengthen the economic gains on both sides and, Indian companies will have access to the EU market on equal footing as companies from other EU FTA partner countries like Vietnam.

The India-EU partnership was renewed with the initiation of the India-EU Strategic Partnership: Roadmap to 2025, the establishment of a high-level dialogue on Trade and Investment in 2020 and High-Level Trade and Technology Commission on 25 April 2021. After a pause of nearly a decade, the bilateral trade discussions gained momentum in 2021, following the conclusion and issue of the joint statement of the India-EU Leader's Meeting on 08 May 2021. At present, India and the EU are negotiating a stand-alone investment agreement, a geographical indication (GI) agreement, along with the FTA. The first round of FTA negotiations concluded during 27 June-01 July 2022. The second round of negotiations is scheduled for October, in Brussels.

2. Some roadblocks

While both sides understand the importance of the FTA, there are wide differences between India and the EU on the scope and coverage of the agreement. The EU wants trade agreements to deliver significant tariff liberalisation, add regulatory issues and cover areas like digital trade, government procurement, and trade and sustainable development, many of which have not been covered or partially covered under India's existing trade deals. In tariff negotiations, India and the EU, have hit several bumps in sensitive sectors like wines, automobiles and auto-components and dairy, where tariffs are high, sometimes above 100% in India. On the other hand, Indian exporters, especially the SME sector, sometimes find high EU standards as non-tariff barriers. As India is a services-driven economy, it wants the EU to relax norms concerning visas and work permits for Indian professionals, which is in the domain of the member states and not the EU. The EU is ambitious in negotiating Mode 3 (commercial presence) and seeks liberalization of FDI policy for sectors such as retail, insurance and banking and non-discriminatory treatment

for EU businesses in India. There is hardly any study in India on how to address issues like GI and sustainable development under trade agreements. In digital trade, India wants the EU to give a Safe Harbour status, while the EU looks forward to a digital trade chapter where data sharing can be with trust.

3. Way forward

Several Indian companies in sectors like textiles and apparel and many agriculture products have shown enthusiasm for a trade deal with the EU, which is looked upon as one of the most beneficial trade agreements by many export promotion councils in India. In any trade agreement, there will be some gains and some losses. If both sides see beyond the differences and resolve the long-pending issues, this agreement will be mutually beneficial. The large Indian market and the democratic setup offer immense opportunities to EU companies. There can be collaborations between government, regulators, business councils, SMEs, start-ups and large companies. Jointly companies can explore third-country markets.

As India and the EU celebrate 60 years of relations this year, the FTA would serve as a sturdy ground to achieve the ambitions of 'Make in India', making India a manufacturing and export hub and integrating with the global value chains. As the economic landscape is thronged with protectionist regimes, the opening of India and the EU markets would set a great example. To move forward with the FTA and strike a comprehensive deal, it is important that the two sides are willing to open up and the businesses are well prepared for it. The national interest must be put ahead of the interests of select sensitive sectors. As the India-EU FTA received a new lease of life, it is important for both sides to ensure that the negotiations should not halt this time. ■

ARPITA MUKHERJEE

Professor
Indian Council for Research on International
Economic Relations (ICRIER)
India

NIDA RAHMAN

Consultant
Indian Council for Research on International
Economic Relations (ICRIER)
India

RAJESH CHADHA & GANESH SIVAMANI

Critical minerals needed for India's green transition

Expert article • 3300

Minerals are all around us. They are the raw materials needed to manufacture all everyday objects, including buildings, cars, and mobile phones. They are also used for developing green technologies the world requires for transitioning away from fossil fuel-based energy and transport to meet the goal of mitigating climate change. India, which emits just under 7% of the world's greenhouse gas emissions, has made sizeable pledges in its Nationally Determined Contributions. These include achieving 50% cumulative electric power capacity from non-fossil fuel-based sources by 2030, compared to the 41.6% it has today and reducing the emissions intensity of its gross domestic product (GDP) by 45% by 2030 from 2005 levels. To meet these goals, India, as is the case with the rest of the world, will require a substantial scale-up in manufacturing and deploying clean energy technologies and electric vehicles. Consequently, the demand for minerals needed for producing these green technologies shall grow rapidly.

