A dialogue on trade and development in South Asia
Vol. 14, No. 1-4, 2018

TRADE insight

MIXED SIGNALS

MULTILATERALISM UNDER GROWING REGIONALISM

eTRADE READINESS OF LDCs | FUTURE OF MULTILATERALISM | INDO-PAK INVESTMENT

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TRADE insight

editors' note

Trading order's state of flux

WHAT started out as an electioneering threat has morphed into a trade war between the world's largest two economies. The United States (US)-China trade war casts a shadow over the multilateral trade system epitomized by the World Trade Organization (WTO). In the process, the principles of most-favoured-nation and national treatment—the cornerstone of global trade rules—have been ditched. The WTO's ability to effectively restrain members from raising tariffs to levels above their committed, or bound, rates has long been identified as the organization's chief strength. Academic studies have sought to quantify the WTO's contribution to the expansion of global trade flows and, consequently, economic welfare, by modelling what would have been the case if the global body did not exist to rein in beggar-thy-neighbour trade policy urges. The trade war has shown that when geostrategic stakes are very high, the WTO's built-in deterrence can only do so much. The US argues that the WTO needs reforms to reflect the dramatic changes in the global economic landscape. It feels it is unfair for a country like China to claim developing country status and benefit from special and differential treatment provisions in the WTO agreements. It finds the world body ineffective in checking the provision of industrial subsidies through state-owned enterprises and instances of what it considers to be forced technology transfer. It is also dissatisfied with the operation of the dispute settlement mechanism and points towards instances of what it perceives as the appellate body exceeding its mandate and not following due procedure as a justification for its blocking of the appointment of judges to man it.

Whatever the merits or demerits of these arguments, an agreement (read compromise) that has to be reached by the two economic superpowers in order to end the trade war is likely to impact the WTO's functioning in the years ahead. The US' concerns about the WTO's inadequacies have been in the making for quite some time. However, the mode of expressing them has changed with the new presidency in US. While critical of the US' current trade policy stance that has also hurt their interests, European Union along with some other developed countries openly or tacitly back the US arguments about the need for differentiating between developing countries and effectively disciplining the production support provided through state-owned enterprises and forced technology transfer. India has steadfastly opposed the demand for differentiating between developing countries. An almost inevitable consequence of such a differentiation, initially motivated with China in mind, will be demands for India itself to cede the development policy space that it has so far been cherishing.

The special and differential treatment facility for least developed countries (LDCs) is secure, as long as they are LDCs They have stood by other developing countries in opposing developed countries' call for differentiating between developing countries. This is partly a negotiating strategy to get developing countries' support for the overall LDC agenda. On the other hand, quite a few developing countries are large potential markets as well as tough sources of competition for LDCs. In this sense, any proposal to make the provision of special and differential treatment more selective in terms of targeted or beneficiary countries would not necessarily be at odds with LDC interests. A few LDCs are in the process of graduating from the poor countries' club in less than a decade, with three from South Asia alone. They would want some of their special privileges preserved beyond the transition period, since the structural deficiencies that made them LDCs would still be present after that, even if not by the yardstick of thresholds that formally define the LDC status. The idea of differentiating between developing countries could accommodate this. But breaking ranks with the wider developing world could have consequences for LDCs' policy space when they exhaust the extra post-graduation transition period they might seek. Who says trade policymaking is easy? ■

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Content

11 countries sign up to Trans-Pacific Partnership

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ELEVEN countries including Japan and Canada signed the landmark Asia-Pacific trade agreement, without the United States, on 8 March. One minister called it a powerful signal against protectionism and trade wars.

The deal came as U.S. President Donald Trump vowed to press ahead with a plan to impose tariffs on steel and aluminum imports. Other nations and the International Monetary Fund said that this could start a global trade war.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will reduce tariffs in countries that together amount to more than 13 per cent of the global economy–a total of USD10 trillion in gross domestic product. With the United States, it would have represented 40 per cent.

Even without the United States, the deal will span a market of nearly 500 million people, making it one of the world's largest trade agreements, according to Chilean and Canadian trade statistics.

The original 12-member agreement, known as the Trans-Pacific Partnership (TPP), was thrown into limbo early last year when Trump withdrew from the deal three days after his inauguration. The 11 remaining nations finalized the revised trade pact in January. *(https://www.weforum.org/. 09.03.2018)* ■

Afghanistan, India, Iran sign transit agreement

AFGHANISTAN, India and Iran inked a transit agreement in Tehran on 23 October on using Iran's port city of Chabahar. The deal allows the three countries to open new routes of connection by converting Chabahar port into a transit hub.

The agreement was signed during the first meeting of the coordination council of a trilateral transit agreement signed earlier in May 2016. That pact was on the establishment of an international transport and transit corridor among Iran, India and Afghanistan.

The deal was signed by Mr. Mohammad Rastad, head of Iran's Ports and Maritime Organization, Mr. T.S. Tirumurti, India's external affairs secretary of economic relations, and Mr. Imam Mohammad Warymoch, Afghanistan's deputy transport minister.

According to another agreement signed on 17 February 2018, Iran allowed India to operate its southern port of Shahid Beheshti. This move could enable India to avoid using

'Trade war between US and China helping India boost exports'

THE US-China trade war is indirectly helping India boost its exports, but that may begin to hurt smaller economies and others if China's growth slows down due to the conflict, according to Ms. Beth Ann Bovino, the US chief economist for rating company Standard and Poor's.

However, the Indian rupee may weaken further if the US government goes ahead with more fiscal cuts to boosts its economy. It would force more funds to chase growth there, she said.

"A good example is cotton, China's spending on cotton is large. It was first going to the US. It has now shifted to India," said Ms. Bovino. India's trade deficit with China has shrunk over the last two months.

The trade war between China and the US has led to increased tariffs on both sides. That has led to China reducing imports from the US and shifting to countries such as India. India and some other Asian economies are to benefit from the higher import tariffs that China has imposed on the US. *(https://economictimes.indiatimes.com/, 26.10.2018.)* ■

Pakistani routes to reach markets in Afghanistan, Central Asia and beyond.

Based on the deal, Iran granted the operational rights of Shahid Beheshti, located in the Chabahar port city area on the northern side of the Sea of Oman, to India for 18 months. *(www.xinhuanet.com, 24.10.2018)* ■

Afghanistan opens new trade route to build link to Europe

Flickr Benny Lin

AFGHANISTAN'S President Mr. Ashraf Ghani inaugurated a new international trade route, known as known as Lapis Lazuli Corridor, aimed at establishing direct access to Central Asia and Europe on 13 December. The country is seeking to build its economy wrecked by decades of war and reduce its reliance on Pakistan.

"For over 17 years Afghanistan was in isolation, today Afghanistan is connected with its neighbours and beyond," Mr. Ghani said at the ceremony, which saw the first trucks set off with dried fruit, herbs and textiles bound for Turkmenistan, Azerbaijan, Georgia, and Turkey.

The corridor is the latest in a series of energy and transport projects aimed at developing Afghanistan as a hub of Central Asia.

The new corridor includes stretches of road, rail and maritime routes. It runs from Afghanistan to Turkmenistan, Azerbaijan and Georgia before crossing the Black Sea to Turkey and, eventually, Europe.

"Afghanistan has to reduce its dependency on Pakistan for international trade, the country has to establish new trade routes to improve the domestic economy," said Mr. Abdul Nasheed, a senior member of Afghanistan Chamber of Commerce.

Afghanistan inaugurated an air cargo service to China by sending 20 tons of pine nuts in November. It has a similar cargo link with India. *(http://www.reuters.com, 14.12.2018)* ■

Bangladesh opens Chittagong, Mongla ports for India trade

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INDIA and Bangladesh signed an agreement on 25 October on the use of the latter's Chittagong and Mongla ports for movement of goods to and from India.

The countries also decided to initiate Kolkata-Dhaka-Guwahati-Jorhat river cruise services.

The agreements were signed during the 19th standing committee meeting of the Protocol on Inland Water Transit and Trade in New Delhi.

An addendum has also been signed for inclusion of new ports, Dhubri in India and Pangaon in Bangladesh, said Mr. Gopal Krishna, India's shipping secretary. He said that discussions were also held to make the Nakugaon land port in Bangladesh and Dalu in India operational. Connecting Gelephu in Bhutan as a tripartite cross-border route was also discussed.

Both the sides have agreed to develop Jogighopa as a hub/transshipment terminal for movement of cargo to Assam, Arunachal Pradesh, Nagaland and Bhutan. Bangladesh customs will notify the Munshiganj River terminal to route third-party export-import cargo through Kolkata Port. The move will help reduce logistic costs, substantially.

In another move, the Indian side proposed permitting 'third country' trade in the coastal shipping agreement by allowing transhipment through ports on the east coast of India. Bangladesh has agreed to hold stakeholder consultations on the issue. *(www.livemint.com, 25.10.2018)* ■

Transhipment facility from Vizag Port begins

A direct container train service between Vishakhapatnam (Vizag) Port and Birgunj was inaugurated for transit cargo on 28 August. It heralds the opening of a transhipment facility for Nepal-bound cargo containers at Vizag Port.

There were 61 containers on board, which were shipped under a completely different customs procedure.

Nepali traders were jubilant as they will no longer have to file a customs declaration in India, or hire a customs house agent (CHA) or run after transporters and India's Container Corporation (CONCOR)—a subsidiary of Indian Railways authorised to ferry Nepal-bound cargo.

Mr. Ravi Shanker Sainju, joint secretary at the Ministry of Industry, Commerce and Supplies (MoICS), said that this is being carried out as a pilot project and could be replicated for other routes as well.

Earlier, the commissioner of customs at Vizag Port had issued a notification stating that the facility would be provided to Nepal-bound cargo containers using an electronic cargo tracking system.

Nepal is also considering requesting the same modality for other containers stranded at Vizag from earlier. There are over 1,500 containers that have piled up at the port because their letters of credit (L/C) have expired in some cases and also due to delays in document verification by the Nepali embassy in New Delhi. *(https://thehimalayantimes.com/, 29.08.2018.)* ■

India, China disagree with US on curbing fishery subsidies

INDIA and China have demanded protection of livelihood of small fisherfolk at the World Trade Organization (WTO) but the US has cautioned against allowing developing countries to continue with their sops as negotiations on curbing fishery subsidies picked up pace.

While many WTO members, at a recent meeting of heads of delegation in Geneva, expressed their intent to conclude negotiations on the issue by 2019-end, there is no agreement yet on a special dispensation for developing nations.

The US, in its representation, said 14 of the top 25 marine catch producers in the world were developing countries and one was a least-developed country. It said members should thus think carefully about providing carve outs exempting developing countries from provisions to discipline how much subsidies they provide their fisheries sector. *(https://www.thehindubusinessline.com, 18.12.2018)* ■

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India on track to meet its Paris pledges despite growing emission

FIGURES show that India is on a path to meet its goal under the Paris Agreement on climate change, although the country continues to grow its carbon footprint with the energy sector being the largest contributor.

The latest emission inventory of greenhouse gases (GHG) shows that India emitted 2.607 billion tonnes of CO_2 equivalent of GHG in 2014. The inventory is part of its second 'Biennial Update Report (BUR)' to the United Nations' climate body.

Needpix

India's energy sector polluted the most with 73 per cent of its total emission, agriculture contributed 16 per cent, industries eight per cent and waste three per cent.

India submitted its first BUR to the United Nations Framework Convention on Climate Change (UNFCCC) in January, 2016. It contained the national GHG inventory of the country for 2010. That year, India had emitted 2.136 billion tonnes of CO_2 equivalent of GHG.

Though the country continued to see its emission grow from 2010 to 2014 figuring among the top four current emitters in the world along with China, United States and European Union, its per capita GHG emission remained only about one-third of the global average. *(http://www.economictimes.indiatimes.com, 29.12.2018)* ■

Technology to reduce trade costs

The rise of digital technology promises to reduce trade costs which in turn leads to increased international trade, says the World Trade Organization (WTO)'s annual flagship publication—World Trade Report 2018.

The report, titled *The Future of World Trade: How Digital Technologies are Transforming Global Commerce*, predicts that trade could grow yearly by 1.8 to two percentage points until 2030 as a result of the falling trade costs prompted by new technologies. The report says that international trade costs have witnessed a steady decline, going down by 15 per cent between 1996 and 2014.

New technologies can decrease the relevance of distance, whether geographical, linguistic or regulatory. They also facilitate the search for products, help verify quality and reputation and help to match consumer preferences to products. The report particularly focuses on artificial intelligence, Internet of Things (IoT), additive manufacturing (3D printing) and Blockchain saying that these have been made achievable by the exponential rise in computing power, bandwidth and digital information.

IoT can help to improve operational efficiency through better preventive maintenance of machinery and products, not to mention provide opportunities to sell new digital products and services. AI can be used to increase efficiency in the production of goods and services and to aid innovation by generating new ideas. Printing in 3D could lead to a shift towards more digital and localized supply chains, lower energy use, lower resource demands and less related CO2 emissions over the product life cycle. The report admits that these technologies may have reached important milestones, but numerous technical challenges still lie ahead of widespread adoption of these technologies across the globe.

New technologies can reduce trade costs by reducing transportation and storage costs and time to transport, as well as the uncertainty of delivery times due to better logistics. These represent a major share in overall trade costs and therefore their reduction can have a large potential impact on trade flows. Further, these technologies also aid in bringing down costs related to customs procedures as basic electronic systems reduce the time spent on customs compliance. Blockchain and AI promise further reductions.

New technologies can also significantly affect what we trade, who trades what and how we trade, says the report. Services sectors are at the centre of the recent technological revolution. Technological advances have enabled a growing array of services to be purchased online and supplied digitally across borders. Beyond facilitating trade in traditional services, digital technologies are enabling new services to replace trade in goods ensuring the continued importance of services in the composition of trade.

> New technologies can decrease the relevance of distance, whether geographical, linguistic or regulatory.

The potential decline in trade costs can disproportionately benefit Micro, Small and Medium Enterprises (MSMEs) and firms from developing countries if appropriate complementary policies are put in place, and challenges related to technology diffusion and regulation are addressed, says the report. Many trade costs, such as logistics and transaction costs or cumbersome customs procedures, weigh more heavily on MSMEs and are much higher in developing countries. Innovations in cross-border payment systems have had their largest impact on developing countries and MSMEs. The WTO's estimations foresee developing countries' share in global trade growing from 46 per cent in 2015 to 57 per cent by 2030.

The rise of digital technologies also gives rise to numerous challenges that may require the consideration of governments and the international community in areas as diverse as investment in digital infrastructure and human capital, trade policy measures and regulation. Also, concerns related with digital technologies over market concentration, loss of privacy, productivity and the growing digital divide are heard all over.

The bigger challenge is to bridge the digital divide. This divide between developed and developing countries remains wide in terms of access to broadband services and e-commerce platforms, the quality of infrastructure and legal frameworks. Similar divides exist within countries, for example, internet penetration rates are higher for men than for women and small firms lag behind large firms in their readiness to engage in the digital economy. Also, the impact of digitalization varies significantly across skill categories–increasing demand for high-skill workers which are complementary to digitalization, while decreasing demand for less skilled workers who are easily replaced by labour-saving technologies and automation.

Amidst these opportunities and challenges, the report urges governments to address concerns relating to consumer protection, cybersecurity, data privacy and competition that arise with digital trade in a way that is as little trade-distorting as possible. ■

This report is adapted from the World Trade Report 2018.

Tough for LDCs to attain SDGs

Economic development in the world's least-developed countries (LDCs) is stalling against the background of a lukewarm global recovery, with risks of widening inequality, according to new analysis from United Nations Conference on Trade and Development (UNCTAD).

The LDCs bore the brunt of the global trade slowdown. The same is happening with the anaemic recovery associated with insufficient global demand and mounting levels of inequality. In 2016, the combined gross domestic product (GDP) of LDCs experienced its lowest real growth rate since the beginning of the century (3.8 per cent). There were as many as 14 LDCs (out of 45 for which individual country data is available) suffering a real GDP per capita deterioration. Preliminary data for 2017, and projections thereafter, suggest that some improvements are indeed taking place. The LDC growth rate was back at five per cent in 2017 and a projected 5.4 per cent for 2018. The picking up of the global economy, however, may well take some time to consolidate to be able to touch a greater number of countries.

According to *Selected Sustainable Development Trends in the Least Developed Countries 2018* published by UNCTAD, a number of risk factors, including unresolved flaws in the prevailing economic policy framework, as well as heightened policy uncertainties, loom large on this tepid recovery. The document is a contribution to the United Nations system's efforts to follow up and monitor the implementation of Agenda 2030 for Sustainable Development in the 47 LDCs.

In African LDCs and Haiti, real GDP growth rate peaked in 2013 (+5.7 per cent), declined in the two following years (bottoming down at +2.9 per cent in 2016), and recovered thereafter. In Asian and Island LDCs, conversely, growth rates bottomed slightly earlier (already in 2015), but also witnessed an earlier and more pronounced rebound, particularly in the case of Asian LDCs.

The above pattern is largely consistent with the fact that African LDCs typically display a higher reliance on raw materials and primary commodities exports. Fuel exports account, on average, for nearly half of their merchandise exports revenues. Such heightened levels of export concentration on a narrow range of primary commodities expose countries to large exogenous shocks and boom-bust cycles.

Growth performances across individual LDCs have continued to display a wide variation in 2017 as they did in the earlier biennium. At the other end of the spectrum, several LDC economies have featured among the world's most dynamic and attained the Sustainable Development Goal (SDG) 8.1 target of seven per cent GDP growth rate in 2017. Bangladesh, Djibouti, Ethiopia, Myanmar, and Nepal are cases in point. Various other LDCs posted real GDP growth in excess of six per cent, though slightly missing the SDG target: namely Burkina Faso, Cambodia, Guinea, Lao People's Democratic Republic, Rwanda, Senegal and Sierra Leone.

Recent trends suggest that the ongoing tepid recovery alone is unlikely to provide sufficient support for LDCs to reverse their long-standing marginalization and income divergence.

Notwithstanding some encouraging performers, it is sobering to note that only five of these 45 LDCs achieved the SDG 8.1 target in 2017. This represents only a marginal improvement over 2016.

Meanwhile, in a context of feeble recovery of international trade and moderate commodity prices, LDCs remain unlikely to find in international trade a meaningful solution to their growth slowdown, and this meagre outcome could further affect FDI flows. Coupled with the levelling-off of aid flows, as well as workers' remittances, this suggests that the vast majority of LDCs will continue facing sizeable current account deficits. Outbreaks of civil unrest in politically unstable LDCs, humanitarian crises and adverse environmental shocks will only increase economic vulnerabilities further, hindering investments and jeopardizing the hard-won progress made on the social development front.

Similar prospects for the global economy make it all the more imperative for the international community at large to embark on renewed, concerted efforts for a "global new deal", capable of delivering inclusive growth worldwide, the report urges. Recent trends suggest that the ongoing tepid recovery alone is unlikely to provide sufficient support for most LDCs to reverse their long-standing marginalization and income divergence, while embarking on a sustainable development path. Redressing such widening global inequalities and leaving no one behind, thus, requires meeting long-standing commitments towards the LDCs, as well as matching the level of ambition of the SDGs with a corresponding enhancement of the international support measures. ■

Adapted from UNCTAD's Selected Sustainable Development Trends in the Least Developed Countries 2018 report available at https://unctad.org/en/PublicationsLibrary/aldc2018d1_en.pdf

LDCs need eTrade readiness

To encourgae adoption of e-commerce, LDCs and recently-graduated countries need development assistance, targeted investments and sound policy advice from development partners.

Sven Callebaut

As part of the eTrade for all initiative, United Nations Conference on Trade and Development (UNCTAD) has created a "Rapid eTrade Readiness Assessment for LDCs" programme to help countries to quickly identify barriers to further e-commerce development. These demand-driven assessments provide a basic analysis of the current e-commerce situation in the country—the opportunities and barriers—and help LDCs and recently-graduated countries benefit from assistance by "partners of eTrade for all".

Since the launch of UNCTAD's eTrade Readiness Assessment Programme, nine least developed countries (LDC) and one recently graduated country have been assessed: Bhutan, Cambodia, Lao PDR, Liberia, Myanmar, Nepal, Samoa, Senegal, Solomon Islands and Vanuatu. Assessments are underway in Bangladesh, Burkina Faso, Madagascar, Uganda, Togo and Zambia.

How ready are LDCs?

Although each assessment identifies country-specific barriers and opportunities related to strengthening e-commerce, and provides corresponding policy recommendations, common themes have emerged. The key findings of the ten completed assessments are given below with the main attendant policy recommendations:

E-commerce readiness

A national e-commerce strategy is important to help create a unifying 'whole of government' approach on e-commerce, a common set of definitions, policy objectives and activities. It would thus be easier to integrate e-commerce into national development plans.

Inter-ministerial coordination among a multitude of committees and task forces works on different elements of e-commerce. Coordination reduces overlap across mandates, streamlines existing bodies and helps overcome fragmentation in policy development.

An e-commerce 'champion' can elevate the e-commerce agenda. Inter-ministerial committees, with one ministry or agency acting as overall 'champion', would create synergies across government institutions working on e-commerce that is cross-cutting, the Ministry of Trade perhaps.

Government-stakeholder dialogue creating focus groups with the private sector would strengthen policymakers' awareness of the complex issues facing telecom companies, digital payment providers, entrepreneurs, Micro, Small and Medium Enterprises (MSMEs) and consumer groups.

Coordination of fragmented private sector views on e-commerce helps create an enabling environment.

Therefore, countries lack a unifying vision on e-commerce. There is a fragmented development of e-commerce policies, initiatives and activities; and public-private dialogue remains underutilized.

ICT infrastructure and services

Increased access to fast, reliable Internet in rural areas is essential to reduce disparities in Internet access through infrastructure-sharing among operators and incentives to attract private capital.

Public-private partnerships (PPP) in backbone infrastructure leverage the capital and expertise of the private sector in areas like costly fibre-optics. Risk-sharing for the private sector also means that public funds are used effectively and efficiently.

Last-mile connectivity for homes, offices and consumers requires more investment, for example, through a competitive licensing process.

Investment for international bandwidth to meet the demand of more people accessing the Internet by investing in fibre-optic networks, submarine cables and satellite links is essential.

Investment in ICT infrastructure has increased mobile access, and smartphone use is growing rapidly. However, fixed broadband access remains limited and expensive. There are also significant disparities between urban and rural areas.

Payment solutions

Mobile payments and cashless solutions need awareness-raising programmes to highlight benefits. Also, digital financial literacy among MSMEs is needed.

Inter-bank money transfers and payments between banks, at both the national and international levels, would make it easier to conduct e-commerce transactions.

Interoperability among e-payment platforms makes mobile payments and cashless solutions easy-to-use and reduces operating costs.

An enabling regulatory environment encourages financial service providers and payment service providers to develop relevant solutions for consumers and businesses. Sufficient competition in the marketplace will also foster innovation in developing tailored e-payment solutions.

Currently, cash transactions remain prevalent. Lack of trust and low banking literacy are critical barriers to e-commerce development.

Logistics and trade facilitation

A physical address and postal code system is a must to improve "findability" for package delivery. For that, improving road infrastructure, forward-looking postal service strategies and increasing its capacity and that of private sector couriers, etc are necessary.

Customs clearance procedures should be streamlined and made affordable especially for MSMEs to rely on cross-border shipment of small parcels. Automation of procedures and digitalization of documents help.

E-commerce delivery solutions developed by private sector enterprises should be encouraged, including in rural areas.

Last-mile delivery continues to pose a challenge for e-commerce development. Overall, logistics and regulatory bottlenecks hamper cross-border e-commerce.

Legal and regulatory framework

Regulatory gaps on e-commerce must be analyzed to find instances of relevant laws, regulations and policies that they are typically inter-linked or conflict with each other. Such analysis provides the basis for developing a holistic approach to e-commerce regulations.

Relevant laws and regulations should be updated to suit the pace of change in the ICT sector and e-commerce. Regulations on consumer protection, privacy, cybersecurity, financial regulation and the like are relevant to e-commerce.

An overarching e-commerce law that embraces its cross-cutting nature must be drafted to fully reap its benefits. It provides confidence to investors and it would typically come after a national e-commerce strategy has been developed.

> Development partners must take into account the cross-cutting nature of e-commerce as exemplified by the eTrade readiness assessment.

Awareness on existing consumer protection laws is essential along with the need for stronger laws to keep pace with technological change.

Consultations with the private sector help policymakers identify regulatory constraints, which can then be removed.

There is an absence of legal frameworks on e-commerce, but, on a positive note, governments recognize the importance of enabling regulatory environments.

Access to financing

Financial literacy and business trainings enhance the capacity of MSMEs to develop bankable business plans that meet the requirements of commercial banks and increase their access to traditional financing. MSMEs could also be supported in upgrading their accounting, financial planning and record management systems.

Building capacity of business and women-led associations helps MSMEs improve their appeal and bankability. In addition to providing dedicated training to their members, these associations could also work with commercial banks to develop products specifically targeted to e-commerce MSMEs.

Tailoring lending standards and products by loosening the standard land or building collateral requirement by also recognizing the value of receivables, inventory, export capability, technology and experience is important. A broader evaluation of the creditworthiness of entrepreneurs and MSMEs, particularly women-owned businesses by banks, helps.

Increasing awareness of incubators, business accelerators and venture capitalists is important. Alternate funding models such as public-private partnerships, innovation grants, loan guarantees, incubators and venture capital should all be explored, including regional and international funding opportunities.

Financial inclusion, especially of the youth and women, should be increased. Banks should be encouraged, and incentivized, to provide innovative products for all segments of society.

Access to financing remains limited for MSMEs with banks typically lending to big firms of traditional industry. Low financial literacy among MSMEs exacerbates challenges.

E-commerce skills development

E-commerce awareness is low but growing. There is still limited e-commerce curriculum in tertiary education. Professional workforce lacks adequate e-commerce skills.

E-commerce courses in tertiary education would help close the gap between the knowledge and skills of current graduates and the needs of a burgeoning e-commerce industry.

E-commerce fluency of general

population is another area. Developing a lexicon of e-commerce terms in the local language helps raise overall awareness and understanding of the e-commerce industry. Local-language e-commerce platforms, or the adaptation of global platforms to suit the habits, preferences and cultural traditions of different groups of people should also be encouraged.

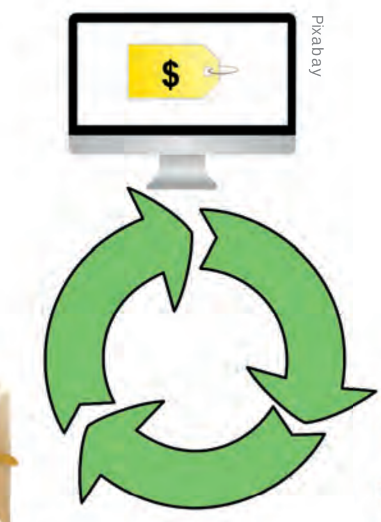
Consumers should be educated on the advantages of cashless transactions. Educating consumers on the benefits of cashless transactions would increase consumer confidence and accelerate the development of e-commerce.

There should be awareness-raising programmes for merchants. Highlighting the benefits of cashless payments to merchants would help close the trust gap. In addition to traditional channels, some awareness-raising programmes could be carried out through social media.

There should be a priority for the skills development of women and girls. The ICT field is traditionally seen as a male domain and digital literacy of women in the assessed countries remains low. The gender divide can be narrowed by bringing more working women into the formal sector and providing new opportunities for women entrepreneurs.

These policy recommendations face the challenge of implementation. Countries do recognize the value of rapid assessment, its multiple dimensions and the quality of the approach used, but their recommendations vary. And, without a clear roadmap for implementation, any follow-up on the action matrix is bound to remain fragmented.

Implementation also suffers from inadequate support. According to UNCTAD Information Economy Report 2017: Digitalization, Trade and Development, only 1.2 per cent of total aid for trade is shared by ICT. It had declined from three per cent in



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2002-2005 to 1.2 per cent in 2015. This calls for a boost in international support to developing countries through Official Development Assistance (ODA), targeted investments and sound policy advice. Equally important is to make sure that all donor agencies, development banks and international organizations are informed about the recommendations. This allows them to identify areas in which they may provide assistance.

Partners in progress

Similarly, development partners have a critical role to play. They must take into account the cross-cutting nature of e-commerce as exemplified by the seven different policy areas considered by UNCTAD in the eTrade readiness assessment programme.

The Enhanced Integrated Framework (EIF), one of the founding partners of the eTrade for all initiative, has supported several eTrade Readiness Assessments of LDCs: Liberia, Nepal, Samoa, Solomon Islands and Vanuatu. There are several more in the pipeline. EIF support to LDCs has been catalytical in leveraging extra resources for implementation of priority actions. It has also supported several actions using funds available for economic and export diversification, notably Bhutan's "e-Infrastructure for trade development (E4T) project". In the E4T project, following the assessment of Bhutan's eTrade readiness by UNCTAD, EIF is working with the government to put into practice some of the targeted recommendations, including creating an online commodity system that potato farmers are using to sell their harvests. Following this success, cardamom farmers are next in line. This shows that some problems—in this case, the lack of a stable market and knowledge of prices—can be solved through e-commerce.

Other key donor-supported initiatives to promote e-commerce uptake in LDCs include the United Nations Capital Development Fund's Mobile Money for the Poor (MM4P) programme, the Universal Postal Union (UPU)'s E-Commerce Programme (ECOMPRO), UNCTAD e-commerce strategy programme and International Trade Centre's e-solutions programme. Bilateral donor support to e-commerce can also be found in broader-scope projects on the implementation of the World Trade Organization's (WTO) Trade Facilitation Agreement (Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), European Union), on ICT infrastructure for development (Japan International Cooperation Agency) or on private sector development (Swedish International Development Cooperation Agency), to name a few.

From the private sector angle, initiatives like Business For eTrade Development and Alibaba/World Economic Forum/WTO Electronic World Trade Platform are gaining traction among the public and private sectors alike as they offer e-commerce development solutions to MSMEs in developing economies. ■

The author is a senior Trade Policy Adviser for ASEAN Governments, the Lead Adviser of UNCTAD Programme on eTrade Readiness Assessment for LDCs and Adviser to the Department of Trade, Ministry of Commerce, Union of Myanmar and different ministries in Cambodia.