Mineral resources, either in their primary or processed form, which are essential for the production process of an economy, and whose supplies are likely to be disrupted on account of non-availability or risks of unaffordable price spikes, are referred to as "critical minerals." Additionally, they lack substitutes and effective recycling processes. The geographic concentration of extracting and processing these minerals may also adversely affect their supply risks. Most critical minerals are mined in a handful of countries – Australia, China, DR Congo, and some parts of South America – while much of the processing is done in China. For example, three-fifths of rare earth minerals, essential for manufacturing clean energy technologies, electronics, and defence technologies, are mined in China, while more than four-fifths are processed there.

Supply chains of critical minerals may also be affected by unexpected events with global consequences, such as the COVID-19 pandemic and the Russo-Ukraine war. A country's trade policies also affect these mineral supply chains, such as when Indonesia, with the largest nickel reserves in the world, banned the exports of the mineral in favour of developing a domestic processing industry. Countries must be ready to deal with these challenges in meeting their critical minerals needs. The USA, Japan, China, and the EU have periodic assessments of mineral criticality and strategies to minimise risks to the supplies and their economies. India, however, lacks in this front, with just two such evaluations. The Centre for Social and Economic Progress (CSEP) recently updated India's critical minerals assessment.

In a CSEP study titled, "Critical Minerals for India: Assessing their Criticality and Projecting their Needs for Green Technologies," the authors computed criticality levels of 23 minerals used in India's manufacturing sector. This paper summarises the results of this study. The assessments were made considering two axes of criticality – economic importance and supply risks – with several indicators under each. The economic importance was estimated using the share of

the mineral's consumption in the gross value added (GVA) in the manufacturing sectors, the substitutability of the mineral, and the mineral's GVA multiplier coefficient. The supply risks were estimated using the Herfindahl-Hirschman concentration index; the quality of governance of mineral supplying countries; end-of-life recycling rate; import reliance of the mineral; substitutability in mining; and India's mineral self-sufficiency.

By combining the various indicators under each axis, the criticality of each mineral was computed. Niobium, lithium, and strontium were the most important for India economically, while heavy rare earth minerals, niobium, and indium had the highest supply risks. The study also projected large quantities of some of the critical minerals would be required for manufacturing solar panels, wind turbines and electric vehicles. While India is well-endowed with minerals, there is slack in exploring deep-seated and critical minerals, and starting new mining activities takes time. For minerals with no known resources within India, the country must look toward creating trade agreements and acquiring foreign mineral assets to meet its mineral needs.

Securing the critical minerals required for manufacturing green technologies must become an urgent priority, or else India – and the rest of the world – risks falling short of its climate change mitigation targets. ■

RAJESH CHADHA

Senior Fellow
Centre for Social and Economic Progress
New Delhi, India

rchadha@csep.org

GANESH SIVAMANI

Research Associate
Centre for Social and Economic Progress
New Delhi, India

gsivamani@csep.org

D SHYAM BABU

As corporate globalisation proved catastrophic, we must focus on globalisation of values

Expert article • 3301

The world is in the throes of a new Cold War... or the old Cold War, which was thought to have died along with the fall of Berlin Wall in 1989, somehow extricated itself from the rubble, regained its vigour and is now set to wreak havoc on the world. The world in 2022 appears similar to the one in 1952: Russia and China are united by an ideology that rejects civil liberties and freedom of the individual, while the United States and its allies swear by basic freedoms and free enterprise.

Historians tell us that nothing in history is inevitable. Russia's invasion of Ukraine, or China's bellicosity around its rim is not inevitable. Globalisation that we were conditioned to praise created the current crisis. To be critical of globalisation, one doesn't have to ignore the benefits of free trade and its role in reducing global poverty. However, for three decades, globalisation was turned into a Trojan Horse to smuggle in ideas and arguments that almost delegitimised conventional wisdom. The *Zeitgeist* of the age of corporate globalisation can be summed up in two points.

One, the logic of free trade was stretched to mean the triumph of market over the state. The 'market forces' were imputed with foresight and legitimacy; the market works for the good of all just like the way the Sun rises every morning for everyone. Since the corporates are the market forces, they must have the freedom to operate to actualize the promise thus implied. It was a minor detail that overseas operations of big companies might be in conflict with the home country's core values.

Two, there are no universal values (which is a postmodern sleight). Francis Fukuyama published his seminal essay, "The end of history?", just before the fall of Berlin Wall, with the thesis that 'liberal democracies' and 'free market capitalism' became global templates: "What we may be witnessing is not just the end of the Cold War," Fukuyama wrote, "or the passing of a particular period of postwar history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government."