Asian opportunity for **Digital Trade**

Economies need to understand how trade policy and economic regulatory policy can contribute to development

Nick Ashton-Hart

To understand the value of digital trade, "electronic commerce" in the World Trade Organization (WTO) parlance, to developing economies, the first challenge most policymakers face is conceptually discarding the Internet, we use in daily life as individuals—online shopping, search engines and social media—as the starting frame of reference. These and other business to consumer (B2C) services are just the tip of the iceberg, quite literally. Even in services, they're only about 10 per cent of the picture; 90 per cent is business to business services (B2B).[1]

Beyond services, 75 per cent of the economic value of the digital economy benefits traditional bricks and mortar businesses of all kinds.[2] The size of the digital economy in direct terms is estimated at up to 4.3 per cent of GDP worldwide. It is integral to up to one-third of the global GDP, according to the United Nations Conference on Trade and Development (UNCTAD).[3]

These figures make it clear that every economic policy leader in every country should prioritize understanding their country's digital opportunities and exploit them to expand them. Increasingly, developing countries are doing just that.

The Joint Statement on Electronic Commerce endorsed at the WTO's 11th Ministerial Conference in Buenos Aires was co-signed by 71 countries. Eleven of them are in the Southeast Asian Region.[4] So far 12 proposals have been made by Members representing 41 countries as of 2018 end.[5] Issues like payments and the link to remittances and financial inclusion, infrastructure and broadband costs and the link to bridging the 'digital divide,' data protection and consumer and buyer protection and facilitating online trust are all relevant, globally.

The UN has acknowledged that better information about the impact of technology is a priority.[6] It is important that the trade dimension of technology's impacts is seen as central to the implementation of the Sustainable Development Goals. It is essential to ensure that the link between development and the economic impact of technology on development is better understood and leveraged for maximum development value.

Working with developing country trade policy leaders teaches quite a few lessons. First, while the narratives that developed countries use to describe digital opportunities do not 'travel' well, the underlying opportunities often take the form of very similar policy challenges. For Asian policy leaders, the place to start is to ask a simple question: What are my development- and technology-related priorities, and how can trade policy and economic regulatory policy contribute to them?

Priority areas

Financial inclusion

All developing economies, and most developed, have an important public policy priority to increase financial inclusion. This is for good reason: access to finance is absolutely central to poverty reduction as two billion people worldwide do not have such access. In East Asia and the Pacific region, more than a quarter of those aged 15 and over do not have a financial services account.[7] In Southeast Asia, it is even worse, almost one-third.[8]

Trade policy—trade rules in particular—are not a silver bullet, but there is certainly a role for them: increasing competitive service offerings, especially in FinTech and mobile money. This can be encouraged by relevant market access commitments as these create confidence for inward investment. Behind-the-border regulatory choices to foster innovation in mobile money-based financial services are also key, as is a competitive telecommunications market to underpin low cost broadband access for the poor, especially in rural areas. In both areas trading partners need to be assured of an interoperable regulatory environment to encourage cross-border services to develop.[9]

Digital infrastructure

Less than half the world's people have an Internet connection. In Southeast Asia more than three-quarters of the population do not use the Internet.[10]

Changing that is a regional priority, just as it is a global priority. Again, inward investment in telecommunications, tariff rates on broadband-essential Information and Communications Technology (ICT) hardware, and fostering national innovation in service provision do have relationships with the WTO policy in several areas:

- Market access commitments to encourage inward investment in key sectors;
- Telecommunications market competitiveness can be improved via adherence to the Telecom Reference Paper;
- Participation in the Information Technology Agreement (ITA) reduces the cost of ICT-essential hardware, including that necessary for broadband infrastructure;
- Behind-the-border regulatory choices to foster innovation in Internet service provision—and regulatory interoperability with trading partners and neighbours, especially for smaller countries—to create economies of scale for providers, especially smaller and regional providers.

For landlocked developing countries (LLDCs), transfer data charges with their coastal neighbours and other geographical conditions specific to their situation[11] have profound impacts on local broadband price, accessibility and, therefore, usage. The countries with the highest average broadband costs are the LLDCs, 12 of which are in Asia.[12]

Domestic regulatory issues

Interoperability of key national regulatory systems and processes allows countries to take different local decisions to suit their needs, while ensuring that they interconnect with trading partners to reduce barriers to cross-border economic activity. This can be done through agreement on how their different regulatory choices relate to their neighbours. Obvious examples are customs systems, where standards-based data interchange allow paperless transaction handling, related critical enablers like acceptance of eSignatures and electronic contracts, for which existing international agreements at United Nations Commission on International Trade Law (UNCITRAL) exist, but where political will is necessary to prioritize implementation.

Trade finance underpins up to 80 per cent of all trade. While it is well-known that the firms which need it most are the smallest, these firms are the least able to access finance in part because the burdens of administration are so large.[13] More than 60 documents are needed for the average transaction and most of these are paper-based, because countries in the region do not facilitate digital contracts and signatures, or the traditional financial services have not digitized sufficiently.[14]

> A brave new world has already dawned and Asia must not just be competitive, but at the forefront of the networked economy

The WTO Membership is aware of the problem. While this subject is bigger than electronic commerce, digital trade policy absolutely can transform the situation for the better.[15]

Global agreements at the WTO are not the only solution. Much can be done bilaterally, or within the Asian region. The "FinTech Bridge" agreed to by the United Kingdom (UK), Australia, New Zealand and Singapore is a good example.[16] Based around regulatory mutual recognition in financial services, one of its objectives is to facilitate FinTech companies from any of the parties to simultaneously begin operating in the others.

In the Southeast Asian region, this kind of cooperation would greatly facilitate the growth of regional financial services' champions, especially those designed to provide services for the poor. It would create enormous possibilities for new entrants and increase the value proposition for incumbents to provide regional services at lower costs through diversity of service offerings and competition. Such agreements could also foster remittances leaving informal service providers and migrating to above-board financial intermediaries. This can have all kinds of benefits in reducing crime, money laundering and fraud, while decreasing costs to the user and incentivizing use of financial services.

Data protection

Data protection is increasingly important not just for creating domestic trust and responding to national socioeconomic demands, but for market access and export of services as well. UNCTAD's report, *Data Protection Regulations and International Data Flows: Implications for Trade and Development*[17], highlights this and notes that too many developing countries have no data protection legal framework at all. The situation has improved since the report was released. Of the 60 Asia Pacific countries, less than half (27) have legislation in place, while four more have draft legislation in process.[18]

How will their services firms sell into advanced economies without data protection laws and regulatory systems? The answer is they will face real competitiveness issues, especially vis-à-vis competitors in neighbouring countries with robust legal frameworks. Given that global value chains are increasing their shares of global economic activity, all countries need to consider the competitive impact of data protection frameworks on their small and medium-sized enterprises (SMEs) if they are not interoperable with those of their largest trading partners.

In May 2018, that issue became more urgent. The entry into force of the General Data Protection Regulation (GDPR) in Europe means that trade and economic ministries need to better understand how data protection impacts their particular economic priorities. Further, this is a cross-government activity and, thus, calls for leadership from the head of government. GDPR protects the personal data of the world's largest economic area.

The privacy principles of Asia-Pacific Economic Cooperation (AEPC) are long-standing and widely admired. APEC was the first region of the world to actually have a common set of principles and they continue to stand the tests of time.

Does that mean Asia should adopt the GDPR? Not at all, but the region does need to understand how to trade with European firms and what costs and obligations the GDPR will impose on Asian companies that trade with Europe.[19]

Data flows

Last but not least, the question of the extent to which countries will allow data in the global, and geographically blind, Internet to flow freely and be hosted wherever is best for service design and performance rather than along geographic boundaries. This remains the subject of debate and controversy. Unfortunately, the discussion of data flows tends to be even more imbalanced than in other areas of digital economy discussion. It has a very distorted focus on B2C services headquartered in a handful of countries, representing tiny percentages of the overall economic value of data.

We do not question that an envelope must have a recipient address and, in most cases, also a sender address—which is personal information—because we know that this makes parcel delivery possible. We do not demand that certain packages' contents prevent addresses from being used on the package. Otherwise, it would be extremely impractical, expensive and almost impossible to administer.

Neither should we try to do this with data. Given that one-third of global GDP is underpinned by the networked economy, there is a need to accept that data must and should traverse geographic boundaries without restriction by default. However, there must be prudential and other conditionalities to deal with specific public policy priorities on an exceptional basis.

After all, that is how General Agreement on Trade in Services (GATS) has worked with overall services since 1994. There are exceptions to all commitments for specific issues, most of which can be tested for proportionality through Dispute Settlement Understanding. Moreover, where data flows are integral to the supply of a covered service in GATS it is already obligatory to allow it to flow. So, in large areas of world commerce, data already must flow freely.

Brave new world accord

A brave new world has already dawned and Asia's dynamism and innovation in all areas of economic activity must be matched by the regulatory and agreement-making innovation of policymakers. The region must not just be competitive, but at the forefront of the networked economy. There are bright spots in some areas and some countries, but a more regional approach based upon pragmatism and cooperation will multiply the benefits far beyond what individual economies can achieve alone. ■

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2 McKinsey Global Institute. 2011. *Internet matters: The Net's sweeping impact on growth, jobs, and prosperity.* Paris: McKinsey Global Institute.

3 UNCTAD. 2017. *Information Economy Report 2017: Digitalization, Trade and Development*. Geneva: United Nations Conference on Trade and Development.

4 Brunei Darassalam, Cambodia, Hong Kong SAR, Japan, Republic of Korea, Lao PDR, Malaysia, Myanmar, New Zealand, Singapore, and Taiwan

5 As the EU is 28 WTO Members and one contribution is a joint proposal of three Members.

6 There are many examples, but the most significant is to be found in the Addis Ababa Action Agenda for financing of the Sustainable Development Goals, where an entire chapter is dedicated to measures on how data and data analysis are integral to the achievement of the SDGs.

7 World Bank's Global Findex Database 2017. http://databank.worldbank.org/data/reports.aspx?source=global-financial-inclusion.

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10 World Bank. 2017. *The Little Data Book on International Information and Communication Technology 17*. Washington DC: World Bank Group.

11 Internet Society. 2018. *Internet Crossing Borders: Boosting the Internet in Landlocked Developing Countries*. Geneva: Internet Society.

12 See http://unctad.org/en/PublishingImages/aldc_LLDCs_map_large.jpg

13 An example of a firm bridging this gap is TradeShift (www.tradeshift.com).

14 ICC. 2018. *Global Trade-Securing Future Growth*. Paris: International Chamber of Commerce.

15 See https://www.wto.org/english/thewto_e/coher_e/tr_finance_e.htm

16 UK-Australia FinTech Bridge signed by the Government of the United Kingdom (UK) and the Government of Australia. https://treasury.gov.au/fintech/uk-australia-fintech-bridge

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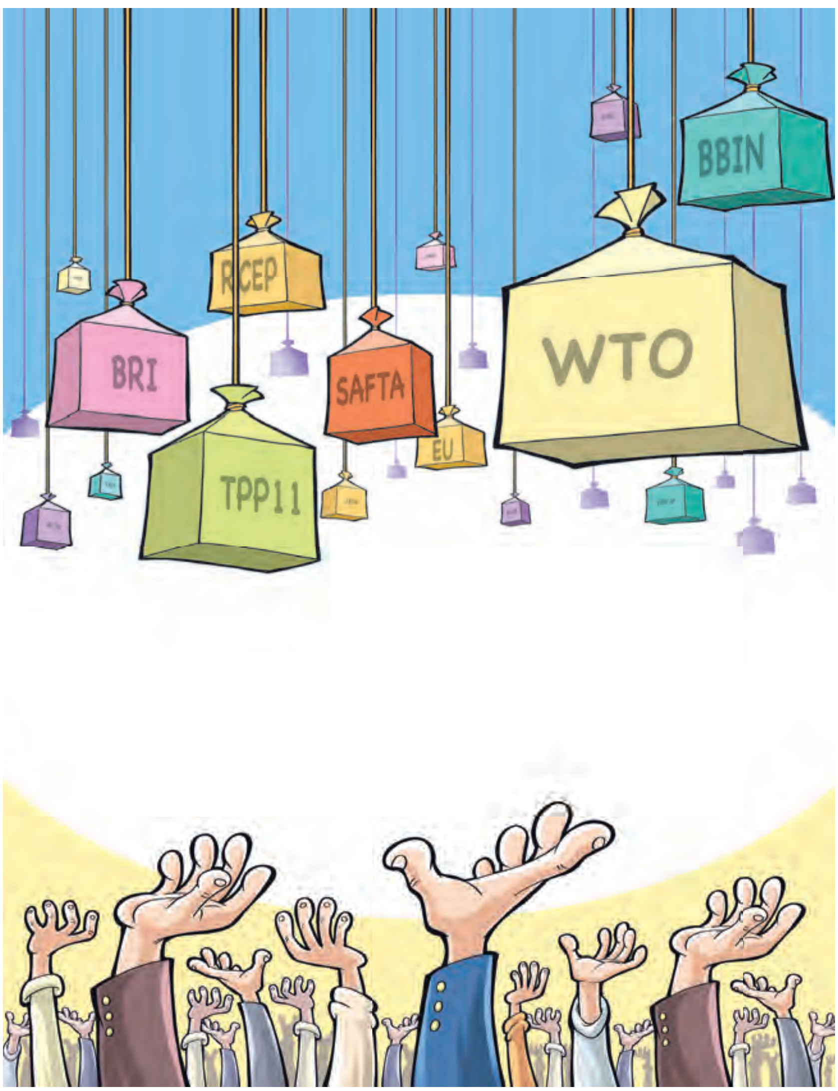
18 See the UNCTAD database at http://unctad.org/en/Pages/DTL/STI_and_ICTs/ICT4D-Legislation/eCom-Data-Protection-Laws.aspx

19 Curtis, T. 2017. "Privacy Harmonization and the Developing World: The Impact of the EU's General Data Protection Regulation on Developing Economies". *Washington Journal of Law, Technology & Arts* 12(1).

MIXED SIGNALS

Future of multilateralism under growing regionalism

Rajan Sudesh Ratna



Despite ongoing geo-political developments showing that countries are attracted to bilateral agreements, regional trade deals will also continue to dominate international trade, reinforced by new mega trade blocs.

A few developments have taken place after the formation of the World Trade Organization (WTO) in 1995. First, the implementation of Uruguay Round results saw a gradual opening of economies. Secondly, in 2001, the launch of Doha Round raised hopes of deeper multilateral liberalization by economies with a strong developmental angle (called the Doha Development Agenda, DDA). Third, the global economic crisis of 2008 brought back the use of protectionist measures—a measure which continues to be used by many economies—with the latest being imposition of tariff restrictions by the United States of America (USA on China. The sub-

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sequent retaliation from China has shown signs of a full-blown Sino-US trade war. Fourth, there has been a rising tendency towards establishment of Regional Trade Agreements (RTAs) that commit members to liberalize their economies with the WTO-plus and the WTO-beyond obligations. The protectionist measures taken by many economies and, yet, their zeal to sign RTAs at the same time are giving mixed signals about how a new world trade order will shape itself in the coming years.

Clear divide

Much is currently being said about the failure of the multilateral trading system, especially in view of the background of Doha Round negotiations. The clear divide among the WTO members that appeared at the Nairobi Ministerial Council meeting in 2015, where, on the one hand, many members reaffirmed their full commitment to conclude the DDA, while, on the other hand, some other members did not reaffirm the Doha mandates. The latter believed that new approaches were necessary to achieve meaningful outcomes in multilateral negotiations. It was clear that members have different views on how to address the negotiations. No positive outcome on Doha came out even in the Eleventh Ministerial Council meeting in December 2017 in Buenos Aires, Argentina. This has cast a shadow over the entire multilateral trading system.

International trade is now happening either under trade regulations autonomously liberalized by countries on a multilateral basis or under their existing RTAs. Both situations are more liberal than the WTO commitments in general. As of May 2018, globally, there were 287 RTAs in force, corresponding to 459 notifications from the WTO members, counting goods, services and accessions separately. The Asia-Pacific economies are party to 280 RTAs out of which 179 are in force and represent 62.3 per cent of the total global RTAs. Fourteen are signed but not implemented and the remaining 87 RTAs are under various stages of negotiation.[1] The global surge of RTAs and the current trends towards establishing mega-trading blocks are also changing the world trade order. They are setting international trade rules which go much beyond the WTO.

The Trans-Pacific Partnership agreement (TPP), signed in February 2016, had several elements going beyond the WTO rules. These seemed to be the 'new order' of international trade. However, after the new president took over in USA, the country decided to withdraw from TPP generating a debate on the fate of the multilateral bloc. In President Donald Trump's 'America First' approach, the US policy aims to renegotiate many of its RTAs to make them more 'fair' to American interest in terms of expanding exports, employment generation and restricting imports. For some of the Asia-Pacific economies that joined TPP, their main interest was getting preferential access to the US market. With the US withdrawal the TPP's destiny hung in a balance. However, other TPP members, like Australia, Japan and New Zealand, showed their interest in moving ahead with implementation of the agreement even without USA.

In November 2017, at the margins of the Asia-Pacific Economic Cooperation (APEC) meeting in Da Nang, Vietnam, the TPP ministers of Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, agreed to rename TPP as Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). They also agreed on the outline of a diluted agreement suspending 22 provisions of the original TPP text. CPTPP (also known as TPP11) was signed by Trade Ministers on 8 March 2018, in Chile, and came into force after six of the 11 members ratified the agreement by October 2018.[2] The members of CPTPP make up 13.5 per cent of the world economy and 15 per cent of the global trade. Without USA, the gains will be only one-third of what could have been expected under TPP.

Another big player, which is not in CPTPP, apart from USA, is China. China has not shown much interest in joining CPTPP so far. Rather, China has shown its preference to be more engaged in another mega trade bloc—Regional Comprehensive Economic Partnership (RCEP), which includes the ten nations of ASEAN plus Australia, India, Japan, Republic of Korea and New Zealand. RCEP is a far shallower agreement and the gains are commensurately lower. The establishment of CPTPP means that China will not be able to dominate Asia with its own trade agreement. RCEP is experiencing a slow progress in negotiations with countries facing difficulties in achieving a balance among concessions. Though it was slated to be concluded in 2017 and 2018, the negotiations are continuing in 2019. There is also an overlap between members of RCEP and CPTPP. The market access opportunities for the Asia-Pacific economies in CPTPP still exist, but largely in a diminished form compared with TPP. In addition, these Asia-Pacific economies are already party to other bilateral or plurilateral preferential trade agreements among themselves as well as with some CPTPP members. Thus, additional market access will be available only on such items/sectors which are not already liberalized in existing RTAs, but which CPTPP promises. This is not expected to be a large share.

Connectivity for trade

In parallel, China has initiated a Belt and Road Initiative (BRI) aiming to develop transcontinental infrastructure connectivity across the Asia-Pacific region and beyond. BRI also proposes strengthening cooperation in four other key areas: (i) coordination of economic development policies, (ii) unimpeded trade (removal of investment and trade barriers), (iii) financial integration and cooperation and (iv) "people-to-people bonds" by promoting exchanges among peoples in different areas and at different levels, as well as cooperation on science and technology and information sharing on health issues, among other fields. By reaching 65 countries through land and sea connectivity, BRI will link countries that account for one-third of global output and 40 per cent of global trade. Designed to uphold the global free trade regime and the open world economic architecture in a spirit of open regional cooperation, BRI constitutes an opportunity to strengthen the bonds among the countries participating in the initiative.

Despite all these, there is a potential risk for participating countries being mired in debt and facing difficulty in servicing it. Given the very ambitious scale of the initiative and the countries involved—with full costs of BRI investments estimated upwards of one trillion dollars—China's support to BRI projects may significantly increase its own exposure to countries with poor credit profiles. Again, the only way to lower these risks is to address trade regulatory and procedural bottlenecks so that the cross-border infrastructure can be effectively utilized to generate sufficient returns.

While the world has been witnessing growth in RTAs, the United

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Kingdom (UK) decided to withdraw from the European Union (EU), thereby posing a big challenge and dilemma for not only the UK but its other trading partners as well. The UK has voted to leave the EU and was scheduled to depart on 29 March 2019. The UK and the EU had provisionally agreed on the three "divorce" issues of how much the UK owes the EU, what happens to the Northern Ireland border and what happens to the UK citizens living elsewhere in the EU and the EU citizens living in the UK. Now, if the UK fails to generate consensus at home, it will leave the EU on 31 October 2019 without a deal.

Talks moved on to future relations between the UK and the EU after agreement was reached on a 21-month "transition" period to smoothen the way to post-Brexit relations. Prime Minister Theresa May also announced the government's intention that the UK would not seek permanent membership of the European single market or the EU customs union after leaving the EU. She promised to repeal European Communities Act of 1972 and incorporate the existing European Union laws into the UK's domestic laws. A new government department, Department for Exiting the European Union, was created in July 2016. Negotiations with the EU officially started in June 2017, aiming to complete the withdrawal agreement by October 2018. The UK will now have three issues to deal with: establishing a new trade regime with the EU members, the RTAs it was party to while it was a member of the EU and its commitments as the UK in the WTO.

The UK was one of the original members of the 1947 General Agreement on Tariffs and Trade (GATT), which eventually evolved into the WTO in 1995. The UK's individual membership of the global trade body had merged with the EU's and its commitments became consolidated into the EU commitments to the WTO rather than the UK's commitments. With Brexit, the UK and the EU will need to negotiate new commitments and, thus, revise their WTO schedules. This process is very complicated and challenging. The UK will have to painstakingly negotiate the terms of its commitments in goods and services and any other country-specific obligations with each one of the other 164 members.

The simplest model that the UK adopts will have the same obligations in the WTO as were taken up as a member of the EU. Yet, the procedural burdens to get domestic legislation passed and then followed up with the notification procedure, which is very onerous, will impede its trade interests during the transition period between the real exit and implementation of these commitments after domestic ratification. However, if the UK wants to negotiate a new agreement, it may lead to a de novo negotiation with other WTO members. This will be time consuming and more onerous. It is not yet clear what the UK's position will be on RTAs—to replicate the commitments it had as an EU member or to negotiate new agreements. In either case, the country will require a lot of resources to renegotiate some 50 RTAs and get their ratification. Conclusively, it shows that regardless of the various trade routes the UK might consider, most of them would subject it to a more complex outcome than it currently finds itself in. The biggest risk will be the transition period. If other countries stop giving benefits to the UK that they were giving while it was a part of the EU, it will seriously impair the UK's industries.

> The UK will have to negotiate the terms of its commitments in goods and services and any other country-specific obligations with each one of the other 164 WTO members.

The country has seen a great divide while working on the terms of Brexit. Some strong voices for a re-referendum have also emerged. Prime Minister May's Brexit deal has been repeatedly rejected by the UK parliament. It makes Brexit terms and schedule of departure uncertain. As of now, what is certain is that the UK is on course to leave the EU on 31 October 2019.

While doubts have been cast on the existence and relevance of the WTO, there are certain inherent advantages that it has and that are not there in RTAs. One such issue relates to the WTO's very active trade dispute settlement mechanism (DSM). Many countries could not take protectionist measures after the 2008 global economic recession only because the WTO rules on international trade were binding in nature. Since 1995, over 500 disputes have been brought to the WTO and over 350 rulings have been issued. A total of 102 members—63 per cent of the membership—have participated in a dispute either as a complainant or as a respondent or as a third party. Important and contentious issues such as the disciplining of agriculture export subsidies and domestic support are not part of RTAs, while they are included in multilateral commitments.

Even in the present dubious context, regarding the effectiveness of multilateralism, the existence of an effective DSM and members' belief in the system should be a sufficient evidence of their faith in a multilateral trading system. Appellate Body is the WTO's most powerful instrument with the authority to pass final rulings on trade fights between countries. Appellate Body consists of seven judges. There have been some concerns though on DSM's effectiveness, especially regarding Appellate Body's structure. Instead of the seven judges, the body will have only three this year — the legal minimum required for it to work. Concerns have been expressed about the risks from a smaller number of members in the body. It could underestimate the value of the dispute

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system as a whole. Worse, by the end of 2019, there will be only one member in this powerful body, which means that it will stop functioning.

Erosion of value

The problem in filling these posts emanated from the objections from the US, which wanted the members to address some of the inherent issues in DSM. The US feels that the WTO dispute settlement system has appropriated powers for itself that the WTO members never intended to give it. Views have also been expressed about the US intentionally wanting to delay the appointment of judges to prevent others from challenging it at the WTO's dispute settlement system, especially given that its America First policy has made it slap measures on other members which are inconsistent with the WTO obligations. This way, the argument goes, the US gets more time to protect its industry.

The WTO's DSM is one of the important pillars of today's multilateral trading system especially in enforcing the binding commitments by the WTO members. The shortage in the number of judges, therefore, will give enough excuse to many countries to continue and prolong their protective measures that are inconsistent with or violate their WTO obligations.

Meanwhile, RTAs will also continue to dominate international trade, reinforced by new mega trade blocs. TPP generated a lot of attention and enthusiasm among governments as well as the research community. They had taken it as a new generation agreement. However, the exit of the US created doubt about its implementation. Though the newly christened CPTPP seems to be moving towards implementation, its original charm has evaporated, without the US and with dilution of many provisions. RCEP and BRI can be a game changer for Asia and the Pacific. To the extent that RCEP includes China, and becomes the largest trade agreement amongst the BRI countries, it may help set the 'new standards' for trade and investment liberalization.

These mega trade agreements offer enormous potential. They bring closer different standards and procedures of countries and consolidate multiple overlapping trade rules and rules of origin under different trade agreements that exist. Yet, they also expose the complexities of plurilateralism. Plurilateralism does not necessarily provide the best trade avenue to meet the development aspirations of small developing economies. In fact, these mega trade blocs bring another challenge to the least-developed countries (LDCs) or weaker economies that are not part of these blocs. Preference erosion is one such issue that will bring many challenges to them in securing their traditional market access in future. At the same time, efforts by many economies to move ahead with faster bilateral RTAs will see another rise in regionalism, thereby further increasing the complexity of the 'noodle-bowl' phenomenon. ■

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Notes

1 United Nations, Economic and Social Commission for Asia and the Pacific. Asia-Pacific Trade and Investment Trade Agreements Database. Available from http://artnet.unescap.org/databases.html#second

2 Australia became the sixth member to ratify TPP-11 on 31 October 2018.

3 This paper also uses elements from APTIAD Briefing Note 9 (December 2017) available at http://www.unescap.org/sites/default/files/APTIAD%20Brief%20Dec%202017.pdf.

Another sacrifice on 'America First' altar

As Iran fears a serious economic breakdown following President Donald Trump's withdrawal from Iranian nuclear deal, EU's role now looks to be particularly important.

Mahdi Ghodsi

On 4 May 2018, President Donald Trump unilaterally withdrew the United States (US) from the Joint Comprehensive Plan of Action (JCPOA) with Iran. This happened despite regular inspections of the International Atomic Energy Agency (IAEA) of Iranian nuclear sites, which had certified Iran's compliance with the 2015 deal. Many experts in the field and European allies of the US have made extensive efforts to convince Mr. Trump to stay in the deal, arguing that no better alternative could possibly replace it.

The conditions under which the JCPOA was signed, during the tenure of previous US President Barack Obama, were quite different. On the one side, Iran—fearing a serious economic breakdown—was attempting to alleviate sanctions pressures while the European Union (EU) and the US were looking for a peaceful and long-term diplomatic solution with Iran. However, Mr Trump believes that by nullifying the JCPOA he can achieve a "better" deal.

Why Trump did it

Attempting to concretely ascertain Mr. Trump's motives is not always straightforward, and the decision to withdraw from the JCPOA is no exception. Broadly, we see six reasons for the move. First, Mr. Trump's decision appears to have partly been based on intelligence provided by Israeli Prime Minister Benjamin Netanyahu that Iran lied about nuclear weapons before the deal. Second, Mr. Trump was known to be unhappy with the sunset clause of the JCPOA, which indicates when the restrictions imposed on Iran's nuclear program by the deal are to expire. Third, Mr. Trump wanted inspections of Iranian facilities suspected of nuclear activities to be permitted. Fourth, Iran's military and advisory support to the Assad government in Syria, Hezbollah (a strong political party controlling militia in Lebanon), Houthis rebels in Yemen, and, in general, its alleged role as a sponsor of terrorism. Fifth, a desire to show solidarity with the US allies in the region, especially Saudi Arabia and Israel.

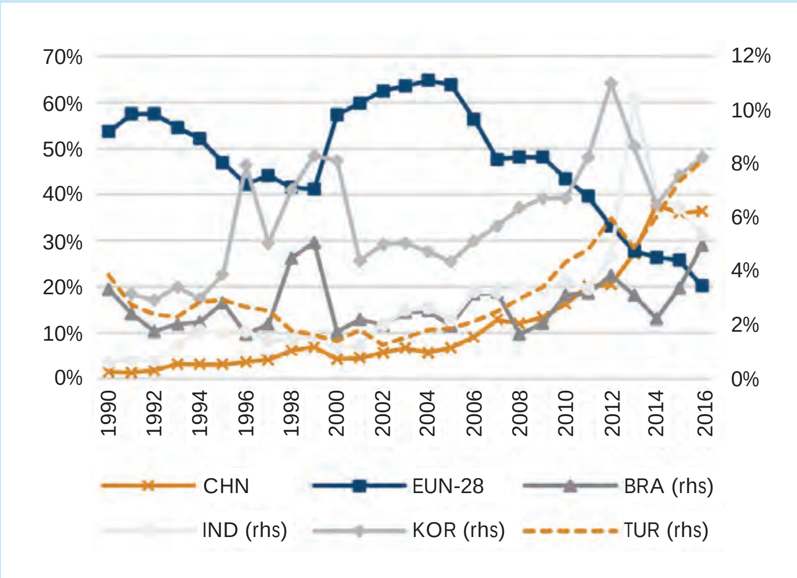
A sixth possible reason is a desire for regime change in Iran. This has been stated by Mike Pompeo, the US secretary of State, several times, and has been given even greater impetus by the appointment of John Bolton as National Security Advisor. Mr. Bolton is closely linked to an Iranian political opposition and a militia organization called the People's Mojahedin Organization of Iran (MEK). He believes that a revolution is plausible in Iran if sanctions depress living standards.