It could have been a legitimate thesis if it were phrased differently. The fact is - 'the West' shunned its local projects like Nazism and Fascism, and adopted universal values; liberal democracy and free markets in the west are not even two centuries' old. The unfortunate outcome of this cultural appropriation is the argument that these values are alien to the non-west, which is now the mantra of autocrats and their cheerleaders. If liberal democracy is a western patrimony, it would be illogical to 'impose' western values on others.

The result? The Germans used the slogan *wandel durch handel* (change through trade) to justify their dealings with Putin's Russia, even though there was never any evidence that trade produced positive change in the behaviour of autocrats. From Chechnya to Georgia to Syria and Crimea, Russia tried to disabuse Germany of the idea that trade would change its behaviour and action. The American

experience is even worse: having bought into this moral relativism that non-west is alien to liberal democracy, American companies operating especially in China allowed themselves to be only guided by their profits. Companies such as Boeing in fact lobbied for China when their government sought to raise concerns over human right violations.

Therefore, the present angst in world politics is a man-made catastrophe. The sooner the world embraces conventional wisdom the better for all: that nation-states are guided by values and principles enshrined in their laws, and their citizens and corporates ought to follow them at home and abroad. There are two key processes to usher in moral clarity and unity of purpose and of action. Fortunately, both the processes are underway.

One, the process of cultural appropriation of universal values must be reversed. For quite some time, 'the West' has been delocalized, i.e., that expression no longer refers to Europe and North America. Historian Stephen Kotkin defines the west as an institutional category, not a geographic one. For him, though Russia is European but not west, and Japan and South Korea are not European but very much a part of the west. Similarly, former British Foreign Secretary Liz Truss talks about the need for a network of liberty to build on shared values and to defend freedom and liberty of individuals and nations.

Two, we must build a comity of nations based on liberal democracy, freedom of the individual and free trade. A good example is QUAD grouping consisting of Australia, India, Japan and the United States. AUKUS (Australia, the United Kingdom and the US), the recent defence alliance, is yet another example of three nations from three continents coming together to cooperate on shared values. These are unlikely to remain groupings of threes and fours, and would expand as and when like-minded nations joined them. It is time the world had reminded itself that all human beings are endowed with certain inalienable rights, and any argument to the contrary is mediaeval, racist and dangerous. Globalisation of values is the need of the hour.



D SHYAM BABU

Senior Fellow
Centre for Policy Research
New Delhi, India

dshyambabu@hotmail.com

MAXIM MEDVEDKOV

Some new realities in international trade

Expert article • 3302

Trade and economic sanctions imposed on Russia are unprecedented not only in their scope, but also in their non-compliance with the basic rules of the WTO. These rules are based on the principle of non-discrimination, they also prohibit to introduce trade bans and other restrictions of trade. If the Russian government decides to challenge these sanctions in the WTO arbitration, Western trade lawyers will obviously have to work hard trying to justify these bans by the WTO security exceptions. These exceptions allow WTO members to violate basic rules in limited number of cases. It would be necessary for lawyers to demonstrate that all these bans and restrictions in trade with Russia were taken for the protection of "essential security interests" of the countries which introduced sanctions.

WTO arbitration explained few years ago, that such "interests" should include 1. the protection of (their) territories and of (their) population from external threats, and 2. the maintenance of law and public order internally.

However, the declared aim of sanctions is very much different – to injure and to weaken Russian economy. Hence, lawyers should be able to explain how economic weakness of Russia may contribute to protection of territories and of population of countries which introduced sanctions. And why decision to stop big energy supplies from Russia to the EU, for instance, will be beneficial for stability of their countries' public orders.

Lawyers are well paid to do their job in courts properly, and it is more sensible to refrain from evaluating their perspectives to succeed or fail in possible WTO dispute. However, the lawyers may hardly help to avoid imminent material changes that sanctions bring to the multilateral trading system.

It is rather clear that sanctions not only contributed to undermining of the WTO's credibility, but also encouraged many business representatives to seriously think how to ensure the security of supply for their production as well as of their assets.