Few if any of these reasons stand up to much scrutiny. First, the claim that Iran lied about its programme was later rejected by Federica Mogherini, the High Representative of European Union for Foreign Affairs and Security Policy. On 1 May 2018, the International Atomic Energy Agency (IAEA) said in a statement that "although some activities (in the production of nuclear material) took place after 2003, they were not part of a coordinated effort". Second, while the JCPOA agreement was envisaged for the next 10-15 years, it does not suggest that Iran will be allowed to make a nuclear bomb afterwards, but it provides the world's most robust nuclear verification regime under the JCPOA through which the international community and the IAEA would become confident in the peaceful essence of Iran's nuclear programme.

Nullifying the deal now would immediately enable Iran to build a nuclear bomb, and without inspections. Third, based on the deal, the IAEA can inspect any suspected facilities in Iran. The Director General of IAEA, Yukiya Amano, emphasised Iran's compliance with the deal in all respects. However, it would not sound logical for Iran or

Figure 1

Six top trading partners of Iran



China and the EU figures are on left hand side and Brazil, India, Korea and Turkey are on right hand side.
Source: UN COMTRADE, total CIF trade values from Iran in SITC classification, wiiw calculations

any other governments in the world to give full access to its military bases by keeping them ready for inspections as Mr. Trump desires. Fourth, following the US withdrawal from the agreement, Iran will be likely even more aggressive in supporting allied groups in the region, and threatening the interests of the US and its allies.

The political fallout is likely to be significant, from the Iranian perspective. Pushing for regime change is a very dangerous game. Another situation like Syria, or a non-democratic regime like in Egypt and Libya, could emerge. Moreover, hardliners in Iran could now be convinced that a nuclear weapon will give them a bargaining chip in response to the US' move, particularly as this appears to have worked in the case of North Korea. Mr. Trump's decision has given hardliners within Iran the upper hand. They can now push their agenda and persuade Iranians that the overall the US policy regarding Iran was only a deceptive conspiracy to effectively halt Iran's atomic activity by cementing its sophisticated nuclear facilities and, by then, exporting almost all of its enriched Uranium and heavy water.

Economic fallout

The economic fallout will also be important, and the domestic economy is already suffering. Unrest and protest on the streets of many cities in January 2018 and a very sharp depreciation of Iran's currency since March 2018 are two recent indications of this. With the ongoing depreciation of their currency, Iranians have become much poorer. Due to dollarization, Iranians have rushed to convert money into foreign exchange. This in turn results in a reduction in investment in the productive sector, and further economic downturns.

The implications for external trade could also be significant. Iran has managed to diversify its export markets in recent years to cushion some of the blow. After the EU implemented its EU Council Regulation No. 267/2012 regarding Iran's nuclear programs on 23 March 2012, Iran's total exports dropped by 32 per cent, which also resulted in a large recession in 2012-2013. Following that, however, China, India, South Korea, and Turkey have gradually gained a greater share in Iran's trade (Figure 1). Because Iran was cut off from SWIFT transactions, it started to barter with these trading partners. For instance, in 2012 Iran started to import gold and precious metals from Turkey and the United Arab Emirates worth around 16 per cent of its total imports.

Foreign investment may also be affected, although again here Iran has been fairly successful in diversifying its exposure. As the US did not initiate a trade or investment relationship with Iran (except for Boeing which will most probably be stopped) after the sanctions were lifted, its withdrawal from the deal might not have any significant impact on the latter's economy. However, the US sanctions will have serious consequences for non-US companies doing business with Iran if no counter solution is found. Because of sanctions, no greenfield investment project in Iran was announced in 2012. However, large investment projects were pledged after the deal (EUR 10.7 billion of projects (three per cent of GDP) were announced in 2016) but fearing the US penalties they have not yet been fully realized. Iran has also made efforts to diversify the source of its inward foreign direct investment, more to the East, in order to avoid its vulnerability to the sanctions (Figure 2). Large investment projects in infrastructure have come from Chinese, Indian and Korean firms.

The return of sanctions would also hamper efforts to achieve more fundamental reforms of the Iranian economy. Engagement with the international community, instead of isolation, could help Iranian society, its economy and the government to evolve during reform needed in economic, social and political spheres. Iranians understand the benefits of further international engagements. For instance, a membership of World Trade Organization (WTO) would ensure transparency in its implementation of trade policy measures and reduction of corruption at the border, things that Iran vitally needs. In addition, the SWIFT method of bank transfers and the country's connection to the international financial system require it to be part of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) frameworks. This is another example of its integration with the global economy and could extensively reduce money laundering activities in Iran. It accepted international law by signing JCPOA, thus making it more reliable in further engagements with international partners.

The US is still important, but it is not the only game in town. Iran has sought better ties with the EU for some time, which already has brought some clear progress. It has also established better relations with two other JCPOA signatories, Russia and China. Iran has already gained an observer status in the Eurasian AML/CFT group and it is expected to sign a free trade agreement with Eurasian Economic Union. Furthermore, investment projects pledged by Asian companies indicate that Iran will continue undertaking its economic and financial reforms in order to get in line with international regulations.

The EU's role now looks to be particularly important from the Iranian perspective. Talks will continue with the EU for now. However, the grouping is itself facing pressure from the US side with Mr. Trump's "America First" rhetoric. Its trade is hampered by US' imposition of new tariffs on steel and aluminium imports, though it has been granted a temporary reprieve.

An EU withdrawal, however, would be a mistake. Cancelling and nullifying this deal would destroy more than one and a half decades of diplomacy. Iran would then be free to act as it desires by withdrawing from the Non-Proliferation Treaty (NPT) Safeguard Agreement, as it did in 2005. After the US withdrawal from the deal, Mr. Rouhani stated Iran's commitment to the deal even without the US and asked his diplomats to negotiate possibilities of continuing it with other signatories. However, Ayatollah Ali Khamenei, the Supreme Leader of Iran, who has the final word, is sceptical about European powers remaining in the deal. Most importantly, he warns that Iran may restart its nuclear program if the European JCPOA signatories also pull out of the deal.

Instead, the EU could push for further negotiations with Iran to find strategies to counteract the US sanctions. A potential EU strategy (without the US) would hinder hardliners in Iran in their attempts to gain influence. A possible solution could be implementing a regulation similar to the EU Council Regulation No 2271/96 that blocks extra-territorial legislation by a third party. This could be thus used to protect the EU businesses doing business with Iran, with an application to the WTO dispute settlement process.

Crucial time

Iran also needs to show its intentions to reform its social, political and economic frameworks. Having the strongest world power as its enemy does not mean that Iran can suppress freedom, one of the main factors that resulted in the collapse of Pahlavi Imperial State of Iran. For instance, freedom of speech has recently been violated by filtering Telegram Messenger, just a means of social media communication. For eight years, two political leaders and their wives have been under house arrest without any judicial indictment. Journalists often find themselves in court. Some die in prisons. The *hijab* is still mandatory for women and they cannot watch football in stadiums. Iranians, with more than 3,000 years of civilization, are mature enough to understand that insults against others and chants of death directed at other nations could destroy their dignity and image in the world. ■

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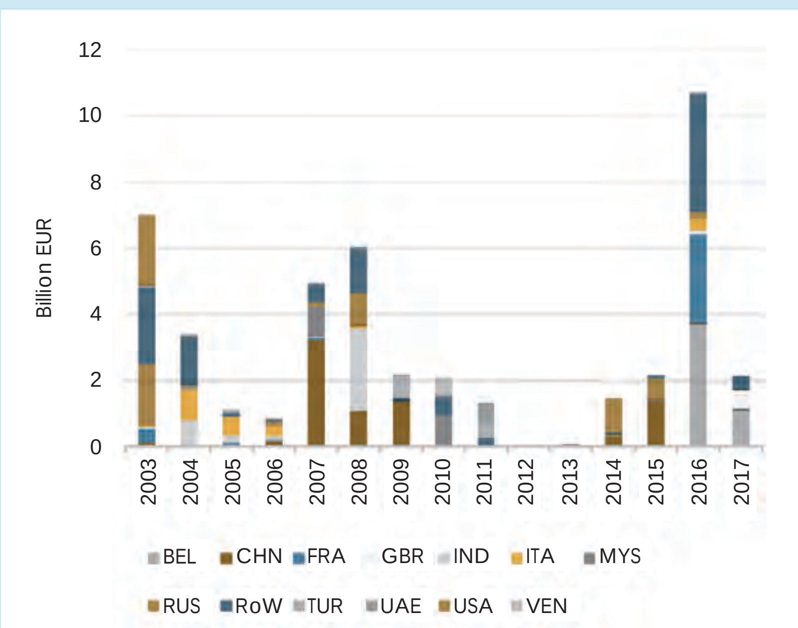
Figure 2
Top countries pledging FDI in Iran, 2003-2017



Source: fDi markets (https://www.fdimarkets.com/)

CHINA'S MULTILATERALISM a chance for peace

How China's rise is straining the existing, albeit a flawed, liberal world order

Matt Haldane

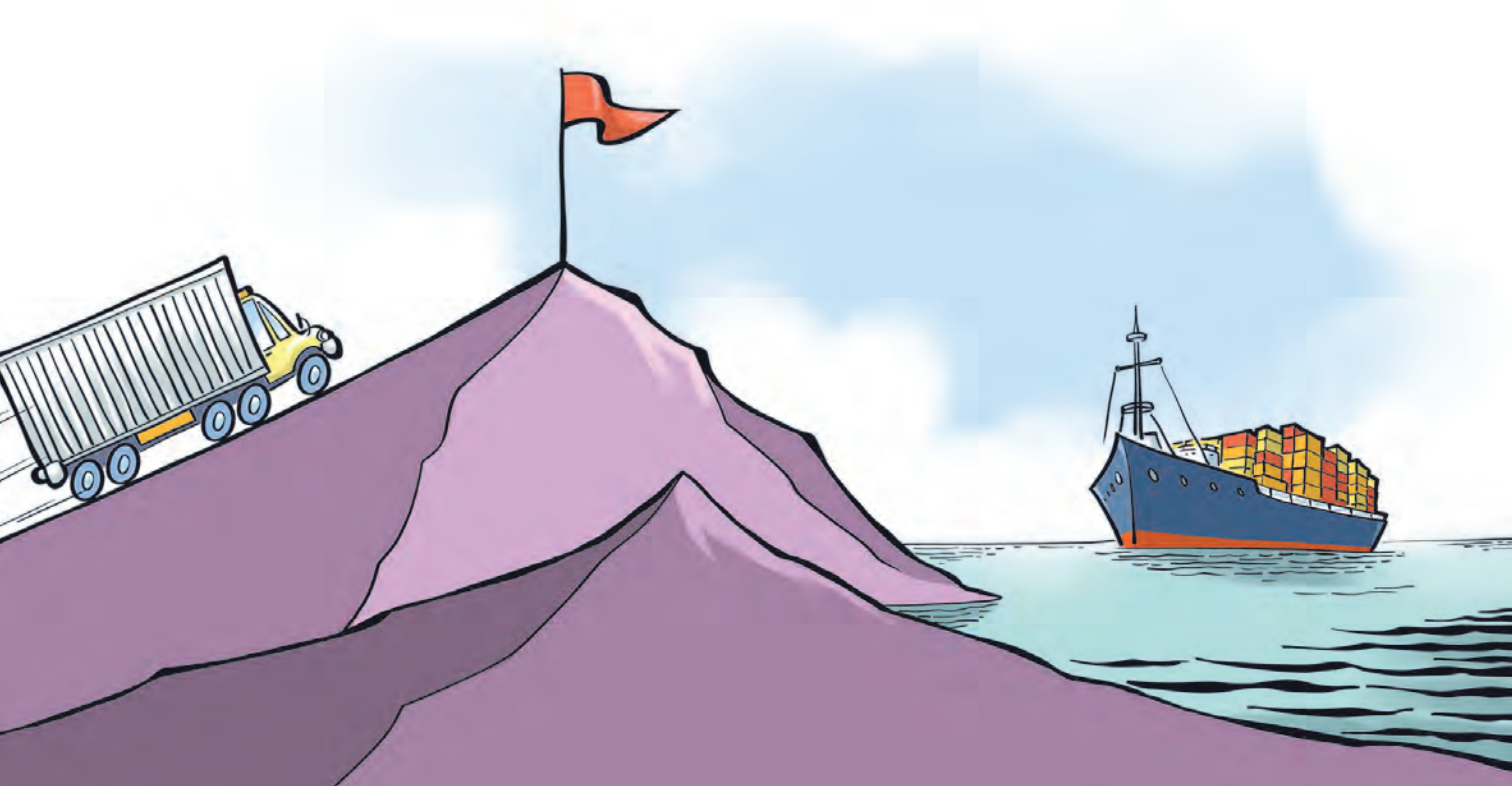
Three days before Donald Trump was inaugurated into the United States (US) presidency, Chinese President Xi Jinping stood before the World Economic Forum in 2017 and tried to project China as the new guardian of multilateralism, liberalism and free trade. Without a single mention of the United States, the author and traditional defender of the existing world order, Xi highlighted China's readiness to safeguard international norms that led to a boom in global prosperity in the latter half of the 20th Century.

"We must… promote trade and investment liberalization and facilitation through opening up and say no to protectionism," Xi told world leaders at the forum. He added, "We should adhere to multilateralism to uphold the authority and efficacy of multilateral institutions."

The language was the sort one could have expected from a world leader better known for upholding liberal values. Up until 2017, it could have been ripped right from the pages of the American playbook since the world's oldest democracy reoriented its approach to multilateralism after World War II. Yet China does not have a good track record of being a trading partner that acts in good faith and promotes liberal institutions. Why would Xi believe other countries will take China at its word now?

Multilateralism divided

Part of the issue stems from differing views of what constitutes a multilateral approach to governing or to what extent such respect for multilateralism



is adequate. The bare minimum requires acknowledging the desires and goals of other countries and working with them toward a common goal while respecting their sovereignty. For dominant powers like the US today and the United Kingdom (UK) in the past, these terms have sometimes been viewed as too onerous as governments looked the other way. For a rising power like China, appeals to multilateralism and sovereignty are a little more than a means to an end.

China's conflicting view of multilateralism and whom it chooses to partner with could create a bifurcated multilateral world order divided along ideological lines. Liberal democracies and assorted allies will continue to uphold the liberal multilateralism the world knows so well today. China, on the other hand, seeks to move toward a post-ideological world order, where its own economic incentives can hold more sway. China has also shown a preference for bilateral negotiations in which it has more leverage.

Two major shifts taking place today give China a real chance at reorienting multilateral relationships in the country's favour. The first is the rise of populism. Trump's rise in the US was startling to many, but it was indicative of a broader trend. Populist candidates had recently won elections in Hungary, Poland, and the Philippines. In the UK, the populist decision to leave the European Union was also unexpected.

The other event that could change China's fortunes is its Belt and Road Initiative (BRI). Under the guise of creating a new Silk Road, this infrastructure program is Xi's attempt to add a layer of multilateral cooperation (or more likely a series of bilateral agreements) that will serve Chinese interests. Countries that join the initiative help build infrastructure that is currently outlined to connect large swathes of Asia, Europe and East Africa.

On its face, the project seems like it could be positive for global trade. The routes are going through areas that could make use of newer and better infrastructure, thus increasing trade and lowering costs over the long run. Yet there are many geopolitical concerns surrounding the project, not least because of suspicions about China's motives.

Geopolitical confrontations, and occasional military confrontations, have come as a result of territorial disputes with neighbours India, Japan, the Philippines and Vietnam. Most recently, Chinese and Indian troops engaged in a two-month standoff last year in Doklam, an area claimed by both China and Bhutan, where China was constructing a road.

China wants other countries to believe the BRI is its way of being a good neighbour and new guardian of the once-American-led multilateral world order. Early signs suggest China is in fact using the project to push its geopolitical goals at least as much as its economic goals.

> China's conflicting view of multilateralism could create a bifurcated multilateral world order divided along ideological lines.

The primary example used to validate this concern is the 99-year lease a Chinese state-owned enterprise recently got for Hambantota Port in Sri Lanka. After Chinese companies poured USD1.5 billion into building the port, Sri Lanka found itself deep in debt and with few good options for dealing with it. The result was the lease that gave China Merchants Port Holdings Company a 70 per cent stake in the port.

Though not part of the BRI, another example of China's economic exuberance abroad is Boten, Laos. The Chinese-built gambling town was booming for several years before issues with border security and tourists unable to pay their debts surfaced. After a hostage situation that emerged over the latter, China warned its citizens against visiting Boten, damning the city's economy to wither away.

China's state-owned enterprises (SOEs) are treated as arms of the Chinese government. Since they are owned by the government, they function as a means for China to exert its influence abroad. China bristles at the notion, but its influence over even private Chinese companies makes other countries skittish. This is the underlying tension in the saga of Huawei and ZTE in the US. Huawei has long been heavily scrutinized by the US.

This is the primary reason so many tensions exist around China's rise and why its efforts to reinvent multilateralism are met with scepticism. On the surface, the BRI looks like China is making a concerted effort to become the "responsible stakeholder" the US has wanted it to be, as former US Deputy Secretary of State Robert Zoellick put it. The problem is that China has no guiding ideology for its foreign policy other than doing what is good for China.

This is the most important distinction between the post-war multilateral order set up by the US and its allies and the new multilateralism sought by China that relies solely on appeals to economic pragmatism. The US sought to establish a world order that would be based on collective security, economic multilateralism and political self-determination. The latter especially has its basis in the liberal orthodoxy of the country.

Pacific discontent

As the second largest economy in the world, China is an unavoidable trading partner. Yet countries that trade with China or accept money from the country for BRI infrastructure projects remain wary.

China preaches respect for sovereignty, but its neighbours know that only goes as far as it benefits China. The country is not just seeking to exert its influence in disputed border areas, as was the case with Bhutan. Its expansion and increasing militarisation of the South China Sea has also angered Indonesia, Japan, Malaysia, the Philippines, Taiwan, and Vietnam.

As for Taiwan, the One China Policy continues to be a sticking point, threatening the sovereignty of the island state that is a country in everything but name. Taiwan remains beholden to the anachronistic One China Policy only because China has not ruled out military force, should the de facto nation-state ever actually declare itself an independent country.

While China may say it supports sovereignty when defending allies such as Syria, it has no consistent ideological ties to the notion. This puts China directly at odds with the world order the US seeks to enforce; one that respects (in theory) the right to self-determination.

The battle over identity and the national ties it fortifies are significant. The BRI investments in Laos may have enamoured it to China to some extent, but China still seems to lack the political clout of Vietnam in their mutual neighbour. Likewise, Nepal has been trying to balance between China and India, but more often than not, Kathmandu continues to look toward New Delhi.

Under President Rodrigo Duterte, the Philippines has distanced itself more from Washington in favour of Beijing. Culturally, though, the former American territory is much more westernized and liberal, and Filipinos are still unhappy with China's aggressiveness over its territorial claims in South China Sea and its dismissal of the South China Sea Arbitration that it lost to the Philippines. Duterte even went as far to say that the Philippines would go to war to protect the natural resources in South China Sea after previously softening the Philippines' stance toward China.

Beyond money, China has little to offer the countries that align themselves with Beijing. For some countries, money will be enough. For everyone else, the decades-old liberal multilateralism may look like a better bet.

This world order is not without its flaws. Even countries that favour it over one in which China wields more influence still have reasons to be wary of the US and its motives. However, the US remains guided by an ideology that respects liberalism and sovereignty. It often doesn't live up to that idealism, but it still has ideals against which its actions are always measured. Conversely, China's more realist foreign policy can seem more dismal for its neighbours.

Unfortunately, the US has not been a reliable partner since the election of populist Trump, who appears to feel no obligation to uphold political norms or past international agreements. Even before Trump, America's reputation for respecting sovereignty and benefiting developing nations is chequered at best.

America's past is littered with international interference, especially since it became a global power in the 20th Century. The International Monetary Fund and The World Bank are widely seen as tools for promoting a flawed neoliberal ideology that forces heavy burdens on poorer countries.

Some criticisms of the American-led world order are flawed or exaggerated; some are more than well-deserved. Yet, America's influence must inevitably invite scrutiny and, for many, displeasure. It is enough to make people look east and consider whether the strings attached to Chinese money are really that bad.

Though China's influence is growing, the American system is not crumbling. It seems that despite Trump's best efforts, many traditional US allies are regrouping to defend the system that has served them so well.

The 11 countries that joined the new Trans-Pacific Partnership are moving ahead with a plan to ratify a modified version of the original agreement negotiated with the Obama administration. Trump even briefly raised the idea that the US might want to re-enter the agreement before promptly changing his mind again in traditional Trumpian fashion. The fact that Trump blinked, though, shows the power of the established post-war world order.

The US also remains an important military power in the Pacific and shares defence responsibilities with South Korea and provides defence for Japan.

Over in Europe, Germany and France have rebuffed populism. German President Angela Merkel looks to be the foremost champion of liberal democracy. French President Emmanuel Macron continues to tout the importance of the Paris Agreement, which the US pulled out of under Trump, and a few states in the US, like California, remain committed to its goals.

The political shift in Washington is significant, but it is far too early to declare dead the US-led world order or the liberal multilateralism it spawned. Many countries remain committed to it, because they remain committed to liberalism.

A lasting peace

China's BRI spending could facilitate a new kind of multilateralism by creating more cooperation among the countries connected by newly-built infrastructure, but it remains to be seen whether it will supplant the liberal multilateralism of today. In the more immediate future, a split may start to emerge between countries more favourable to Chinese spending than liberal ideals. That does not put China in great company, but that is not new. As long as it can build reliable partners through economic dependence, China is moving toward its goal.

The ideological rift does make today's geopolitical situation somewhat akin to Cold War before the fall of the Soviet Union. The good news is that China is at least committed to liberal multilateralism in theory and that has made it economically entwined with many of the countries it now agitates. As China continues to push toward a new world order, it will test one of the major tenets of the current one: Economic interdependence makes war too costly and gives us, in the words of Cordell Hull, "a reasonable chance for lasting peace." ■

The author is a journalist based in China.

Chinese model enriches global governance philosophy

Yu Ning

The most discussed challenge to liberal democracy in the West nowadays is the perceived threat of China's rise and the "Chinese model." That China has rapidly risen in a development model different from that of the West has startled and upset the West. Does China attempt to overthrow the Western liberal order? Would it spread its development ideas, values and political system to other countries? Such worries haunt many Western scholars, politicians and media outlets.

To figure out whether China is a threat to liberalism, *the Economist* initiated a debate "Should the West worry about the threat to liberal values posed by China's rise?" as if liberal values are paramount standards that couldn't be challenged.

After the Cold War, Western liberal democracy and the market economic system, which are built on core liberal values such as individual freedom, equality and capitalism, gained their momentum. Francis Fukuyama, an acclaimed American political scientist, even declared free-market liberal democracy would become the world's "final form of human government."

However, it's absurd to hold Western liberal democracy was the "end of history." Since the 2008 financial crisis, the Western world has undergone serious economic,

> The West should make self-introspection for the liberalism crisis as liberal ideas and institutions failed to solve the problems facing developing countries.

political and social turbulence. Political polarization in the US, the European migrant crisis, Brexit and the rise of populism on both sides of the Atlantic all indicate the West has been mired in a liberalism crisis.

Fukuyama was compelled to revise his original opinion and turned to fear for the future of liberal democracy. He called to examine the deep structural reasons for dysfunctional democracy. Unfortunately, a more prevailing view is to blame external threats for the fall of liberal democracy, regardless of what deserves more attention is not threat from outside, but from within.

The West should make self-introspection for the liberalism crisis. Liberal ideas and institutions failed to solve the problems facing developing countries. Many developing governments found it hard to govern their country well after copying Western political systems and were plagued by political and social woes. More newly emerging countries have become skeptical about the Western model. In sharp contrast, the Chinese model is gaining popularity and giving hope to those countries longing for rapid development while maintaining independence.

The Chinese model has undoubtedly raised questions over liberal values, but it also enriches development philosophy. There is neither "end of history" nor "end of evolution" for development model. Now it's the time for the West to seriously reflect upon its own problems and reconsider its values. What it needs to do is to improve and move forward, rather than be obsessed with past success. If it continues to defend its internal decay by fabricating external threats, liberal democracy and institutions will face a bigger crisis. ■

Revolution in connectivity

As the fourth industrial revolution is transforming the way we work, the developing world should be prepared to meet the demands of the technology-based industry of the new world order.

Rohan Masakorala

We are in the midst of a technological revolution that will fundamentally alter the way we live, work and trade. It seems that in its scale, scope and complexity, the transformation will be unlike anything humankind has experienced before. We do not yet properly know just how the revolution will unfold over the coming decade and beyond. One thing is clear though: all stakeholders around the world, from the public and private sectors to academia and civil society, will be impacted as a new social order is being created in front of our own eyes. We may call this the fourth industrial revolution, or the new world order, set to dominate the world through trade.

The first industrial revolution used water and steam power to mechanize production. The second used electric power to generate mass production. The third used electronics and information technology to automate production. Now, a fourth revolution is getting built on the third, or the digital revolution, since late last century. It is one that is transforming the way we work, in short cycles. It is characterized by a fusion of technologies that is blurring the lines between the physical, the digital, and biological spheres.

Exponential pace

There are three reasons why today's transformations represent not merely a prolongation of the third industrial revolution, but rather the arrival of a fourth. The transformation is a distinct one, in velocity, scope and systems impact on anything from a household to a business entity to a government. The speed of current breakthroughs has no historical precedent. When compared with previous industrial revolutions, the fourth one has been evolving at an exponential pace, not linear. Moreover, it is disrupting almost every industry in every country. The breadth and depth of these changes transform entire systems of production, management, consumerism and governance. Most importantly, its impact on supply, value chains and education has been extraordinary.

Pixabay

The ongoing war among major trading partners could easily turn the world of trade tupsy-turvy. It is clearly reversing a half century long trend of trade liberalization, since the World War II, the pinnacle being its institutionalization through the creation of the World Trade Organization (WTO) in 1995. Its core principles/values are being challenged today by global economics and politics. The WTO, the only international organization dealing with the rules of trade among nations, is now finding that bigger trading powers are moving towards unilateral actions ignoring its own raison d'etre. These reactions are also the consequence of the shift in production bases and employment factors of the developed world brought about by the technological shifts that the fourth industrial revolution has created. All this has happened within a very short period of three or four decades.

As the population surpasses 7.5 billion, many new markets in Asia, Africa and Latin America are emerging. With reasonable economic growth, these economies will lead to strong consumer markets affecting existing geopolitical balances because of macro-level market shifts. Such shifts in economic power lead to new areas of disagreement and conflict. The immediate and obvious reaction to this has been protectionism led by the United States and some European Union members. The way forward is not protectionism. Despite advances in technology we have yet to find solutions for challenges arising from the new era of trade and connectivity to be able to avoid greater conflict.

With the dawn of the 21st century, China has emerged as a major power. The world's hunger for resources is pushing everyone towards the ocean. Hence, disputes are bound to arise over seas and transport corridors. The South China Sea, the Indian Ocean, the Arctic and Antarctic seas are seen as the next hotspots. Remember that world wars have been fought in the past for power and control.

One of the results of this enormous shift of economic power is the Belt and Road Initiative (BRI) initiated by China. Almost 90 countries are directly or indirectly involved in this mega project running into trillions of dollars in investment. This will certainly create a new paradigm shift in transport and logistics, if not a more resounding transformation of the global economic map. Some sceptics feel that this is more talk than a real project. Some others feel that it is an invasion or a colonization initiative by China to return to its five thousand-year-old history, where China was supposedly the dominant force in the then global order.

While China sees the project as a facilitation of countries to emerge as winners from greater trade, it has certainly raised eyebrows among status quo powers. The latter ignore or fail to understand the actual deliveries and repercussions that BRI would unleash on the world economy. Within a short span of five years, BRI has already become reality in many parts of Asia, Africa and Europe.

World trade is fundamentally based on economic efficiency, resources and technology. However, the fourth revolution has changed the dynamics of speed and knowhow as two new instruments needed to compete and win the race. New markets are emerging due to the speed created by technology in terms of connecting products with consumers, shifting market behaviour and changes in consumer patterns. Both manufacturing and retailing face new challenges with new consumer behaviours calling for new methods of delivery and market control. It is not the big that wins; it is speed that determines market access today. Speed has become an indispensable tool in these times of innovation on the digital platform.

In terms of physical goods and merchandising, even today, ocean corridors are the backbone of delivery for nearly 90 per cent of global trade. However, high-value merchandise seems to be connecting through fast corridors such as railway and air. Therefore, the BRI project of China is focused on these transport networks. They are connecting many countries, helping bridge old and new markets and bring them closer.

Offshoring models are being challenged. As connectivity gets better global supply chains get disrupted giving way to new logistics solutions to cope with demand. This phenomenon is at the root of disputes emerging over ocean corridors. As a result, it is creating geo-political uncertainties/rifts. New alignments among nations and new developments in free trade and trade agreements are also part and parcel of these tremors in geopolitics. Brexit and the US withdrawal from the biggest trade agreement, Trans-Pacific Partnership Agreement (TPP), can be said to be one of the results.

Those left behind in the race are left to fend for themselves during such massive transitions. Developing and emerging countries need to change rapidly in terms of creating further value to be able to compete in trade and services. In terms of merchandise trading, the 2013 Bali Agreement on Trade Facilitation under the WTO remains as a major tool to help smaller economies improve their productivity and speed to remain in the global supply chain.

Key reforms

Reforms are key to attracting foreign direct investment to a country. In addition, smaller countries need to connect to major markets through new trade agreements that can help market access directly or indirectly, for products and services. Another crucial factor for developing countries is education system reforms. They need to upgrade their university systems to meet the demands of the technology-based industry of the new world order. The labour force must be trained to understand freely available technologies such as the internet. Re-engineering of the workplace must go beyond re-engineering of machinery to the entire physical processes to include human resources. Small countries must engage themselves in re-skilling, up-skilling and adapting new skills for their workers. It is a non-negotiable part of this fourth industrial revolution. There is no time to lose. As the way things are unfolding now, changes do not take years to happen; just a few weeks, when it comes to the world market.