Of course, far not all countries can afford to start production of passenger aircrafts, as Russia did in response to Western intentions to land Airbus and Boeings which form the basis of Russian civilian air fleet. Russia's plan is to replace about 500 foreign aircrafts with domestic aircrafts. Given the size of the country this is the vital goal that has to be fulfilled. And this means that Boeing and Airbus will not only lose the Russian market forever, but will get a competitor that sometimes will find its niche in world market. After all, there will be buyers for whom it will be important to diversify the sources of supplies of aircrafts, and their spare parts and services for their maintenance. After all, hardly anyone needs a cart for which you cannot buy a wheel, or a horse that cannot be shod.

A similar story will unfold in many other industries such as software, engineering, semiconductors manufacturing or agriculture. The supply chains have been artificially damaged or broken, and this is forcing governments and companies to look for new development

strategies. From now on the reliability of a supplier will be measured not only by traditional criteria, but also by the willingness of its government not to interfere for political reasons in the normal course of economic cooperation between businesses.

The transition to green economy is another plan that has chances to enter into conflict with the WTO law. In addition to the border adjustment mechanism, which WTO consistency is not obvious, the other elements of the EU Green Deal provide for the diversification of supply and for the gradual phase-out of carbon use. The list of the Russian sanctioned goods is surprisingly similar to the list of goods subject to the EU border adjustment mechanism. Sanctions regime, in fact, allows to rehearse some of the Green deal elements and test their effects for the economy. For instance, prohibition or sharp reduction of imports of the Russian energy resources, metals, fertilizers are already causing serious damage to many countries. And what will happen to goods from other parts of the World when all Green Deal measures will be implemented, even if in milder form? It is hardly worth expecting enthusiastic participation in such economically unviable exercise, no matter how good the goals are.

All trade wars end at some point, and their participants sit down at the negotiating table. Then the main issues will obviously be related to security - trade, technological, environmental, food, - and to trust. To ensure trust the new tools will be required, that will guarantee more effectively the implementation of arrangements. Future negotiators will have to show wonders of ingenuity in order to agree upon such tools. And even if successful, distrust may still persist. Perhaps until the time when human negotiators are replaced by negotiating robots?

Fool me once, shame on you; fool me twice, shame on me. Old Russian proverb. ■



MAXIM MEDVEDKOV
Higher School of Economics
Moscow, Russia

NINEL SENIUK

Russian-Chinese trade: Current trends and prospects

Expert article • 3303

Russian-Chinese trade, despite the volatility of its dynamics, has a solid history and very stable and positive trends. These trends are objectively determined by the high potential for complementary of national economies with a dynamically changing trade structure. In the 90s Russia acted as an exporter of wide range of goods to China, including a significant share of machinery and industrial equipment, albeit with a relatively modest volume of trade. In particular, in 1998 it amounted to only \$5.4 billion, while Russian exports were twice as high as imports from China. On the other hand, receiving a noticeable and growing flow of Foreign Direct Investment after 1992, especially enhanced after country's accession to the WTO at the end of 2001, China rapid industrialization and gradual transformation into a "Global Factory" led to the fact that starting from 1994, domestic consumption of oil and gas began to lag behind its domestic production more and more. Over the time, these trends has increasingly strengthened the fuel and raw materials dominant in Russian export, especially after the "Power of Siberia" gas pipeline was agreed in 2009 and in 2013/14 put into operation. Further, similar projects "Yamal LNG" and "Arctic LNG-2" were implemented, which made it possible to increase China's share in Russian foreign trade from 10.5% in 2013 to about 19% by the end of 2021 (more than \$140B). In other words, over 23 years, mutual trade has grown 26 times.

In May 2022, an unprecedented surge in Chinese imports, due to an almost threefold increase in the supply of oil under West sanctions, purchased by China with a discount of 20-30 percent. At the same time, we saw the strengthening of the dynamics of mutual trade in the period after the beginning of the US-China tariff war, starting from 2017, and the rapid (by almost 48% to \$8.92B) growth of Chinese exports in the first two months of 2022 against a deep decline to \$3.8B in March, after the outbreak of Russian war in Ukraine, most noticeable compared to the consequences of the COVID-19 pandemic. This is 7.7% lower than the same period in 2021.