This "smart and intelligent era" of human evolution cannot be described or forecast easily even by the best economists. On the other hand, if this transformation is not managed with care it can disrupt not only what we like but the very same world order that we strive for–peace and harmony. ■

The author is the Chief Executive Officer at the Shippers' Academy, Colombo and immediate past secretary general of the Asian Shippers' Council.

Hard talk points in Nepal-India trade treaty

As Nepal-India trade treaty is slated for revision, being India's ninth largest export market, Nepal needs to understand that its position is not as weak as it is perceived.

Dikshya Singh

The ongoing negotiations to revise the Nepal-India Trade Treaty are an opportunity to tackle the ever-widening bilateral trade deficit that Nepal is facing with its neighbour and expand its exports.

Nepal's trade deficit is not a new phenomenon as in the last three decades Nepal has bought more goods from other countries than it has sold to them. In the last fiscal year, the trade deficit figure stood at NPR 1.16 trillion—equivalent to 39 per cent of the Gross Domestic Product. Nepal's imports from India exceeded its exports to the country by NPR 763 billion—making up more than 65 per cent of the total trade deficit. In the first half of the fiscal year 2018-19, Nepal's deficit with India has crossed NPR 438 billion, which is 29 per cent more in comparison to the same period last year.

As Nepali and Indian officials negotiate a revision to the Nepal-India Trade Treaty, reducing trade deficit is at the top of Nepal's agenda. The joint-secretary level discussions took place in New Delhi in August 2018, kick-starting the amendment formally.

Despite duty-free access being provided to almost all of the products originating from Nepal, the trading relation is skewed. Many non-tariff measures have effectively become non-tariff barriers that have instilled a sense of unpredictability in bilateral trade.

One of the provisions that restricts Nepal's utilization of duty-free market access offered by the trade treaty is the stringent rules of origin provision. As per the treaty, products originating in Nepal need to have a 30 per cent value addition and a change in tariff classification (CTC) at the HS 4-digit level. It implies any Nepali product that uses foreign component as inputs needs to have undergone substantial transformation to be eligible for preferential tariff rates offered by India. Given the limited productive capacity in Nepal, it would be prudent to reduce the value addition rate to 20 per cent. Moreover, fulfilment of either one of the two criteria—value addition rate or CTC—should suffice. Relaxation of rules of origin would be of immense help for Nepal to integrate into regional and Indian value chains.

Although the treaty provides Nepal's manufactured products non-reciprocal duty-free access to India, there are a number of primary agricultural products for which there is reciprocal duty-free access. This has led to heavily subsidized Indian primary agricultural products flooding Nepali markets and hurting the livelihoods of Nepali farmers. Under the Agreement on South Asian Free Trade Area (SAFTA), India provides non-reciprocal duty-free market access to least developed member states. There is a case for removing the provision for reciprocal market access for products such as agriculture, horticulture, floriculture and forest produce; rice, pulses, flour, atta, bran and husk; livestock, poultry bird and fish; bees, bee wax and honey, milk, homemade products of milk and eggs.

India's extension of preferential market access to products originating in other least developed countries in general and least developed member states of SAFTA in particular has led to preference erosion for Nepal. There is hardly any preferential treatment of Nepali goods left in the bilateral trade treaty that is not already available to

Dikshya Singh

Many non-tariff measures have effectively become non-tariff barriers that have instilled a sense of unpredictability in the bilateral trade.

least developed countries under SAFTA. Hence, neogtiators representing Nepal need to ensure that the bilateral agreement will be able to secure for Nepal more benefits than already offered in the regional agreements.

If trade between Nepal and India is to be made smoother tackling non-tariff measures is extremely important. Procedural irritants related to testing and certification that obstruct Nepali exports, especially agricultural, need to be addressed by the treaty. There exists a provision that says countries "will facilitate cross-border flow of trade through simplification, standardization and harmonization of customs, transport and other trade related procedures". Clarifying that the procedures also include inspection, import licensing, certification and registration could push the governments towards harmonizing these procedures for a better flow of goods.

In order to promote the participation of small enterprises in cross-border trade, the existing treaty has exempted exports to India from such small units in Nepal from excise duty in India. Since excise has been replaced by Goods and Services Tax (GST), such exemption has to be accorded to the application of GST as well. Similarly, the quota restrictions on vegetable fats, acrylic yarn, copper and zinc oxide not only violate multilateral trade rules but also do not make any sense in the present context when tariffs in India for the rest of the world have come down significantly.

The revision of the treaty should allow India to re-export selected commodities originating from third countries—even without any manufacturing activity—to Nepal based on mutual agreement. Allowing such third country commodities re-export to Nepal in cases such as coals, essential medical equipment, and vehicle spare parts would reduce the cost of inputs in Nepal without harming India.

There is also a need to revise a provision in the current treaty that requires Nepal to extend to India any preferential treatment it accords to any product originating in any other country so that Nepal can effectively and freely enter into trade agreements with other trade partners.

Simplifying Nepal-India Trade Treaty can lead to improved competitiveness of Nepali products. The voluminous imports from India mean that Nepal is the ninth largest export market of India with 2.1 per cent of total exports of India being Nepal-bound. Thus, Nepal's position in negotiation with India is not as weak as it is perceived. Moreover, push should be made towards implementing existing provisions—for example, a provision for India to support Nepal to increase the latter's trade capacity (including that related to standards, testing and certification) already exists but not much has been done in this regard, partly due to its non-binding nature. The provision must be made binding and the process of harmonization of standards and/or mutual recognition of standards and certification could be initiated on a list of priority products. ■

Bilateral investment can boost **Indo-Pak ties**

In spite of huge potential, cultural similarities, and common tastes among their consumers, direct economic relationship between India and Pakistan remain almost non-existent.

Rahul Choudhury

Both India and Pakistan have practised an open and liberal economic policy for a long time. Pakistan announced its Economic Reforms Order in 1972, while it was in 1991 that India adopted its New Economic Policy. One of the prime objectives of these policies was to integrate the domestic economy with the global economy.

Since the introduction of their respective reform measures both economies have offered a plethora of incentives to attract foreign direct investment (FDI). Almost all the sectors of the economy were opened for foreign investment. Many new policies were brought into force and existing policies abolished. All these efforts were remarkably successful and both the nations have been able to attract a significant volume of FDI. During 2016, the total volume of FDI inflows to India was USD44 billion and the figure was USD2 billion for Pakistan.

Flows both ways

Along with FDI inflows, India and Pakistan also allow their domestic companies to invest abroad. Many

firms from both countries have expanded their businesses in various parts of the world, including some of the most developed countries like the United States, United Arab Emirates, United Kingdom and Germany. Indian companies invested USD5 billion in 2016 while Pakistani ones invested USD52 million outside their domestic boundaries. These companies encompass a large variety of sectors. This includes a fairly large volume going to neighbouring South Asian countries.

Although India allowed its companies to invest anywhere in the world, it kept a negative list of a few countries including Pakistan. Until 2012, no investment was allowed from or to Pakistan. On the other hand, Pakistan was welcoming investment from and to India. In August 2012, taking an historical decision towards a better economic relation, India began permitting investment to and from Pakistan. Since then, a lot of initiatives have been undertaken to promote economic relations between the two. Various trade delegations from both sides have visited each other to assess each other's trade and investment potential.

Many firms from both countries have expressed their interest to invest in each other's market. However, there has been no direct investment in Pakistan from India or vice versa so far. In spite of the huge potential, cultural and ethnic similarities, common tastes and preferences among their consumers and many other advantages, no Indian firm has made any direct investment in Pakistan. Indian firms have invested in Pakistan only through their foreign subsidiaries. Tata Motors, Tata Global Beverages, Titan Watches and Dabur India are a few examples. Similar examples of Pakistani firms are absent. There is also a long list of Indian companies who have expressed their desire to invest in the Pakistani market.

Given the current economic scenario and the determining factors of foreign investment there is a huge potential for Indian firms to invest in Pakistan. As an emerging economy, with a substantial population of 176 million and a GDP per capita (PPP) of USD5235.4 (in 2016), Pakistan has a lot to offer for foreign investors. It has the most liberal FDI policy in South Asia, allowing 100 per cent foreign ownership of capital. There is no minimum capital requirement for investment. Foreign investors are allowed to operate without being enlisted in the local stock exchanges. Their entire profits and dividends can be remitted abroad. Pakistan also allows disinvestment of the originally invested capital at any time.

The growth of urban centres and an increasing trend of people to shift to urban and semi urban localities provide an additional incentive for the potential investors. Pakistan is rich in minerals and produces precious natural minerals like gypsum, limestone, chromite, iron ore, rock salt, silver and others. These minerals are raw materials for many industries which makes Pakistan an obvious choice for investment.

Ethnic similarity plays a vital role in attracting foreign investment and this is an added advantage for potential Indian investors in Pakistan.

Ethnic similarity plays a vital role in attracting foreign investment and this is an added advantage for potential Indian investors. India and Pakistan share a common ethnic and cultural background. People speak a common language and largely share food habits and celebrate the same festivals. This provides an added advantage for potential Indian investors. More interactions between the two countries would also bring them closer.

Production of motor vehicles (both four and two wheelers) is an attractive sector for Indian investment with great scope. Many foreign players are already there including Tata Motors. Other Indian car and motor cycle companies can cash in on this opportunity available in Pakistan. Besides, electric cars and motor cycles still remain underexplored in Pakistan.

The Indian pharmaceutical sector is well established in the world. Indian companies with advanced technical knowhow and patents can help provide the necessary support and assistance to Pakistan in expanding this industry. The scope for producing medical instruments is also very large. Joint ventures or technical agreements with Pakistani companies for providing laboratory services can tap this potential. India is well known for its medical tourism. Patients from various countries visit that country for world class medical services at affordable prices. Indian hospitals have also been treating Pakistani patients for a long time. No in-depth studies need to be conducted to see the benefits of establishing Indian hospitals in Pakistan.

The power sector is another investment area to help fill the huge mismatch between supply and demand. A significant volume of foreign investment has already flown to Pakistan in the last few years. Indian companies can help bridge the gap, even though there are hurdles. An advance level of dialogue between Pakistan and an Indian power generation company run by Adani Group, to export power to Pakistan, failed a few months back. However, it is not the end of opportunity. Along with thermal power, the climatic conditions of many parts of Pakistan provide a great scope for wind power generation. India, as one the biggest wind power generators in the world, can definitely contribute here. Solar power is another promising area that remains to be explored.

Similarly, in e-commerce, Indian firms are more established, technically advanced and diversely experienced compared to their Pakistani counterparts. The rapid urbanization, a growing population of technically literate youth and a high penetration of

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internet services and mobile telephony make the sector filled with potential for investment. Indian companies that have performed outstandingly in the domestic market can go to Pakistan in their quest to go global. They could diversify their market by exploiting the opportunity for them to collaborate with their Pakistani counterparts.

India's open and liberal economy with investment-friendly policies has made it achieve remarkable progress in attracting FDI. Its position as a destination of foreign investment can be judged from the fact that it stood ninth in the worldwide list of FDI recipient countries, prepared by United Nations Conference on Trade and Development (UNCTAD) in 2016. Just like other countries investing in India, Pakistan too can exploit this scope. Many Pakistani companies are performing outstandingly in their domestic market and have also expanded their operation in foreign nations. They are operating in different sectors and have the capacity to invest and compete successfully in India. Such companies can play the lead role in investing there and show the way for others to follow. There is some movement in this direction as well with Pakistani firms expressing their interest to invest by applying to the Indian authority.

For example, Pakistani banks like MCB, Bank Al Habib and Habib Bank Limited Pakistan are the top contenders in tapping this available opportunity. In fact, MCB has already expressed its desire to open branches in India. A large section of the Indian population is still not covered by formal banking facilities. Data released by Reserve Bank of India on 31 January 2018 says that there were 85 foreign banks operating in India through their branches and representative offices. This huge number of unbanked population offers a huge opportunity for foreign banks in this rapidly emerging economy.

Insurance too is a promising sector in India where companies from Pakistan can contribute. By 2015-16, only 30 per cent of the Indian population was covered by life insurance. In August 2017, the life insurance industry, both private players and state-owned players, reported a 24 per cent growth in overall annualized premium equivalent. Similarly, the INR 22.41 trillion Indian mutual fund industry, as on 31st January, 2018, provides another big opportunity to tap.

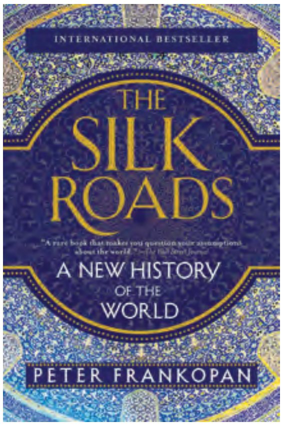
The quality of the cement produced in Pakistan is well recognized. For a long time, Pakistani cement manufacturers have been exporting to foreign countries including India. The growing attention to infrastructure development in India has increased its demand manifold. There are reports that the renowned Pakistani cement manufacturer, Lucky Cement, has expressed a strong desire to establish its manufacturing facility in India as well.

Even though textiles and apparels are one of the most exported items of both countries, their expertise lies in different segments and categories. Pakistani firms are engaged in producing goods in the lower parts of the supply chain while Indian firms have taken up the higher rungs. Some Pakistani products are highly popular in India while some Indian items are popular among the Pakistani consumers. Indian Banarasi sarees have a high demand in Pakistan while the *salwar kameez* of ladies (with *zari*, *gota* and embroidery work) are highly popular in India. Since this sector enjoys vertical as well as horizontal linkages with the Indian textile sector, there is the possibility for Pakistani investors to pursue joint ventures or aim for wholly owned subsidiaries.

Political hurdles

All these opportunities do not come without challenges. Among all the challenges, the political relationship between the two neighbours is the biggest one. Efforts made earlier could not produce any fruitful result. However, a lot of efforts are still under way to make the overall situation normal and conducive to trade and investment. Time has come to forget the bitter past and move forward positively. Groups attempting to disrupt the relation should be dissuaded through strict action. Relations between these nations are different than those with others and, hence, should also be handled differently. Better relations and closer ties between the two neighbours will not only benefit them but also the entire South Asian region. ■

The author is Visiting Senior Research Fellow at the Institute of South Asian Studies, National University of Singapore. Views are personal.



From the west to the east

Title: The Silk Roads: A New History of the World
Author: Peter Frankopan
Publisher: Bloomsbury Publishing, 2015
ISBN: 1408839962

Nishant Khanal

Peter Frankopan, Professor of History at Oxford University, talks about how Asia is taking over the 21st century in his book *The Silk Roads: A New History of the World*.

The book covers the history of the ancient Chinese silk routes of the 15th century. The first half of this 600-page book takes you from Turkey to Japan, while the second half digs more into the fascinating story about how China is rising at present. In doing so, the country is trying to revive the economics of the ancient silk routes in the form of its Belt and Road Initiative (BRI). This is China's grand plan of globalization and is being talked about in almost all policy circles today. This is a connectivity project of a global scale linking trade hubs and major economies through massive investments in terrestrial and maritime transport infrastructure.

BRI is expected to breathe new life into the older form of globalization led by western powers, which appears to be increasingly facing political fatigue. Fankopan sees events in the countries along the ancient Silk Roads, such as China, India, Russia, Central Asia and the Middle East, "ultimately shaping the century". He cites examples such as the knock-on effect of Chinese demand for donkey skins to illustrate how globalization is stepping up pace and shows how we are already well-ensconced into the Asian century. China, for example, has been importing donkey skins only from Africa and the middle east to make ejiao, a gooey substance billed as "blood-enriching", which China needs each year in a very high volume.

BRI is not just building castles in the air with grandiose ideas that may or may not work; the silk roads were actually already there in the past. In other words, what China appears to be doing is just pumping in new resources to an already tried and tested project of ages ago.

Frankopan's story is an account of the shift of the centre of world power from West to East. The Silk Roads are a grand narrative. "All roads used to lead to Rome," he writes, "Today they lead to Beijing". Literally, indeed. BRI seeks to connect East Asia, Central Asia, the Middle East, Africa and Europe, and hence is for Frankopan, the driving force of 21st century geopolitics.

He thinks that China was motivated to launch the project by its insatiable need for stable and reliable access to energy and natural resources to feed its transition to a high-income country, not to mention its domestic and international security concerns. The country has shown both foresight and pragmatism in fulfilling its ambition and is succeeding. He cites a statement by Cambodia's Hun Sen: "Other countries have lots of ideas but no money. But for China, when it comes with an idea, it also comes with the money."

This may appear as a broad and rosy brush stroke painting over complex historical and contemporary disputes that Silk Road states share with one another. Frankopan does admit that it would be an oversimplification to overlook that, but he is fascinated with the Chinese articulating their role in global leadership.

The book comes alive is in its depiction of the economically vibrant yet politically stunted Central Asian corridor, through which few westerners travel. Central Asian states like Azerbaijan, Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan are reaping the benefits of development, as dividend from the multi-billion-dollar BRI. Similar projects have also been announced for some parts of South Asia. Pakistan's China-Pakistan Economic Corridor is a flagship BRI project and is going full swing. Sri Lanka is very much part of it. Connectivity projects for landlocked Nepal have already been announced. And, the rest of the story is yet to unfold.

Although the book is a lot more than the history of the Silk Road, especially after the 16th century, America and South East Asia have received very little coverage. More could have been discussed on the possible effects on the status quo powers of the day. If it is indeed a rise and fall of great powers, or a shift of world locus, a single angle would not provide a proper perspective. Also, amid all the optimism, the author could have done a yeoman's service had he also provided some answers to BRI criticisms, some justified, others not so much, emanating from different quarters. ■

The author is a researcher based in Kathmandu.

Comprehensive and Progressive Agreement for Trans-Pacific Partnership

Eleven countries resurrect the Trans-Pacific Partnership after US's withdrawal.

Pragati Koirala

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership, also known as CPTPP, or simply TPP11, came into existence in 2018. It was created after the Trans-Pacific Partnership (TPP)—that had been in talks for more than a decade—failed to survive. TPP had been signed in 2016 by 12 member countries that were parties to this Agreement.

TPP had been seen as the United States' strategic focus on Asia-Pacific's growing market during the Obama era. This had led Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States of America (US) and Vietnam to come together to negotiate a new trade agreement in October 2015. By February 2016, the 12 countries had signed the TPP Agreement.

The fate of TPP was overturned when President Donald Trump took office in the US in 2017. On his first full day in the office, he notified the parties of his intention to withdraw his country from the agreement. The remaining 11 countries then decided to study the feasibility of the agreement without the US. This provided the impetus for the genesis of CPTPP—sans the US.

Over the course of 2017 and after several talks, the remaining countries agreed to the provisions of the new agreement, which would go on to be renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. The negotiations came to an end in January of 2018 and the agreement was signed on 8 March 2018 in Santiago, Chile. It came into effect in December 2018.

The agreement contains 30 chapters, ranging from traditional trade liberalization issues to relatively newer issues like electronic commerce (e-commerce). Most of the 30 chapters are identical to their predecessor. Only a limited number of provisions were suspended in the new agreement.

The underlying principle is national treatment among the parties. The agreement was to eliminate duties on 86 per cent of the CPTPP parties' tariff lines immediately upon its entry into force. It is eventually slated to reach 99 per cent within 15 years, subject to the Rules of Origin (ROO) specified by the agreement.[1] The gradual reduction in tariff rate and the timing of reduction is subject to the individual party's schedule. The rule of origin certification procedure, however, specifies a minimum number of criteria, but does not specify a format to be followed. What is clear so far is that the ROO certification obligation can be fulfilled by the importer, exporter or the producer and can be filed electronically.

The provision of trade remedies, namely safeguard measures, anti-dumping duties and countervailing duties provide the necessary mechanisms for the parties to protect their markets from unfair and trade-distorting practices by other parties. The chapter on investment draws the rule for investment in the TPP11 countries. It provides basic protection for investors and their investment in the host countries while also leaving policy space for the host governments to regulate them.

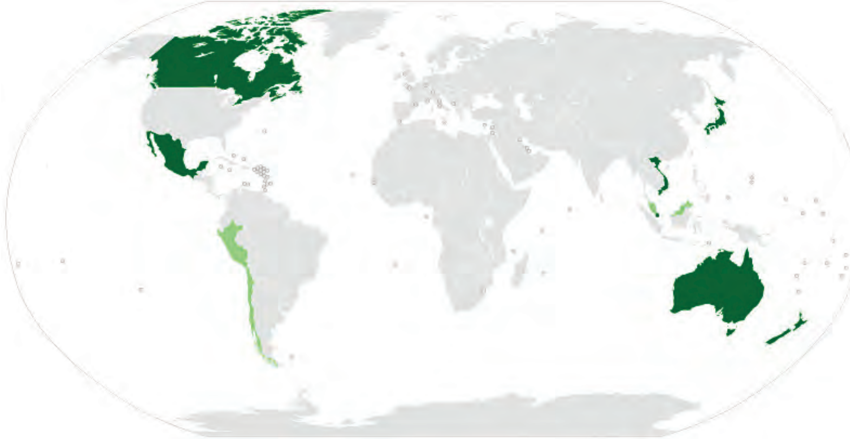
Investor-State Dispute Settlement (ISDS) provides the mechanism for dispute settlement between the state and the investor on matters pertaining to the protections provided in the investment chapter. ISDS, however, cannot be invoked merely because the investor is not satisfied with the laws or regulations of the host government. Neither can the ISDS tribunal compel the state to change or amend its laws.

National treatment and most-favoured nation are also the basis for cross-border trade in services. This is to ensure a level playing field for service providers and suppliers of the CPTPP parties. This agreement plans market liberalization in cross-border services trade on a negative-list basis. This implies that the markets are open except in areas specified by the party. It also prohibits quantitative limitations on the number of services suppliers, the total value of services transactions or assets, the total number of services operations or the total quantity of services output, or the total number of persons who may be employed in a certain services sector as well as the obligation to maintain a local presence in the country where the service is supplied.[2]

The chapter on e-commerce, like in the case of cross-border services trade, does not oblige the services supplier to have a local presence or establish a data centre in every CPTPP country they operate in. Moreover, the chapter includes the provision of free flow of data and information across borders. It also prohibits customs duties on electronic content. The owners of software need not disclose their source code when distributing or selling such software in the territory of the other party. Commitments to adopt laws and regulations to ensure consumer protection and privacy of e-commerce users are given utmost importance by the agreement.

The CPTPP parties have agreed to strive to strengthen environmental protection. The agreement provides the policy space to parties to formulate domestic laws and policies to meet their environmental protection priorities. It also ensures the adoption of fundamental labour rights, such as forming labour unions, and elimination of forced labour, child labour and employment discrimination.

CPTPP is an extensive trade deal covering diverse issues such as, sanitary and phytosanitary measures, technical barriers to trade, financial services, temporary entry for business persons, competition policy, telecommunications, government procurement, state-owned enterprises, designated monopolies, intellectual property and small and medium-sized enterprises.



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The CPTPP spanning 11 countries across the Pacific, accounts for around 13.5 per cent of the world GDP and is one of the largest trade deals to have been ratified

This free trade agreement spanning 11 countries across the Pacific accounts for around 13.5 per cent of the world GDP. It is one of the largest trade deals to have been ratified.[3] CPTPP is expected to increase the GDP of the participating countries by one per cent by 2030.[4] The US alone was projected to gain 131 billion dollars in real income by that year[5] had it remained a TPP party. The US is expected to sustain further losses attributable to the loss of market access for products like beef, pork, wheat and other agricultural products in Japan without a trade deal. Because of the reduced tariff, Australia, Canada and New Zealand, among others, will surely rush to fill the export gap left by the US in these products.

With post-Brexit United Kingdom and Thailand among the countries interested to join in, the impact of this much talked about trade deal could widen further. ■

The author is Research Officer at South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu.

Notes

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E-Commerce in WTO: Agenda for Nepal

SOUTH Asia Watch of Trade, Economics and Environment (SAWTEE) and the Ministry of Industry, Commerce and Supplies (MOICS) jointly organized an interaction on 2 July to discuss e-commerce in Nepal. The objective was to gather inputs from various stakeholders of the Nepalese e-commerce industry, policy makers and potential beneficiaries of e-commerce.

Dr. Posh Raj Pandey, SAWTEE's Executive Chairman, presented the preliminary findings of an ongoing research on e-commerce in Nepal being carried out by SAWTEE. This presentation laid the foundation on which to discuss Nepal's e-commerce preparedness. Dr. Pandey pointed out that the digital economy made up 6.5 per cent of the global output and that the digital divide that exists between the developed and developing countries is keeping the developing countries from taking full advantage of the digital economy.

The programme was chaired by Mr. Chandra Kumar Ghimire, Secretary of MOICS, who emphasized that it was necessary for Nepal to be prepared for dealing with issues related to e-commerce at the multilateral level.

The inputs gathered from the stakeholders will aid the ongoing research in identifying the negotiating positions and strategies for Nepal, not to mention the country's domestic preparedness. ■

IPS launches 'State of the Economy' Report in Sri Lanka

DESPITE positive elements in in Sri Lanka's macroeconomic environment, economic growth has remained sluggish, at under four per cent for six consecutive quarters, while debt accumulation has been accelerating, said Institute for Policy Studies (IPS) Executive Director, Dr. Dushni Weerakoon.

She made these remarks at the launch of 'Sri Lanka: State of the Economy 2018', IPS' annual flagship report, on 15 October, at Dr. Saman Kelegama Auditorium.

Delivering his keynote address at the launch, the State Minister of National Policies and Economic Affairs, Harsha de Silva, said that short term adjustments cannot reverse the fortune of Sri Lanka. Dr. de Silva emphasised the need to maintain Sri Lanka's aggregate demand through interest rates, even though this may have a negative impact on growth.

Natural disasters, external politics and internal policy conflicts of coalition politics are some of the major challenges facing Sri Lanka, he noted.

The panel discussion following the State Minister's address also

CGE modelling training completed

SOUTH Asia Watch on Trade, Economics and Environment (SAWTEE) and South Asian Network on Economic Modeling (SANEM), Dhaka, organized the eleventh edition of the South Asian Training Programme on CGE Modelling in Pokhara, Nepal from 9-13 August.

The training familiarized participants with the use of Computational General Equilibrium (CGE) modelling as a tool for policy analysis and research. The five-day event included sessions on the construction of Social Accounting Matrices (SAM), calculation of SAM multipliers, and using General Algebric Modelling System (GAMS) software application to run CGE models.

The training was conducted by the Executive Director of SANEM Dr. Selim Raihan, Professor of Economics at the University of Dhaka. Thirty-five policymakers and young researchers from Afghanistan, Bangladesh, India, Nepal, Pakistan and Sri Lanka participated in the event.

The programme was organized in collaboration with Ministry of Industry, Commerce and Supplies (MoICS), Government of Nepal and the Centre for WTO Studies (CWS), New Delhi. ■

featured CEO of Lion Brewery (Ceylon) Plc, Mr. Suresh Shah, and CEO / Country Head of Fitch Ratings Lanka Ltd, Mr. Maninda Wickramasinghe. It was chaired by Economic Advisor to the President, Mr. Sarath Rajapatirana.

This year's report focuses its attention on Climate Change, Food Security and Disaster Risk Management to examine the many interrelated socio-economic impacts that need policy consideration. ■

SAWTEE launches Centre for Sustainable Development

SAWTEE launched Centre for Sustainable Development (SAWTEE-CSD) on 6 August amidst a ceremony held in Kathmandu. The new arm of SAWTEE aims to promote sustainable and inclusive development in Nepal.

Minister for Foreign Affairs Mr. Pradeep Kumar Gyawali and former Foreign Minister Mr. Prakash Sharan Mahat took part in the event that included policymakers, researchers, diplomats and development partners.

SAWTEE-CSD will work to support accelerated, inclusive and sustainable development and structural transformation in Nepal. In doing so, it will take into account ways to converge national development goals with Sustainable Development Goals (SDGs), the global development framework.

The Centre will be led by Mr. Gyan Chandra Acharya, former Under-Secretary-General of the United Nations; and former Foreign Secretary of Nepal. ■

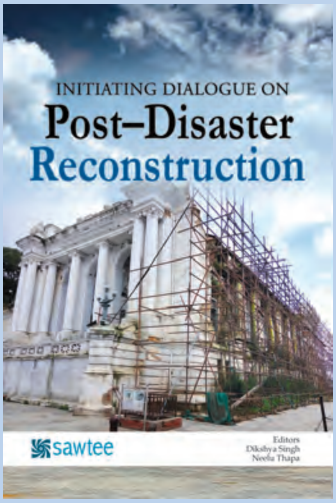
Challenges to BBIN motor vehicles pact discussed

CUTS International organized a National Policy Dialogue on connectivity in the BBIN subregion in New Delhi on 27 February. The event was titled "Creating an Enabling and Inclusive Policy and Political Economy Discourse for Trade, Transport and Transit Facilitation in and among Bangladesh, Bhutan, India, Myanmar and Nepal – Facilitating Implementation and Stakeholder Buy-in in the Bay of Bengal Region".

The meeting highlighted a number of significant initiatives towards better connectivity and seamless movement of people and cargo. It emphasized ensuring better connectivity by addressing bottlenecks in physical infrastructure and procedural barriers. It also discussed generation of political consensus for connectivity initiatives and the need to look at them from gender and other dimensions of social inclusiveness for a better local buy-in.

CUTS International is implementing this multi-country, multi-year project with support from the UK's Department for International Development and the US State Department. It looks at local-level infrastructure needs and development implications of trade, transport and transit connectivity between and among these countries. The focus is on possible implementation challenges to the BBIN Motor Vehicles Agreement. ■

Book: South Asian Cooperation: Issues old and new
Editor: Paras Kharel
Publisher: SAWTEE



Book: Initiating Dialogue on Post-Disaster Reconstruction
Editors: Dikshya Singh and Neelu Thapa
Publisher: SAWTEE