As a result, China with an indicator of \$140.7B in mutual trade, according to the Federal Customs Service (FCS) of Russian Federation, increased by 35.2% over the year. Chinese data, due to different methods of accounting in Foreign Trade for the cost of intermediaries from third countries, show higher figures: mutual trade in 2021 reached \$146.9B, while Russian exports amounted to \$79.32B against \$67.57B for imports. Despite these discrepancies, they all indicate that China confirms its place as Russia's first trading partner, far ahead of its closest competitor - Germany with \$57B and growth rate of 35.7%. At the same time for China Russia is only the 9th partner, where the U.S. leads with a trade turnover of \$755.7B, although it leads in terms of export growth to China (an increase of 49.2% in 7 months 2022). Against this background, the mechanism of the noted decline, due to the fear of Chinese firms to receive secondary sanctions, also becomes quite clear, if we take into account the Kazakh re-export that soared skyward. In particular, in the first half

of 2022, Kazakhstan increased re-export of Chinese smartphones by 2000 times (from \$36.8K to \$78M) and processors by 121 times.

As for the structure of mutual trade, the share of hydrocarbons due to Russian FCS data is 67.5%, including 50.8% for the crude oil and products, the supply of which increased by 45.53% in 2021 against the backdrop in the supply of metal (by 45.58%) and chemical products (-18.42%). However, in absolute terms, these contributions are not comparable, if the cost of Russian oil supplies exceeds \$40B, then the volume of metal supplies is only \$1.2B and \$1.3B in the case of chemical products. At the same time, in the structure of Russian import from China in 2021, almost half (49.2%) are machinery and industrial equipment, compared to 47.6% in 2020. Following the results of the Russian-Chinese summit in Beijing on February 4, 2022, such dynamics gave the reason to draw up a roadmap for further growth in joint trade up to \$200B by 2024, although Xi Jinping raises the bar to \$250B. To a large extent, the achievability of this task is facilitated by the rapid dynamics of the increase in the share of national currencies in mutual settlements, due to which the share of the yuan, for example, increased 3.5 times over 7 years, from 3.1% in 2014 to 17.9% in 2021.

Such dynamics with the leading role of the raw materials from Russian exports and the engineering component from China, taking into account the anti-Russian sanctions of the West and the uncertainty of the prospects for the continuation of the US-Chinese tariff war, looks realistic, but no means clouds. On the one hand, it is very eloquent that through this entire period, due to fear of anti-Russian sanctions, the real problem for Russian entrepreneurs was opening an account in a Chinese bank. For the same reason, large companies in China are also cautious. In particular in March 2022 the leading Chinese oil company "Sinopec" announced the termination of negotiations with the Russian partner "Sibur" on investing in the construction of a new plant as a part of the Amur Gas Chemical Complex in the amount of \$500M. At the same time, China almost blocks Russian exports from Primorye region or buys everything for next to nothing, primarily in the fish and seafood trade, and many influential Chinese believe that during the sanctions, Russia received more from China than given in return. First of all, we are considering the latest Russian developments in the field of weapons, which significantly affects the mood in the party leadership on the eve of the 20th Congress of CPC. In addition, China is counting on creating special privileges for Chinese business in Russia, but has not receive them yet.

On the other hand, Russia also counted on greater support from China in solving its economic and technological problems resulting from direct sanctions as well as the application of the so-called Foreign Direct Product Rules (FDPR) to it by the United States and partners. Especially when it comes to high-end semiconductors, chips and telecommunication equipment, as well as bio pharmaceutical production, which is critically dependent of the supply of imported

substances and new technologies. At the same time Russia is far from getting everything it needs from China, and besides, it really does not want to act as a junior partner of Beijing. Another important factor of psychological deterrence is the unwillingness of Russian partners to effectively interact with Chinese business due to their Western-centric mentality, as well as the lack of proper competence and experience.

In general, the actual state of Russian-Chinese trade can be diagnosed as volatile growing on the basis of current prices, however close to saturation, determined by balance of opportunities and needs and global price environment, primarily for energy resources. This state also predetermines the immediate aforementioned future, which looks realistic. It is this period of the nearest future that is essentially bifurcational in nature with a high degree of geo-economic, geopolitical and even geostrategic uncertainty and complexity. Undoubtedly, this is a time of change and the transition of the world order to a certain qualitatively new stage. At the same time leading actors, to whom undoubtedly belongs China and Russia, are trying to find zones and points, if not stable, then at least short-term global equilibrium, which generates volatility in the observed trade and economic dynamics in the context of global interdependence. And it is this volatility that will most likely accompany the dynamics of Russian-Chinese trade in the nearest future. ■

NINEL SENIUK

Dr., Associate Professor
NRU HSE
Russia

seniuk.ninel@gmail.com

ANDREAS RASPOJNIK & ADAM STĘPIEŃ

The future of EU-Russia collaboration in the Arctic

Expert article • 3304

The past few months have shown that Arctic international cooperation is not shielded from political crises originating elsewhere. The circumpolar North has often been portrayed as an exceptional space of cooperation and dialogue with all states and actors in agreement that it should be and remain a zone of peace. Recently, this notion has been challenged by emerging mistrust and tensions between the West and Russia. Changing global dynamics and emerging global political trends are increasingly affecting the Arctic, potentially deteriorating a once seemingly stable status quo.

The situation in the Arctic following the Russian invasion of Ukraine is complex. The economic fallout of the war has severe implications for Arctic investments, businesses and resources. The work of the Arctic Council, Barents Euro-Arctic forums, the Northern Dimension and bilateral EU-Russia cooperation programmes have been suspended, with only projects not involving Russian participation still being carried forward by the remaining seven (western) Arctic states. Similarly, research cooperation with Russian institutions has effectively stopped. And yet, some technical cooperation between Russia and West in the Arctic continues, and the western Arctic states have – so far – given no indication that they wish to abandon Arctic cooperation as a circumpolar affair, seemingly still pondering the possible options.

These developments obviously also affect the European Union's Arctic agenda. Over the course of the last fifteen years, the Union established itself as a recognized Arctic actor with an obvious presence in the North in terms of geography, legal competence, market access, its environmental footprint and contributions to Arctic science. Yet, in developing its Arctic policy since 2008, EU policymakers have barely touched upon the issue of its Arctic relationship with Russia.

This lack of a Russian dimension in the EU's Arctic policy has always seemed puzzling, given the bilateral economic and resource dependencies, Northern Dimension projects, cross-border cooperation initiatives and the generally good institutional ties spanning across the European Arctic. The region seemed to be an almost inappropriate topic for (open) dialogue with the Russian Federation.

Considering the context of current EU-Russia relations and the absence of past Arctic dialogue, the Arctic nevertheless constitutes one space of interaction between the EU (or the West, more broadly) and Russia, which seems the least problematic or mutually hostile; particularly if compared to the Baltic (Sea) region, Central-Eastern Europe, the Black Sea, the Middle East, the Caucasus or Central Asia. Even if almost all EU-Russian interactions in the Arctic are currently severed, the region could prove to be one of those spaces where some resetting of relations could occur early on – if and when the level of tensions eventually goes down following some yet unknown resolution of the war in Ukraine or regime collapse in Russia. Even now, the EU and its Member States interact with Russia in a number of Arctic-relevant international processes, be it on long-range pollution, climate change, or within negotiations on biodiversity in areas beyond national jurisdiction.

At the same time, many elements of cooperation in Northern Europe (for instance in Kolarctic, the Barents Euro-Arctic Council or the Northern Dimension) had been advantageous for western partners over the past decades, e.g. positively influencing environmental issues in northwest Russia, which directly also affected the environment of its Nordic neighbours. Such direct benefits, ranging from environmental issues to the management of common resources, can limit the opposition also among those EU Member States who currently perceive all relations with Russia to be toxic.

The Arctic's institutional complexity does provide a certain degree of flexibility as cooperative processes can continue on many different levels, even though the Arctic Council is on pause. History has shown that also in times of crises – severe crises – and especially when these crises eventually subside, collaboration is possible. Such shield is possible if cooperation mechanisms hold a certain symbolic value or are feasible enough from a practical perspective. The Arctic theme could emerge from the current tensions as one of such areas for practical cooperation between EU and Russia. While it is currently difficult or almost impossible to discuss a return to cooperation when Ukrainian civilians are killed by Russian shelling, policymakers in Brussels (as well as in Paris, Berlin, Warsaw, Vilnius and Tallinn) should consider the long-term options, and limit the level of hostility towards Russia in areas irrelevant for the current Russian war effort and economy, where cooperation can more easily be rekindled, and where practical cooperation is beneficial for the European Union and its Member States. Many Arctic themes tick these three boxes. ■



ANDREAS RASPOJNIK

Senior Researcher
Fridtjof Nansen Institute
Oslo, Norway

araspojniik@fni.no



ADAM STĘPIEŃ

Researcher
Arctic Center, University of Rovaniemi
Rovaniemi, Finland

adam.stepien@ulapland.fi

RUSLAN MUSTAKIMOVICH SHAFIEV

Russia and the integration process in the Eurasian space

Expert article • 3305

The priority areas for reducing the risks of Russia's regionalization and the formation of a common economic space in the context of the development of the EAEU, primarily of the EAEU member countries of the WTO, taking into account the existing law enforcement practice, include:

1. The first direction: the need to liberalize trade in services. The task is more than difficult, since it affects the sphere of internal regulation of individual countries of the Union.

The formation of a single multilateral mechanism for free trade in services is currently inappropriate, since a general agreement will require a large number of exemptions, agree on sensitive concessions, and, of course, become a source of an increased number of conflicts and contradictions. This will certainly reduce the value of the mechanism itself, which is undesirable. Two trends can be traced in this direction.

First, the liberalization of the service market within the following states (Russia, Belarus, Kazakhstan) in the formation of a common Eurasian economic space.

Secondly, the liberalization of the service market between the EAEU member states of the WTO (Russia, Armenia, Kyrgyzstan + Moldova) and the rest, it is desirable to carry out in the format of WTO obligations.

Given these trends, it is advisable to regulate trade within the Union in the format of bilateral mechanisms, which will include individual markets of individual countries that are of mutual interest to all EAEU states, including those whose service markets are not yet sufficiently developed.

2. The second integration direction of the EAEU development, relevant for Russia to reduce the risks of regionalization, is the legislative support for migration flows of labor, monetary and investment cooperation between the Union countries.

The proposed agreements on the regulation of labor migration should stimulate an additional influx of qualified specialists and labor force into the national economies of the Union States; include migration flows in the EAEU space in the legal format and optimize them taking into account the real needs of the internal labor market. The logic of the development of integration processes in the labor market in the EAEU demonstrates the need to accelerate the work on harmonization of the existing legislative framework, which should meet the partnership interests of the interacting parties. Obviously, in addition to improving the legislative and regulatory framework in the labor migration interaction between state, public and private institutions.

If we talk about the regulation of labor migration in the EAEU, it should be taken into account that the imperfect regulatory framework in this area, including the registration of labor migrants, reduces the level of investment confidence in the EAEU space and causes dissatisfaction with partners from near and far abroad. This, of course,

slows down the modernization process associated with the active attraction of foreign investment, specialists and experts, complicates the dialogue that has begun on moving towards a visa-free regime between the EAEU countries and the EU.

In the monetary and financial sphere, multilateral cooperation should be focused on the mutual liberalization of financial markets, the unification of currency legislation, the expansion of the use of multicurrency in trade between the countries of the Union, and the creation of a system of collective payment and settlement mechanisms. Signed on October 18, 2011, the Agreement on the main principles of policy in the field of currency regulation and currency control was a significant contribution towards creating a legal basis for deepening the interaction of the CIS countries in the monetary and financial sphere.

Another fundamentally important area of interaction is the convergence of the infrastructure and procedures for the operation of the stock markets of the EAEU countries on the basis of the formation of international and regional financial centers of the Union; smoothing administrative barriers for the admission of financial non-residents from some countries of the EAEU to the markets of other countries of the Union; harmonization of legislation and rule-making in the sector of the stock market and securities.

The regulation of investment transfer will require the creation of an interstate regulatory framework that provides a sufficient level of legal guarantees and motivations for launching cross-border investment activities in the Union. Here it is necessary to establish tools for encouraging and mutual protection of investments in the EAEU space.

It will also be necessary to create a civilized mechanism for overcoming disagreements between regional investors and the EAEU states receiving investments, which will ensure effective out-of-court resolution of emerging administrative and economic disputes.

3. The third integrative direction of development of the EAEU countries is the formation of common energy, transport and agricultural strategies, the implementation of which will require fundamentally different approaches in the energy, transport and agricultural sectors, and joint efforts. ■

RUSLAN MUSTAKIMOVICH SHAFIEV

Doctor of Economics, Professor, Adviser of the State Civil Service of the 1st class, Academician of the Russian Academy of Sciences
Department of MEO, Russian Customs Academy

roushafiev@gmail.com

HANNA MÄKINEN

The efficacy of sanctions: Case Russia

Expert article • 3306

Russia's brutal military invasion of Ukraine has been widely condemned by the international community. As a result, the European Union (EU), the United Kingdom (UK) and the United States (USA), together with their like-minded partners such as Australia, Canada and Japan, have imposed exceptionally wide-ranging sanctions on Russia that are intended to cause damage to the Russian economy and weaken its ability to wage war in Ukraine. The sanctions have been widely coordinated among the EU, the UK and the USA to ensure their effectiveness. In general, they coincide closely with each other, targeting important sectors of the Russian economy, including energy, defence, finance and transport.

The sanctions against Russia are exceptional in the sense that they have been imposed on a major power that is integrated into the global markets, and are thus likely to cause significant harm for the Russian economy. The financial sanctions, such as banning several Russian banks from using SWIFT and the freeze of the foreign reserves and assets of the Central Bank of Russia, effectively cut Russia off the international financial system and complicate the possibilities of the Russian state to provide funding and cushion the effects of sanctions domestically. The trade sanctions against Russia are aimed to impair Russia's technological and military capabilities and its ability to fund the war in Ukraine. Import bans have targeted products that create significant profits for Russia, such as energy, gold, iron and steel, wood, alcoholic beverages and caviar. Particularly the EU's import ban for Russian oil – that according to the EU will cover 90% of Russian oil exports to the EU by the end of 2022 – will significantly cut Russia's profits. Export bans, in turn, restrict Russia's abilities to acquire high technology and critical equipment, components and materials, thus impairing the country's technologic and industrial development. In addition to trade restrictions, asset freezes and travel bans have been imposed on hundreds of individuals that have been involved in actions undermining the territorial integrity and sovereignty of Ukraine. A multitude of entities have also been sanctioned. Furthermore, trade and investment restrictions have been set on the Crimean region as well as the so-called People's Republics of Donetsk and Luhansk.

Nowadays sanctions are a commonly used financial weapon in foreign policy designed to hurt their target without having to resort to military means. Still, the evasion of sanctions is a significant challenge for those who impose them. A common way to bypass export restrictions is to import products to Russia through third countries. To facilitate this, Russia has legalised parallel imports of certain goods to the country, i.e. the import of goods without the permission of the trademark owner. The parallel import list includes goods intended both for the industry and the consumer market, such as car parts, electronics, clothes, footwear and cosmetics. The aim is to prevent shortages of imported goods on the Russian market and to harm companies from "unfriendly countries" by infringing their immaterial property rights.

Russia is also trying to increase trade with countries that are not involved in the sanctions front, such as the countries of the Eurasian Economic Union and China. However, Kazakhstan, which has been one of Russia's closest allies, has somewhat surprisingly distanced itself from Russia, by refusing to recognise the independence of the

Donetsk and Luhansk People's Republics and stating that it aims to comply with the sanctions. China's position as Russia's ally is also not straightforward. Although it has positioned itself by Russia's side in order to curb the influence of the USA in the world economy, excessive support for Russia threatens to damage China's own economic relations with Western countries. In addition, the suspicion between China and Russia is deeply rooted, and Russia is likely to remain cautious regarding the increase of Chinese influence in the country. Due to China's significant economic power, the course of development of the Russia-China relations is important in terms of the future effectiveness of the sanctions.

It is clear that the sanctions will significantly weaken the Russian economy. Other consequences of the war, such as the large-scale withdrawal of Western companies and an accelerated brain drain further complicate the country's situation. The impacts of sanctions will also be felt by ordinary Russians as a declining standard of living. Sanctions are, however, often a slow means of influence. The examples of Cuba, Iran, North Korea, and Venezuela show that in autocratic systems the economic misery caused by sanctions can be tolerated for quite a long time without the regime yielding to the demands. Nevertheless, the unanimity of the EU, the UK and the USA, as well as their allies, in imposing swift and comprehensive sanctions sends a clear message that the unjustified military aggression of Russia towards Ukraine is not tolerated. ■

This article is based on a report on the sanctions adopted by the EU, UK and USA due to the situation in Ukraine that has been funded by the Finnish Foreign Trade Promotion Fund (Suomen Ulkomaankaupan Edistämisrahasto SUE). You can access the report [here](#) (in Finnish).



HANNA MÄKINEN

Project researcher
Pan-European Institute, University of Turku
Finland



BALTIC RIM ECONOMIES

Pan-European Institute



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